

Attachment 3 to Report 12.292

6 June 2012

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copy to: Dave Benham
Chief Executive

Dear Fran

Audit of the Statement of Proposal for the draft 2012 – 2022 Long-Term Plan

1 Introduction and key messages

We have completed the audit of the Greater Wellington Regional Council (the Regional Council's) statement of proposal for the draft 2012-2022 Long-Term Plan (the LTP SOP).

The Regional Council has presented a comprehensive and articulate document for consideration by its community. The LTP clearly sets out the operating context for the Regional Council's plans, the issues it is facing and engages the community in its proposals.

This letter summarises our findings from the audit and draws attention to areas that were either done well or could be improved.

In section 3 of this letter we outline the significant matters considered during the audit and section 4 outlines what we will audit in June 2012.

Our audit opinion

Overall opinion

We issued an unmodified audit opinion on the Regional Council's LTP SOP on 8 March 2012.

In our opinion the Regional Council's LTP SOP provides a reasonable basis for long term integrated decision-making by the Regional Council and for participation in decision-making by the public and subsequent accountability to the community about the activities of the Regional Council. The LTP SOP is free from material misstatements, including omissions.

Compliance with legislation requirements

The Regional Council has complied with the requirements of the Act in all material respects demonstrating good practice for a council of its size and scale within the context of its environment.

Underlying information and assumptions

The underlying information and assumptions used to prepare the LTP Statement of Proposal provide a reasonable and supportable basis for the preparation of the forecast information.

Unadjusted misstatements

The LTP SOP is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the LTP SOP.

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 Audit scope and objectives

The scope of our audit engagement and our respective responsibilities are contained in our audit proposal and arrangements letter dated 20 April 2011 and are set out in Appendix 2.

3 Significant matters considered during the audit

During the planning stage of the audit, and our review of the content of the LTP SOP, we identified the following key business risks and issues. In this section of the report, we comment on our findings on those matters.

3.1 LTP processes, project management and governance

Project management

The Regional Council took a positive approach to developing the LTP SOP, seeking to go beyond basic statutory compliance. Overall project management was provided by Corporate Planning. The LTP SOP was developed using the same methodology as the Regional Council's 2011 Annual Report, which used a devolved approach with group managers responsible for content under the guidance of a working group supported by Corporate Planning. The Executive Leadership Team ensured that the LTP was identified as a priority for each group's business plan.

The project plan identified key deliverables with appropriate sponsors and key timelines. There was a high level of engagement with the Councillors.

Regional Council staff and management worked well with the audit team, and we were able to carry out the majority of our work to plan. Having a good quality first draft of the LTP SOP to audit was key to making our audit progress smoothly.

Control environment and quality assurance review

The control environment around the overall project was very good. Guidance was provided by the project team supported by the LTP Working Group, the membership of which incorporated staff responsible for preparing aspects of the LTP. The use of standard templates for the groups of activities ensured consistency of approach,

presentation and a 'one voice' feel to the LTP SOP. Internal peer review through the Working Group of the early drafts of the groups of activities contributed to the development of a good quality first draft LTP SOP for Councillor's consideration and our audit.

An area that the Regional Council should seek to improve is version control and internal quality review of the financials. We identified a number of errors and inconsistencies in the financial data, financial statements and related information during the audit, and in the printers' proofs. We were aware of examples where Finance staff were not always working from the same version of the document.

We reviewed eleven formal versions of the financial information supporting the LTP SOP, with at least three further minor iterations of the last version. With multiple versions of the financials, the risk of mistakes, errors and inconsistencies inevitably increases.

We recommend that the Regional Council:

- Improve version control and quality assurance processes for the financial information.
- Review and update the linkages between the spreadsheets used to generate the Prospective Financial Statements and Funding Impact Statements and the ESS base modelling system.

Management comment

We concur with auditors comments on the quality of the process for developing the draft LTP and the high level of engagement within the organisation at all levels.

We note auditors comments that integration between financial models and publication software is an on-going issue for every entity. The nirvana publishing package that is linked to modelling software is not yet available.

Changes were necessary to budgets at quite a late stage to reflect the rapidly changing environment in which Greater Wellington works. As such it was more efficient to provide financial information directly to the Auditors and not wait for it do be transferred to published form. This inevitably resulted in some "version" issues. We continue to seek to reduce the number of iterations.

