AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Management report on the audit of

Greater Wellington Regional Council

for the year ended 30 June 2010

Management Report

Audit New Zealand has carried out this audit on behalf of the Controller and Auditor-General.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Our audit has been carried out in accordance with the Auditor-General's auditing standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity, or inefficiency that is not material to your financial statements.

Implementing and maintaining systems of internal control for detecting these matters remains the responsibility of the Council and management.

Statement of auditor independence

We confirm that, for the audit of Greater Wellington Regional Council's (the Regional Council's) financial statements for the year ended 30 June 2010, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, carrying out an audit of long-term council community plan, carrying out an assurance assignment reviewing the tendering processes over the Real Time Information System, and reviewing the financial information and performance information in the Water Supply Annual Report, we have no relationship with or interests in the Regional Council or any of its subsidiaries.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Regional Council that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Regional Council during or since the end of the financial year

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Audit New Zealand
Mana Arotake Aotearoa

Report to the Council

from the audit for the year ended 30 June 2010.

We have completed the audit for the year ended 30 June 2010. This report sets out our findings from the audit and draws attention to areas where the Greater Wellington Regional Council (Regional Council) is performing well and other areas where we make recommendations for improvement.

Contents

Key messages

Audit opinion

We issued an unqualified audit opinion on 28 September 2010. This means that we were satisfied that the financial statements and statement of service performance fairly reflected Regional Council's activity for the year and its financial position at the end of the year.

Significant matters considered during the audit:

- **Rail project** – is being project managed and there is regular reporting. The forecast cost of the budget is within the budget of $236 million. The first tranche of trains have arrived and are being tested. We acknowledge that the Regional Council faces significant challenges over the next year as the remaining trains arrive and to operationalise the trains.

- **Service performance framework** – we have made recommendations on strengthening the linkages between long term and short term performance measures, and review the appropriateness of its short-term measures in its Groups of Activities to ensure they are the most useful for managing the organisation.

- **Audit of service performance** – the management control environment around service performance planning and reporting is effective. The Regional Council fairly reported its actual performance in additional to reporting on planned performance.

- **Information systems** - improvements have been made in the IT area. In particular the Information Technology Security and Use Policy has been developed and approved. Activity level controls are both design and operationally effective. However, the overarching IS strategic plan is still in draft.

- **Asset management plans** – the Regional Council have recently updated their Asset Management Plan (AMP) for Parks and Forests. This address issues identified during the 2009/19 LTCCP audit and prior year's management report. We will review the AMP as part of next year's audit.

Thank you

We would like to thank the Regional Council, management and staff for all the assistance provide during our audit.

Section A: Significant matters considered during the audit

Based on our planning work and discussions with management and the Council at the beginning of the audit, we identified some key business risks that Regional Council faces. These were outlined in our audit arrangements letter. Our findings on these issues are contained in this section of the report.

During the course of the audit, we also encountered other issues that we considered in reaching our audit opinion. These issues are also discussed in this section of the report.

1 Our audit opinion

1.1 We issued an unqualified audit opinion

We issued an unqualified audit opinion on 28 September 2010. This means that we were satisfied that the financial statements and statement of service performance fairly reflected Regional Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

1.2 Unadjusted misstatements

The financial statements are free from material misstatements, including omissions. However, in the course of the audit, we have found:

- certain misstatements that are individually and collectively not material to the financial statements and the statement of service performance; and

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- certain immaterial disclosures, required by generally accepted accounting practice, that have been omitted from the financial statements.

We have discussed any misstatements that we found with management. The significant misstatements that have not been adjusted are listed in Appendix 1 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

2 Significant matters considered during the audit

2.1 Rail project

There a project management team, regular reporting to the Board of Greater Wellington Rail Limited and the Regional Council. There is a communication plan to manage public expectations.

The first Matangi unit (two cars) arrived in Wellington at the end of July 2010, with the others arriving between now and June 2011.

Testing is being conducted on the first unit. It is expected that it will enter into service on the Upper Hutt line by December 2010.

The forecasted cost of the project remains at $236 million.

We will keep up-to-date with developments.

Management comments

Noted

2.2 Service performance framework

When we audited the 2009/19 Long Term Council Community Plan (LTCCP), we formed a view on the appropriateness of the Regional

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Council's performance framework.

As part of this year's audit we reconfirmed and updated the conclusions that we had previously formed on the appropriateness of the performance framework. This involved updating our understanding of key risks and issues facing the Regional Council, and assessing whether these are reflected in the performance framework. We took into account any significant/material changes in the Regional Council's business since the time of the LTCCP, whether by policy choice or circumstance – that additional information and/or measures and targets are reported in the annual report so that the actual performance is apparent.

In reconfirming our conclusions on the appropriateness of the performance framework we must "bridge the gap" between the conclusions we formed at the time of the LTCCP and the final conclusion formed when we sign off the 2009/10 Annual Report. The significant matters we considered are as follows:

Public passenger transport

We reflected on the suite of performance measures for which the service delivery of bus and rail services can be assessed.

