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Committee Finance, Evaluation & Risk  
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## Internal Controls - key principles and attributes

### 1. Purpose

To inform the Committee of the key principles and attributes underlying Greater Wellington Regional Council's (GWRC) internal controls.

### 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

Internal controls can be viewed as the organisation's culture, values, governance, and systems, which provide reasonable assurance that the specific objectives of the organisation will be met. GWRC has a very strong internal control ethic. This is demonstrated by the quality of information provided, reporting, the achievement of objectives, management of risk and no surprises.

It has also been confirmed over a number of years by the auditors in their management report. The report for 2006/07 confirms that:

“Council continues to operate a sound management control environment and there are effective management processes in place.”

### 4. Controls

PriceWaterhouse Coopers in assessing the internal controls state that the following components must be in place for the controls to be effective:

#### 4.1 Control environment

- Sets the tone of the organisation.
- Includes integrity, ethical values, competence and responsibilities.

## **4.2 Risk assessment**

- Identifying and analysing of risks relevant to achieving the entity's objectives.

## **4.3 Control activities**

- Policies and procedures.
- Approvals, authorisations and verifications.
- Segregation of duties.

## **4.4 Information and communications:**

- Information identified, captured and communicated.
- Access to information allows successful actions e.g. instructions.

## **4.5 Monitoring**

- Assessment of controls over time.
- Management of supervisory activities.

## **5. GWRC Internal controls**

GWRC meets all of the criteria outlined by PriceWaterhouse Coopers. These are now discussed below under the following criteria:

- Governance.
- Risk management and controls.
- Planning, reporting and monitoring.
- Quality assurance.

### **5.1 Governance**

GWRC's governance structure provides a clear division of responsibilities between the Council and management.

GWRC is governed by the Local Government Act 2002. It sets out clear responsibilities and processes for GWRC to follow. This is especially true in respect of the planning process and consultation with the public. Our decision making process is also very open. This requires GWRC to approach these matters in a particular manner knowing that there is a high level of public scrutiny. This requires that GWRC acts in an ethical manner, a key principle of our internal control structure.

The Council approves GWRC's Long Term Council Community Plan (LTCCP) every three years. It sets objectives, outcomes, performance targets, projects, rates and financial statements for the next 10 years. Changes arising from public consultation are then included in the final plan which is adopted by Council.

The LTCCP is audited by Audit New Zealand to ensure legal compliance and that the LTCCP is based on reasonable assumptions.

Each year GWRC prepares an Annual Plan which is based on the current LTCCP:

- It sets the rates for the upcoming year.
- It is not audited.
- It is approved by Council.

The Chief Executive of GWRC is then delegated by Council to implement the Annual Plan.

Divisional Managers are then delegated by the Chief Executive to implement their part of the Annual Plan.

## **5.2 Risk management and controls**

Risk is the chance of something happening that may have a positive or negative impact on GWRC's objectives. Risk management is the process of identifying, analysing, evaluating, mitigating and monitoring risk.

In respect of GWRC, risk is managed in a number of ways. Financially, risk is managed by:

- Treasury management policy.
- Regular review of the level and type of insurance cover.
- Clearly defined limits of delegation, via a delegations manual.
- Having sufficient funds available to meet self insurance requirements.
- A number of policies/procedures such as fraud, sensitive expenditure, and vehicles.
- Responsibilities are clearly defined.
- Delegations incorporated into GWRC's finance system (SAP).
- Segregation of duties.

- One over one system of approval.
- Monthly reconciliations.

Operationally, risk is managed by:

- Asset management plans.
- Clearly defined policies and procedures.
- Adequate level of insurance or self insurance.
- Responsibilities clearly defined including delegations.
- External review of GWRC operations, for example water quality standards, ISO accreditation.

### **5.3 Planning reporting and monitoring**

As noted previously GWRC prepares detailed plans outlining the key activities, projects, objectives and financial data that GWRC will undertake. They are subject to detailed scrutiny, both internal and external. The actual results are audited and compared with these plans on a yearly basis.

These public documents provide a key component in respect of GWRC's internal controls. In addition, the majority of GWRC reports are available to the public, providing the access to information to support the decision making process.

In respect of this area, GWRC undertakes the following:

- Every 3 years the LTCCP is prepared, audited and approved by Council, subject to public scrutiny. It sets out objective projects, performance measures, financials etc for the next 10 years.
- Every year the Annual Plan is prepared. It is based on the current LTCCP. It sets rates/projects/targets for the forthcoming years. It is not audited, but is approved by Council.
- Both the LTCCP and Annual Plan documents are consulted on with the public before being finalised.
- Quarterly reviews are undertaken between the Chief Executive/Chief Financial Officer and each Division. Results are reported to Council.
- Monthly reports for management.
- Regular reports, both financial and operational, to the various Committees and Council by each Division.
- Half year rebudgeting of expenditure (if required), approved by Council.

- Yearly audit by Audit New Zealand.
- A number of other plans/reports produced and approved as required. For example Floodplain Management Plan, Wellington Water Strategy Plan, Regional Policy Statement.
- Annual Report, including achievement against targets and objectives.

#### **5.4 Quality assurance**

Assurance that GWRC internal control systems and environment is operating satisfactorily comes in a number of ways:

- Financial data/reporting is reliable and accurate.
- External assurance from the auditors, other regulatory bodies etc.
- Regular reporting to Committees and Council.
- Reviews by Chief Executive/Chief Financial Officer of each Division's results.

#### **6. Communication**

No communication is necessary.

#### **7. Recommendations**

*That the Committee:*

1. ***Receives the report.***
2. ***Notes the content of the report.***

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