3.2 Asset management plans

Our approach

Good asset management planning is fundamental in the development of the LTP because many of the Regional Council's main activities rely on infrastructural assets.

For main infrastructural activities, our general expectation is to have up-to-date, materially complete asset management plans (AMPs) in place to support the development of the LTP. If formal plans are not in place, we would like to see robust asset management planning processes to have informed development of the LTP.

As part of our audit, we reviewed the overall approach to infrastructure asset management, and selected Public Transport and Water Supply as significant

activities for detailed review, reflecting their importance to the regional economy and expenditure on these activities.

We considered:

- the quality of the asset management control environment;
- the quality of the asset management plans; and
- the overall reliability of data drawn from them.

Overall findings and outcome

We found that the Transport and Water groups had not completed their asset management planning and plans in time to inform the long-term planning process. This indicates a weakness in the asset control environment in that asset management planning is not sufficiently well integrated into the service and financial planning framework. We acknowledge that the Regional Council only acquired the rail rolling stock and transport infrastructural assets in July 2011. Both Transport and Water have done or are doing much of the underlying work for the AMPs.

In the absence of asset management plans, we adopted a substantive approach to the audit to obtain the assurance necessary to ensure the forecasts, risks and assumptions and associated commentary in the LTP SOP were fair, reasonable, supportable and complete. Our approach consisted of reviewing the control environment, meeting with management, using our knowledge and understanding of the business and business processes, and reviewing supporting documentation to confirm the underlying data.

We recommend the following going forward:

- Once the AMPs are finalised, there may be some changes to forecasts. If these changes are material, the Regional Council should consider updating its forecasts in the final LTP.
- The Regional Council develop an asset management policy framework (in line with good practice set out in the International Infrastructure Management Manual 2011) that defines its approach to asset management to ensure that asset management is coordinated and the approach is consistently applied across the Regional Council.
- Develop asset management plans based on good quality data developed ahead of the 2015/25 LTP. For Public Transport, newer to asset management planning than Water Supply, it may be appropriate to update the asset management plan annually between its production later this year, and 2015, recognising that there will probably be significant scope to develop and improve it as management of the rail assets become embedded.

Management comment

We note the auditor's comments on the Public Transport asset management plans and we will assess the need to update our asset management plan on an annual basis. With

a new staff structure and additional resources the Group is well placed to keep the plan under constant review and ensure it is kept up-to-date.

We also note that our Water Supply Group has an existing asset management plan that was last updated in 2008. In 2010 we undertook a major review of the plan to bring it in line with NAMS guidelines and the International Infrastructure Management Manual 2011. We believe we had sufficient information in the existing plan to inform the LTP process

However, we agree with the auditors recommendations and should point out that we already have plans in place with regard to the recommendations in the second and third bullet points.

Public Transport – specific comments

Having agreed a major rail asset transfer package with the Government on 1 July 2011, the Regional Council started to prepare three AMPs for public transport. While a lot of preparatory work was underway, the AMPs themselves were being prepared by external consultants and were not available at the time of the LTP SOP audit. The AMPs are:

- Bus services infrastructure asset management plan – the draft was due mid-February 2012, but at the time of the audit, it had not yet been received;
- Rail infrastructure asset management plan – the draft was due late February 2012, but at the time of the audit, it had not yet been received; and
- Rail rolling stock asset management plan – the draft was due in late March 2012.

Particular areas of focus for strengthening public transport planning in future should be:

- improving the collection, management and use of data on the assets – age, description, condition and performance – along with formal assessment of the reliability of this data;
- documenting lifecycle asset management strategies for each asset type; and
- documenting levels of service to be delivered or supported by each asset type.

We recommend that an external peer review is completed of the asset management plan once it is produced to assess whether it is at an appropriate level of sophistication and to guide its further development.

Management comment

As a consequence of the process of preparing the three public transport asset management plans a decision has been taken to combine them into a single document to avoid unnecessary duplication. An independent external expertise has been engaged to help oversee the preparation of the plan and to provide a peer review.

A comprehensive asset condition assessment has been completed on all fixed rail infrastructure assets. A similar review of rolling stock has not been completed as the vast majority is either new (the Matangi trains), about to be retired from service (the English Electric trains) or to be refurbished or replaced (the GanzMavag trains). Annual asset condition assessments will be completed for all assets.