We found that there were insufficient direct measures of service performance, particularly in relation to the reliability (which encompasses quality and timeliness of services provided) and quantity of bus and rail services. These dimensions of service delivery are important because even though these services are not delivered by the Regional Council, they are funded by the Regional Council.

We discussed our concerns with the Regional Council and it was agreed that the key direct measures of service delivery with respect to the reliability and quantity of services and the actual achievements would be disclosed. We discussed with the Regional Council how it

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monitors performance in these areas and reviewed the information systems, and other information available to support the verification of the actual performance in its 2009/10 annual report.

We recommend that in the next update of the service performance framework the Regional Council include measures of quality for public transport.

Management comment

Greater Wellington remains focused on ensuring the best possible public transport and will consider this recommendation when reviewing the next long term plan.

During interim audit we reviewed the overall management control environment around service performance reporting. We found it was effective.

Based on our discussions and systems walkthroughs (where relevant) there were appropriate systems in place for capturing the information for management and reporting purposes, with the exception of systems in the Parks and Forest Division. We reviewed our risk assessment of the activity and extended our work in Parks and Forests as a result:

Parks and Forest assets

We identified Parks and Forest as a material activity because there is no up-to-date asset management plan and there is a risk that there are inadequate systems in place for reporting purposes in the Parks and Forests division.

Two issues were identified which meant that we performed further work in the Parks and Forest area to gain assurance that its achievements for the year are fairly reflects its actual performance:

- The asset management for Parks and Forest assets are not up-to-date so the planned programme of work and/or the service levels in the asset management plan may not reflect the work carried out by the Regional Council.

- The Parks and Forest division needs to improve internal reporting systems to be able to accurately report against the performance measure (and other work done):

  "Park and forest assets will be maintained in accordance with the relevant asset management plans and reported to the satisfaction of the Council."

The Division had been monitoring all this information in various systems but this information will need to be bought together.

During the final audit we found that the information was adequate.

Management comment

The Parks and Forest Asset management Plan is a ten year plan that is in the final stages of review (see p2.5). Over the term of the plan the measures and standards are not changed. AMP's are thought to be "live" plans that are reviewed continuously. What was done during this year was to create an AMP from the existing data and service levels into a format that resembled a complete AMP. This background serves as a basis for establishing whether a review of services or service levels is needed. The only update really was in terms of financial information and including background information that wasn't included in the previous edition of the AMP.

The underling asset maintenance of the assets within the plan have recently be moved into the corporate wide SAP plant maintenance system which will enable more complete visibility of the maintenance and condition of assets to ensure they meet the service standards in

the plan.

Audit of service performance

We are satisfied that the service performance statements comply with generally accepted accounting practice and fairly reflected the actual achievements and performance of the Regional Council.

The following areas of improvement to the development and reporting of performance information were identified:

- The overall service performance framework – ensure better connection through the measures and in reporting between the long-term measures and the short-term measures. This will help address the "so what?" question, ie the impact of the short-term achievements on the long-term outcomes being sought.

- Review and make more explicit the intervention logic between the short-term measures and long-term measures.

- Review the appropriateness of its short-term measures in its Groups of Activities to ensure they are the most useful for managing the organisation.

- Where relevant including prior year comparatives as part of reporting on the short term performance measures. This will enable the reader to see the direction of travel and how the Regional Council is performing compared to previous years to provide an enriched understanding of the performance of the Regional Council. We recommend that baseline/trend information be included when planning and reporting on service performance information.

- Ensure that the Regional Council says what it means to say when reporting its achievements. Use of jargon and highly

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technical terms makes the reported achievements a more difficult read. We recommend the Regional Council uses plain English in as so far as it is possible when reporting on its service performance.

- Ensuring that the financial information in the financial statements and those in the statement of service performance, where relevant are consistent. We recommend an appropriate person in the business units provide quality assurance over the information.

- There is no independent (or peer) quality assurance review over the systems for capturing information and review of non-financial information. We recommend the Regional Council's assurance programme include QA reviews over the capture of information and review of that information. This will help ensure that systems are robust and controls in place appropriate.

By way of background to our work:

We audited the reported service performance information in the Annual Report, including the supporting systems and controls. Our focus was on

- discussing with the Chief Executive, General Managers and other relevant staff as to whether additional information and/or measures and targets should be reported in the annual report so that actual performance is apparent;

- the quality of the overall "story" the performance reporting tells;

- ensuring where actual performance had diverged from what was anticipated then this is explained – the explanation should

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include the reason for the variance (why), what the entity has done about it [to lift performance] or what it is doing about it (if applicable going forward);

· ensuring the explanations for significant variances against forecast service performance and the variance explanations between forecast and actual financial results are consistent. This relationship between financial and service performance results is important.

· the reliability/accuracy of the reporting; and

· compliance with relevant legislation (in particular the Local Government Act 2002 Schedule 10, Part 3 Information to be included in annual reports).

We will also give consideration to financial and non financial elements of the audit – we will take into account both how the Regional Council and delivers its services, how it manages its finances, and how service delivery impacts on its finances.