Lifecycle asset management strategies will be completed for all assets.

Water Supply – specific observations

The Water Supply AMP was due to be finalised by the end of February 2012. However, there were delays in completing the AMP and it was not available at the time of the audit.

Effort has gone into cleansing and building the reliability of asset data. It is important that the cleansed data is properly maintained to a level that means a repeat of this process is not required. The condition information that has been and continues to be gathered will provide a sound basis for future planning.

It will be important, once the asset management plan for Water Supply is updated, to document lifecycle and demand management strategies well, especially given their impact on deferring the need for a new source, which will be a major item of capital expenditure when it is needed.

We recommend:

- A formal assessment of data reliability be completed to inform decision makers about the robustness of plans.
- A formal external peer review is completed of the water asset management plan once it is produced.

Management comment

We agree with the recommendations and have previously discussed a formal review with the ex Chief Executive of NAMS, Cathy Dever-Todd.

3.3 The 'right debate'

The role of the LTP SOP and the Summary SOP is to facilitate the occurrence of the "right debate" in the community. In order for this 'debate' to occur, and for it to be focused on the 'right' issues, the LTP SOP document must provide the community with sufficient and balanced information about the strategic and other key issues, choices and implications facing them.

The Regional Council's LTP SOP Summary is easy to read, clearly sets out the issues for consultation, and is in a format that should enable the community to engage easily with the Regional Council.

In the initial draft of the LTP SOP we could not clearly identify the issues that the Regional Council wanted to consult the community on. The Regional Council addressed this during the course of the audit and the final LTP SOP and Summary SOP appropriately presented its strategic and other key issues, key proposals and implications to the community for consultation.

Management comment

In writing the draft LTP Summary particular focus was placed on ensuring the document provided the clearest picture of the Council's proposed approach and the issues we were seeking comment on. This was reflected in the draft LTP through the use of consultation 'boxes' which highlight the key proposals.

3.4 Financial strategy

For the 2012/12 LTP SOP the importance and profile of the financial strategy has been heightened. The Local Government Act 2002 (the Act) was amended, and as a result, the inclusion of the financial strategy changed from being best practice to a legislative requirement.

Clearly describing the Regional Council's financial strategy is an important part of the right debate. In order for the consultation processes to be effective, it is important that a reader of the LTP SOP can understand the strategy the Regional Council is employing.

We found that the Regional Council is very clear on its financial strategy of continuing to invest in key infrastructure, ensuring intergenerational equality by funding its investments in infrastructure through borrowings, setting limits for net debt and limiting rate increases for its services. However it did not initially document this in a way that was straight-forward and concise: The financial strategy and financial overview were difficult to read, with the content required by the Act spread across these two sections. We recommended that the Regional Council combine the financial strategy and financial overview, and review the content and wording to make it clearer.

The Regional Council responded positively to our recommendations. The Financial Strategy is now clear and allows an interested non-financial reader to understand the financial strategy employed by the Regional Council.

Management comment

Auditors comments are noted.

3.5 Performance management framework

To demonstrate accountability for delivery of services councils need to provide sufficient and robust performance information in the LTP SOP to show the local community:

- the services that will be carried out and why;
- the service levels required to meet the needs of their communities or other duties and intentions of council; and
- the planned level of service intended to be achieved.

Our review of the performance framework considered if:

- there is a framework for the assessment of achievement of service levels;

- the service level measures themselves provide a useful way of measuring performance and understanding performance achievements; and
- the targets or estimates are reasonable and based on sound information.

Early on in the LTP process, the Regional Council set up an LTP Working Group that reviewed its performance framework and approach to developing performance measures. The LTP Working Group engaged with divisions, management and councillors, and there was good buy-in and ownership for the measures. We found that the:

- Performance measures in the groups of activities are appropriately based on the level of service for the activity.
- Presentation and disclosures across each of the groups of activities were consistent.

We will engage with the Regional Council to ensure that there are systems in place for capturing information for monitoring, management and reporting purposes. Also, that there are appropriate quality assurance processes in place.

Management comment

For the draft LTP a complete review of the Council's performance management framework was undertaken. This will significantly improve the quality of reporting through the Annual Report in future years.

3.6 Community outcomes and measures

In addition to revising its performance framework the Regional Council also revised its community outcomes. The process employed to develop the revised outcomes involved a high degree of participation by Councillors and the executive leadership team.