Management comment

We agree with the sentiment of the auditors in relation to performance reporting and remain committed to improving the quality of service performance reporting over time. We do wish to note however, that the current report regime is in the context of the framework developed in the 2009–19 LTCCP. This framework was accepted by the auditors and this is the framework that we are reporting against.

All information included in financial and non-financial measures are reviewed by appropriately qualified staff for inclusion in the Annual Report, and staff strive to use plain English in our reporting. The introduction of additional audit requirements for service performance

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information this year has resulted in changes not previously anticipated.

We endeavour to maintain a very high standard of reporting and feel that this is done most accurately by those staff with direct responsibility for each matter with the relevant overview from the executive leadership team.

2.3   Information systems

As part of our 2010 audit we performed an IT General Controls review (ITGC).

This review consisted of two parts: The first being a risk assessment of the entity level controls in place. These controls are management's activities in the following areas:

- IT governance and strategic planning;

- IT processes, organisation, and relationships;

- assess and manage IT risks;

- monitor and evaluate performance; and

- monitor and evaluate internal controls.

We assessed the overall risk as low for these areas. This means most reasonable steps have been taken to minimise the risk of disruptions or unauthorised actions. We did note however that the IS strategic plan is still in draft waiting final approval.

The second part of our work was an assessment of the design and operational effectiveness of activity level controls.

We found that improvements have been made in the IT area, and the implementation of our recommendations will further enhance the IT

environment. The significance of the findings raised did not affect the overall effectiveness of the design and operational areas.

A summary of the results from this testing is shown in the table below:

Activity-level control processes	Design effective/ ineffective	Operating effective/ ineffective	Areas for Improvement – the detailed findings and recommendations are reported in section 4.3 of this report
Systems acquisition/project management	Effective	Effective	–
Security (network & applications)	Effective	Effective	• Single Sign-On (environment weakness, • Lack of formal review process for users, • Security incident reporting enhancements. • SAP super-user access
Manage physical hardware	Effective	Effective	_
Change management	Effective	Effective	_
Manage third-party services	Effective	Effective	_
Manage data	Effective	Effective	• Restoration of backups

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Activity-level control processes	Design effective/ ineffective	Operating effective/ ineffective	Areas for Improvement – the detailed findings and recommendations are reported in section 4.3 of this report
Manage operations	Effective	Effective	• Operational checks performed not recorded
Manage the configuration	Effective	Effective	–
Manage problems and incidents	Effective	Effective	–

Management comment

These recommendations require further analysis to determine the cost / benefit to Greater Wellington. The IT group will continue to discuss these matters further with Audit over the course of this year.

2.4   Asset management plans

The Regional Council developed a Parks Network Strategy in November 2010 which sets out the vision and purpose for parks and forests. It provides an overarching framework for their future development and management.

A Parks Network Plan is being consulted on. It brings together all of the Regional Council's Parks and Forests management plans into the one document.

The Regional Council have recently updated their Asset Management Plan (AMP) for Parks and Forests. This address issues identified during

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the 2009/19 LTCCP audit and prior year's management report.

We will review the AMP as part of next year's audit.

Management comment

Noted

2.5   Transfer of fixed asset register to SAP financial system

The Regional Council aim was to fully utilise the Fixed Asset Register module within the SAP financial system and is in the process of transferring the detailed data relating to water infrastructural assets from Hansen to SAP.

We obtained an understanding of the process (including the checks and quality assurance procedures) used to transfer the assets from Hansen to SAP and selected a sample of 25 assets and ensured that the cost, accumulated depreciation and book value had been transferred correctly from Hansen to SAP.

No issues were identified.

Management comment

Noted and agreed – the combination of having all assets in the one Asset register and all equipment in the plant maintenance system of SAP will provide greater visibility and efficiency in asset and equipment planning and review.

2.6   Property, plant and equipment – movement between revaluations

We reviewed the Regional Council's assessment of whether there is any significant difference between the carrying amount and fair value of its water supply assets which were last revalued on 1 July 2008 and

its flood protection assets which were last revalued on 30 June 2007.

The Regional Council reviewed the movements in these assets using indices and found that the movement was not material (4.9% of net assets) and therefore a formal valuation was not carried out. We reviewed this process and agreed with the Regional Council's assessment.

Management comment

Noted

2.7 Deferred tax asset

The Regional Council group has a deferred tax liability of $4.372 million in relation to temporary differences. It has not recognised any associated deferred tax asset for unused tax losses.

We recommend that a deferred tax asset is recognised as IAS 12 *Income Tax*, paragraph 34 states that a deferred tax asset shall be recognised for unused tax losses to the extent that it is probable that taxable profits will be available against which the tax losses can be utilised. As noted in paragraph 35, the existence of unused tax losses is strong evidence that future taxable profits may not be available. As a result, when an entity has a history of tax losses, a deferred tax asset in relation to tax losses should only be recognised to the extent that:

- the entity has sufficient taxable temporary differences, or

- there is convincing evidence that sufficient taxable profit will be available against which the tax losses can be utilised.

As the Regional Council has a deferred tax liability in relation to temporary differences and a deferred tax asset in relation to tax losses, it can recognise the asset to offset the liability without any

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evidence of future taxable income.

As the unadjusted error of $4.372 million is not material no adjustment is required in year's financial statements. We have taken it to the schedule of unadjusted errors. We will work with the Regional Council towards resolving the issue during the 2010/11 financial year.

Management comment

At this time we continue to disagree with Audit New Zealand's interpretation of the auditing standards on this matter. We are not confident that the existing group tax losses will or could be utilised in the current planning horizon and therefore have not recognised them in the group accounts.   As noted by the auditors the impact of the final decision is immaterial.

2.8   Council governance role in completion of Council Controlled Organisation (CCO) statement of intents

We considered whether the Regional Council has appropriate arrangements in place for effectively fulfilling their oversight responsibilities relating to CCOs.

We reviewed the Local Government Act (LGA) provisions on the statements of intent and annual reports for CCOs, including section 64 *Statement of Intents for CCOs* and clause 9, schedule 8 *Contents of Statements of Intent* of the LGA 2002:

- Section 64(1) states that a council controlled organisation must have a statement of intent that complies with clause 9 of Schedule 8.

- Section 64(5) states that a statement of intent may include and apply to 2 or more related CCOs.

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- Clause 9 of Schedule 8 requires a CCO that has subsidiaries to prepare a group SOI, which must include performance targets and other measures by which the performance of the group may be judged in relation to its objectives.

- Sections 67–69 set out the content of a CCO's annual report, which must include consolidated financial statements for the CCO and subsidiaries and report on performance against the statement of intent.

It is sufficient for WRC Holdings Limited to prepare a group statement of intent and the subsidiaries do not need their own SOIs, provided the group SOI has appropriate performance measures and targets (and other requirements (as appropriate) as set out in Schedule 8) covering each of its subsidiaries. In their annual reports, the subsidiaries need to report their performance against relevant targets and measures in the group SOI rather than referring to WRC Holdings Limited's annual report.

We found that there were insufficient performance measures and targets covering each of the subsidiaries. We considered the impact of this on the audit opinions:

- For the inactive subsidiaries (Greater Wellington Infrastructure Limited and Greater Wellington Transport Limited) the consequences of not preparing a SOI is less serious for an inactive CCO. Both companies disclosed in their financial statements that they breached the LGA by failing to prepare a SOI and report performance information in its annual report. We issued an unqualified with no references to performance information.

- The audit opinions for Greater Wellington Rail Ltd, Pringle House Ltd and Port Investments included emphasis of matter paragraphs on the reporting of performance information in the

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absence of performance targets in the WRC Holdings Group SOI. The opinions also included a breach of law paragraph for a failure to prepare a sufficiently compliant SOI for the 2010/11 financial year.

The Board of Directors intends to under section 4 of schedule 8 of the Act modify WRC Holdings Limited's SOI so it complies with clause 9 of schedule 8 of that Act for the companies.

Management comment

Management acknowledge the auditors comments and note that the Group SOI's was prepared to sufficiently meet the requirements of council. As noted above extensive SOI's are now being prepared to meet the compliance requirements of the LGA.

It should be noted that this year's approach has been consistent with the previous year's audited and accepted approach. Greater Wellington will continue to work with the auditors to ensure SOI's are consistent with relevant legislation and provide useful management information for readers.

2.9   Formation of new Grow Wellington subsidiary

On 8 June 2010 the Regional Council approved the establishment of the council controlled organisation, Creative HQ Limited, a subsidiary of Grow Wellington (which is a 100% subsidiary of the Greater Wellington).

Creative HQ Limited was incorporated under the Companies Act 1993 on the 21 December 2009. From this date of incorporation, Creative HQ Limited is in existence (section 14 Companies Act 1993). Consequently Creative HQ Limited is required to prepare financial statements for the year ended 30 June 2010. This is because in accordance with the Financial Reporting Act 1993, the Company must

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be audited not later than 15 months after the date of its formation or incorporation.

Creative HQ Limited must also have a statement of intent (SOI) in place by 30 June, before the commencement of the financial year for the year ended 30 June 2010. There was no SOI in place, however the outputs of Creative HQ was covered by Grow Wellington Limited's SOI as Creative HQ for all substantive purposes was still part of Grow Wellington Limited.

An auditor has yet to be appointed to the audit.

Management comment

Management acknowledge the auditor's points. Management consider that the additional costs and efforts associated with technical compliance are of limited value and concur with the auditor's comments that "for all substantive purposes was still part of Grow Wellington Limited".

Section B: Other matters

Every year, we identify common sector wide matters that are considered as part of the audits of all Local Authorities. Our findings on these sector matters, other than those already covered earlier in this report, are discussed in this section.

The status of each matter that was outstanding in last year's report to the [governing body] is included in Appendix 2.

3   Sector matters

We completed reviews on our areas of interest across all Local Authorities. Most of our findings have been incorporated in the relevant sections of this report. Our comments are as follows:

3.1   Service performance framework

Refer to section 2.2.

3.2   Audit of Statement of Service Performance

Refer to section 2.3.

3.3   The Regional Council's fraud policy and assessment of areas susceptible to fraud

No instances of possible fraud and/or fraud were identified or reported to us.

A fraud risk review was completed by PricewaterhouseCoopers (PwC). The review highlighted a number of transactions which required further examination. The results were also discussed with PwC and further work was carried out by the Regional Council as a result. This work has largely been completed and to date, and there are no issues

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with the transactions identified by the tests.

Management comment

Noted

3.4   Possible Long Term Council Community Plan (LTCCP) amendments

We remained alert for possible amendments throughout the year, particularly during the preparation of the annual plan.

There were no LTCCP amendments identified.

We discussed with the potential impact on the Regional Council and its proposed response arising from the National Land Transport Programme on its long-term viability and levels of services to the community.

Wellington has been confirmed in the Roads of National Significant programme providing the Regional Council with certainty around the Wellington Northern Corridor (Levin to Wellington (State Highway 1) of the state highway network.

Funding for the Wellington passenger rail development has been confirmed for the projects underway, including the new Electric Motorised Units (Matangi) and associated infrastructural upgrade costs. Beyond the projects underway, the Regional Council is planning for the purchase of further electric units, and ongoing improvements to rail corridors, stations and park and ride facilities. The funding for these future capital requirements have yet to be confirmed by the Government.

We will keep ourselves up-to-date on developments through discussions with Council and management.

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Management comment

Noted

3.5 Council governance role in completion of Council Controlled Organisation (CCO) statement of intents

Refer to section 2.9.

3.6 Transparency, Accountability and Financial Management (TAFM) – Proposed changes to the Local Government Act 2002

We maintained an awareness of the proposed content and progress of the TAFM reforms, in particular focussing on any proposed amendments to the LGA that impact on disclosures and audit requirements for the 2009/10 year.

No changes were made to the LGA by the time of the annual report adoption. Therefore no changes were required to the Regional Council's annual report.

3.7 Sensitive expenditure

We recommend that the Regional Council's sensitive expenditure policies be followed.

We reviewed selected policies being credit cards, entertainment and hospitality, and travel to ensure they are consistent with the OAG's guidelines. They were with the exception of the Chair's expenses – the policies are silent on who should approve her expenses. In the management report, we will recommend that they be approved by the Chair of the Finance, Risk and Audit Committee.

We also selected a sample of transactions from the following areas of sensitive expenditure incurred during the period and reviewed them for compliance with Regional Council's practices and accepted good

practice in the public sector.

- Credit card expenditure

- Entertainment expense

- Travel expenses

- Council remuneration and expenditure.

We noted the following instances where the Regional Council's policy was not complied with:

- one out of five transactions visa card expenses tested was not approved on a one-up basis;

- two out of five transactions visa card expenses tested did not have evidence of approval; and

- one out of five entertainment expenses for a dinner was supported by EFTPOS confirmation instead of a full receipt with a detailed breakdown.

We recommend that the Regional Council's sensitive expenditure policies be followed.

Management comment

Management acknowledge the auditor's comments and all staff should follow policy. With respect to the above matters we note that personal expenditure claims (including credit cards) are extremely low and all get viewed by finance or payroll staff before being paid.

On point one, in the absence of the CE, approval was sort by another Group manager, we believe this was appropriate

On point two, Finance should have noted the actions taken in these, 1 was a monthly subscription that had been approved previously, and

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the other, verification of the function was confirmed.

On point three, as the amount was under $50, the eftpos receipt was accepted after checking whether the original was kept.

In the normal course of review and payment of sensitive expenditure the finance department seek to ensure compliance with all council policy but balance this with a pragmatic approach in low value low risk transactions.

3.8   Audit Committees

The Regional Council has an audit committee (called Finance, Risk and Audit Committee). We checked to see that Regional Council's audit committee is operating in accordance with the four main principles outlined in the Good Practice Guide *Audit committees in the public sector.*

We made two recommendations last year:

- The Regional Council review the appropriateness of the audit committee's role in approving reserve transfers within equity, i.e. transfers from uncommitted equity to reserves. This involvement means the audit committee is not fully independent of the decision making process and therefore scrutiny of this function is compromised.

- The terms of reference be reviewed on a regular basis to ensure they are up to date with current practice.

We understand the Regional Council will take these up with the new audit committee following the Local Government elections.

Management comment

Whilst the new committee structures are being finalised we note that

there are mixed responsibilities for councillors' that are extremely difficult to be resolved to the satisfaction of the Audit office. Greater Wellington will continue to monitor arrangements to ensure best practice is observed as far as practicable.

3.9   Severance payments

We reviewed all three of the severance payments that occurred during the year. We had no concerns with these.

The severances have been disclosed in accordance with clause 19, schedule 10 of the Local Government Act 2002 and under Key Management Personnel (where relevant).

3.10   Conflicts of interest

We remained alert for conflicts of interest in the course of our audit work.

There were no issues identified.

3.11   Funding arrangements and procurement

We recommend the Regional Council to compare its policies for funding arrangements and procurements against the OAG guidance.

We followed up whether Regional Council had compared its policies for funding arrangements and procurement against guidance published by the Auditor-General and whether changes were made as a result of this comparison.

The Regional Council have not yet done so, however:

- Our Specialist Audit Services (SAS) division was asked to provide independent assurance over the procurement of a Real Time Information system to use in the local public transport environment up to the stage of selection of the preferred

tenderer. SAS found that the tender process had been carried out in accordance with the expression of interest and request for tender documents, the NZTA Contract Policies and Procedures Manual, and with due regard to probity.

- The Regional Council has been working on joint procurement initiatives with other councils in the region. Success has been variable due to the different requirements and philosophies and the expiry dates of some of the existing contracts.

During the audit, we have not found any procurement practices that were inappropriate.

Management comment

The Regional council regularly reviews its policies and procedures to ensure it utilises best practice to meet its purchasing needs.

Greater Wellington notes that no instances of inappropriate procurement practices were found

3.12   Elected members – remuneration and allowances

We reviewed the Regional Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the Local Government Elected Members' Determination 2009.

Disclosures are appropriate.

There were no issues identified.

3.13   Treaty settlements and co-management

We were not made aware of any new Treaty of Waitangi settlements or co-management arrangements or developments with existing

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agreements.

3.14   Risk management

The Regional Council implemented a new risk management framework, supported by the use of the Quantate system. Risks at the group level (second tier management) are identified, classified, treatment options added and residual risks scored. The risks are monitored and reported on to the Chief Executive on a quarterly basis and to the audit committee every six months.

Risk management processes are still being embedded into the organisation.

Management comment

Risk management is an on going and evolving activity.

4   Less significant issues

4.1   Segregation of duties in payroll system

We recommend that the Regional Council ensures that the review of the payment summary and changes to the payroll master file is performed by someone who does not have edit access to the payroll system.

We found that the Human Resources Manager who is responsible for reviewing the payment summary and changes to the payroll master file also has edit access to the payroll system.

We acknowledge that Human Resources Manager did not actually process any masterfile changes during the period to April 2010 when we completed our review. However there is an underlying segregation of duties risk where someone who can change masterfile data is also responsible for reviewing changes made to the masterfile.

Management comment

Auditors point noted. We also note that there are several reviews and approval steps in all payments that further assist in reducing the risk of inappropriate payments.

4.2   Improving controls around general ledger journals

We recommend the Regional Council consider the following:

- identifying types of journals that should be reviewed;

- post input checking on a sample basis; and

- exploring whether automatic system controls are available.

Journals posted are not independently reviewed by anyone. Our recommendation is made after considering the following:

The control environment around journals is considered adequate, however further improvements could be made to the post input review processes.

- Compensating controls are in place in that the monthly review of the management accounts should detect any significant posting errors. However the processing of journals is an inherently high-risk area. The number of journals being processed makes it impractical for all journals to go through this post input review. However we believe that management should consider:

    o identifying types of journals that should be reviewed;

    o post input checking on a sample basis; and

    o exploring whether automatic system controls are

available.

A lack of post review procedures exposes the Regional Council to the risk of fraud or error.

Management comment

Management believe that the controls in place are adequate relative to risk. Journals can only be posted within one operational area. Journals that go across operational areas require sign off by accountants in both groups. Only the finance team can journal to the balance sheet accounts and all balance sheet accounts are reconciled monthly.

Any item that may impact a payment or refund must go through multiple layers of approval and checking.

As noted by audit above, detailed management reviews are undertaken which should pick up any material posting errors.

4.3   Information systems

4.3.1   SAP financial system super-user access

We recommend the Regional Council completes a full review of all super-users and documents authorisation of these users.

In 2007/08 we found ten users had super-user access to SAP.

Significant work has been completed in reviewing and reducing the number of super users that exist within SAP but formalising authorisation for these accounts has not occurred. In addition the Information Technology Security and Use Policy do not provide any guidance on the management and control of super user and generic accounts.

Super-user access increases the risk of inappropriate transactions and weakens segregation of duty controls. A full record of all super-

user access should be maintained to provide an audit trial of this high risk area.

Management comment

SAP super user accounts are required for support staff to complete their functions.

SAP Super user access is granted by the Manager in charge of the system(s). If this access is for a contract period then this will be applied to automatically stop. In 2007/08 The number of users was much higher due to the Plant Maintenance and Real Estate Module configuration, this authority was approved by the Finance Manager and was removed when those (primarily external) users contracts ended.

Now that SAP is being used more broadly within Greater Wellington a further review of this access is being undertaken.

4.3.2   Single Sign-On environment weakness

We recommend that the complexity setting at the network level be enabled.

The Regional Council uses the Single Sign-On model to support application security rather than its own application level security controls.

While improvements have been made to strengthen the network security as there is a greater reliance on the network security parameters, the password complexity is still not enabled which enhances the risk of passwords becoming known.

Weak password parameters may result in a security breaches.

Management comment

Greater Wellington has layers of security, utilising additional and more complex sign on procedures for those entering the network externally via VPN or Citrix. For user passwords from those within the network, complexity results in an increase in the likelihood that passwords may be written down which actually increases risk.

The single sign-on security only gives users access to the systems they are required to use and to the level of access in those systems required to complete their tasks. Any change to access requires the authority of the system owner.

Under the current Greater Wellington password policy the following four settings are used to configure password characteristics: an Enforced password history, a Maximum password age, a Minimum password age and a Minimum password length. Greater Wellington considers the current password policy is a pragmatic approach that balances risk, cost and usability.

4.3.3   No formal user review process

We recommend that the user review and user access right reviews that is currently performed continue and that documentation of the reviews performed is retained.

During our review we were informed that regular reviews of network users and application user access rights have been completed. However we were unable to confirm that these reviews had been performed as there was a lack of evidence retained.

Management comment

Network users are setup with an end date if they are on contract or until the position is terminated. HR provides details of all leavers to all staff that need this information (including ITC). Due to single sign-on,

once network access is removed, access to all systems is removed.

In terms of SAP, there is an annual license review carried out by the SAP support team, this is a thorough review of all users in the SAP system to ensure users have the appropriate access.

4.3.4   No reporting security incidents

The Regional Council should develop a policy that details the process to be followed if a security incident is identified and ensure that security incidents are reported, analyzed and dealt with.

During the audit we were informed that security-related events are recorded in Track-IT. However they are not classified as security incidents and are not easy to distinguish from general incidents. There was no documented policy or guideline in place to deal with security incidents as these are dealt with as part of the normal incident management process.

Without an effective process for the reporting of security incidents no support is given to the mechanism to assess the overall damage and take remedial action across the organisation. Security incident reports are the basis for identifying trends in incident occurrences and for ensuring policies, procedures, techniques and training measures adequately reflect the threat environment.

Management comment

The Track-IT Service desk used by Greater Wellington is an ITIL compliant system that has been recently introduced by Greater Wellington and is still undergoing configuration. Whilst all security incidents are now captured in this system, it is planned to make them more visible by giving them their own call type.

4.3.5   Restoration of Backups

We recommend the Regional Council perform a fully system restore on a regular basis to ensure that full operational status can be achieved in the event of a disaster.

Although some files have been restored following minor incidents, a full system restore has not been performed to ensure that full operational status can be achieved in the event of a disaster.

Management has no assurance that systems can be fully restored in case of a system failure, or loss of data.

A full system restore test should be performed at least annually. The test should cover not only the ability to read data from the tapes, but also whether the amount of data backed up is sufficient to restore the system to fully operational status without losing transaction or master data. It should also be an opportunity to test the written restoration procedures.

Management comment

There is currently a bi-annually test of the SAP system which is carried out by Deloittes. These tests have largely been successful. In the event that they do not perform as expected, Deloittes as our outsource support partner for SAP, also have responsibility for bringing these to our attention and addressing any issues to ensure that the ability to restore is done to industry best practices.

The other systems are quite frequently powered down, patched and restarted as updates are required. Almost on a daily basis, in response to users requests to restore lost data, partial restores of the email and file store servers are undertaken using the tape back-ups.

By mid 2011 most of Greater Wellington's servers will have been virtualised (complete with SAN) giving us 2 tiered storage, which will

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provide the option of restoring from the storage disks as well as tapes. In addition to this, as part of our BCP strategy we are looking to implement replication between Wellington & Masterton offices/systems by the end of 2011, which will provide an alternative method of data retrieval/system restore in the event of failure.

4.3.6   Operational checks performed not recorded

The Regional Council should consider implementing mechanisms (like check-lists) to ensure that daily operational activities are performed as required.

The daily operational procedures such as various checks, clean-up activities and reviews of particular logs of the network administrators and SAP administrator are well understood within the team. Team members should confirm performing these tasks by signing them off on a daily check-list.

If monitoring activities are not performed, errors may not be timely detected, which could delay response time leading to more serious consequences than if the errors were detected during normal monitoring activities. If other activities are skipped, such as some end-of-day processes, it may lead to unexpected system behaviour.

Management comment

For all systems Greater Wellington ICT run and manage a system called "Event Sentry" which is a real-time best of breed application that monitors and reports events such as an attempted logon with a wrong password, a defect hard drive in a RAID, a failed service or high CPU usage, etc, which notifies the ICT network team and can also trigger corrective actions. In addition, for SAP , Deloittes provide these services as part of its contract with us.

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4.4 Need to review accounting treatment of bank bonds to comply with NZ IAS 39 Financial Instruments: Recognition and Measurement

We recommend the Regional Council review the designation and measurement of bank bond financial assets to ensure they comply with NZ IAS 39 *Financial Instruments*: *Recognition and measurement*.

Our testing of financial asset bonds found they have been valued using fair value however the accounting policy for held to maturity assets at the Regional Council is to use amortised cost.

Held to maturity investments are: "Assets with fixed or determinable payments with fixed maturities that the Group has the intention and ability to hold to maturity. After initial recognition they are recorded at amortised cost using the effective interest method. Gains and losses when the asset is impaired or settled are recognised in the Statement of Comprehensive Income".

We understand the Regional Council is considering if this is the correct designation for these assets or whether they should be designated as financial assets at fair value through profit and loss.

The following issues should be considered before these assets are designated as fair value through the Statement of Comprehensive Income:

- paragraph 50 of the standard does not allow reclassification of any financial instrument into fair value through profit and loss category after recognition; and

- paragraph 9 of the standard requires where an asset is classified as fair value through profit and loss they must meet the condition

- acquired or incurred principally for the purpose of selling or

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repurchasing in the near term; or

- on recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short term profit-taking. This should be consistent with documented risk management or investment strategies. We would expect to be able to review documentation of this at the time of purchase of the investments.

The difference in valuation techniques was not material in the year however depending on interest rate movements and the number of bonds held it may become material in future years therefore a review of designation and measurement of financial assets should be carried out.

We are of the view that held for maturity designation is appropriate for these assets and amortised cost valuation should be used.

Management comment

We acknowledge the auditor's comment, and the designation will be reviewed

5   Details of reviews on behalf of the Auditor-General

We completed the reviews required by the Auditor-General (OAG), these are as follows:

5.1   Annual Report Adoption and Public Release Dates

We have been asked to note the dates that the Regional Council adopts its annual report, and makes the full and summary annual reports available to the public. This information has been forwarded to the OAG.

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The Regional Council adopted its annual report and its summary annual report on 28 September 2010.

The Regional Council intends to make the full annual report and summary report available to the public within one month of adopting the annual report and summary annual report.

5.2 Local Authority Exemptions for Council Controlled Organisations (CCOs)

We have been asked to advise the OAG on Council's use of Section 7 of the Local Government Act 2002. 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.

The Regional Council has not exempted any CCOs.

5.3 Local Authorities emissions and measurement and reduction

We have been asked by the OAG to gather information about the activities of local authorities in the area of emissions measurement and reduction with a view to obtaining baseline information for 2009–10.

We enquired as to whether the Regional Council monitors green house gas (ghg) emissions.

The Regional Council monitors and report on production and disposal of waste generated by the Regional Council. The corporate inventory found waste only represents around 1% of the Regional Council's emissions. The most significant area of emissions is from its water activities.

Therefore its ghg reduction activities include:

- Developing a Regional Water Strategy with territorial

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authorities in the region, that, amongst other things, will include water conservation measures.

- Conducting ongoing regular summer water conservation campaigns.

- Formalise a corporate energy strategy that:

    o investigates the feasibility of a role of energy manager;

    o explores on-site and/or local generation including wind turbines and solar panels for individual buildings;

    o promotes individual and team responsibility for energy use; and

    o investigate signing up to Green Star programme for all construction projects.

The main focus of the plan is on Regional Council's activities. The Regional Council does however play a wider role within the region.

Management comment

Greater Wellington undertakes a complete inventory of corporate greenhouse emissions, with a base year of 2005/06. Reduction targets have been set for each sector. A further inventory will be undertaken in 2011/12. An action plan is in place to meet the targets. This information is not the subject of formal reporting through the Annual Report. In addition, Greater Wellington monitors and reports on greenhouse gas emissions for the wider community. In the Annual Report this information is collected for the 'Transport' group of activities. Monitoring of community emissions for other sectors may eventuate as part of a regional climate change strategy – which is not currently in place.

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Appendix 1: Unadjusted misstatements

Current year misstatements	Assets	Liabilities	Equity	Statement of Comprehensive Income
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Parent only				
Provision for doubtful debts (rates) not required	573,000	–	–	(573,000)
Management comment *This adjustment was not made because Greater Wellington is of the opinion that having a provision for doubtful debts is both prudent and appropriate. In the past there have been errors with regard to rates. In Greater Wellington's view this is not a misstatement.*				
Total known misstatements – Parent only	**573,000**	**–**	**–**	**(573,000)**
Group only				
BNZ building level five revenue not recognised on a straight line basis.	197,000	–	–	(197,000)
Project Tiger costs capitalised instead of being expensed.	–	–	–	728,000/(728,000)
Management comment *The acknowledged uncorrected errors have been considered and determined that their effects are immaterial individually and in aggregate to the financial statements as a whole.*				
Deferred tax asset not recognised	4,372,000	–	–	(4,372,000)

Current year misstatements	Assets	Liabilities	Equity	Statement of Comprehensive Income
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Management comment *The adjustment was not made because we are not confident that in the future we will be able to utilise existing group losses to offset future tax liabilities. We disagree that this is a known misstatement.*				
Total known misstatements – Group only	4,569,000	–	–	(4,569,000)
Total known misstatements – Greater Wellington Regional Council and group	5,142,000	–	–	(5,142,000)

Disclosure deficiencies

Detail of disclosure deficiency	Explanation of why not corrected
Parent	
Non disclosure of debtor in dispute $451,000 – NZ IFRS 7.36 (c) requires information about credit quality of debtors to be disclosed.	*Greater Wellington is of the opinion that there is no issue with this debt being paid and as such, no adjustment is being made*

Detail of disclosure deficiency	Explanation of why not corrected
Group	
Re-valued Port Operational Land NZ IAS 16.77(e) entities that revalue land are required to disclose the carrying amount that would be recognised had the assets been carried under the cost model.	*The effects of the omitted disclosures are quantitatively and qualitatively immaterial, both individually and in aggregate, to the financial statements as a whole.*

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