Our initial work on the draft LTP SOP identified that the Regional Council needed to make clearer the impact it wanted to achieve. We also noted that it would be good practice to have baselines for these impact measures, i.e. statements providing the current state against which the Regional Council can assess its positive impact. As with our other feedback, the Regional Council responded positively and amended the Community Outcomes section of the LTP SOP to include a baseline and a more precise definition of the impact to be achieved.

Management comment

Auditors comments are noted.

3.7 Funding Impact Statements – form and content

As part of the amendments to the Local Government Act made during 2010, the Regional Council has to provide Funding Impact Statements in a prescribed format laid down in the Local Government (Financial Reporting) Regulations 2011.

The Regional Council found it a challenge to balance the prescriptive nature of the regulations against the desire to clearly present the nature of its operations.

An Investments Funding Impact Statement was created, even though Investments was not associated with a particular Group of Activity. Additionally, the following was disclosed:

- The Regional Council off-set investment income from the General Rate requirements, but it did not off-set the investment income against the General Rate requirements at the group of activity level.
- The activities of the Regional Council's Treasury Management function.
- The Wellington Regional Stadium Purposes rate – the Regional Council needs to decide where management responsibility for this resides.

In the Regional Council's view the disclosure better reflected the nature of its operations, although it was not ideal in terms of meeting the intent of the new regulations.

We recommend that the Regional Council reviews its use of the Investments Funding Impact Statement so that:

- Income generated by its Treasury Management function is allocated to its group of activities.
- The Wellington Regional Stadium Purposes rate is allocated to a group of activity.

Management comment

Management notes the auditor's comments regarding the regulated funding impact statements and disagrees with the auditor's interpretation of the regulation requirements.

The regulations do not definitively conclude that the groups of activities need cover all revenue and expenditure and management's view is that rates savings from investment activity are more informatively disclosed as investment revenue and not by way of an arbitrary allocation to the groups of activities.

The Stadium rate is merely a rate to cover the repayment of the stadium loan. Greater Wellington is not involved in the day to day running of the stadium or its activities. There is no logical performance measure other than paying off the loan on time so it does not lend itself to be included in one of the groups of activities. This is why it has been included in the Investment / treasury section.

Audit New Zealand response

We can understand where there Regional Council is coming from with wanting to disclose the impact of its investment activities in a transparent way.

3.8 Regional governance

Regional governance continues to be a topic of debate for local government reform. The Wellington Mayoral Forum (which includes all the region's councils) has been closely monitoring the debate. In 2010, the Wellington Mayoral Forum commissioned an independent report on local government arrangements in the region. The report analysed current arrangements and provided ideas on how the governance structures

might be improved. At the time of the audit there were no proposals for changes to regional governance. Our review consisted of assessing whether the Regional Council fairly reflected the issue of regional governance in the LTP SOP.

We are satisfied that the issue of regional governance has been appropriately reflected in the LTP SOP as an emerging issue.

Management comment

Auditors comments are noted.

3.9 Review of Wellington Regional Strategy

It was agreed in 2007 that if the Regional Council would like to continue to deliver the regional economic development function beyond 30 June 2012, then it must undertake the processes set out in section 16(2)(b) of the Local Government Act 2002 which requires the proposal to be included in the draft long-term plan.

The Wellington Regional Strategy has been reviewed and will be consulted on in the LTP SOP.

Management comment

Auditors comments are noted.

3.10 Effective consultation

In its Self Assessment of the LTP development process the Regional Council mentioned that it did not have a consultation/decision making policy in place. During the audit an appropriate policy was drafted and approved by the Council.

Management comment

A consultation plan was developed at an appropriate stage of the process once the issues were clearly defined.

4 Audit of the final Long Term Plan in June

The next step in the LTP audit process will be the audit of the final LTP. This is scheduled to be undertaken in the week commencing 4 June 2012.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the council is required to adopt before 1 July 2012 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the council meeting on 27 June 2012 at which the 2012-22 LTP will be formally adopted.

Our audit focus will be to assess the Regional Council's compliance with the consultation requirements of the Act and review any identified issues affecting the final LTP. We will review any changes made to the LTP and will assess them for reasonableness, consistency with other aspects of the LTP such as policies and assumptions, and for compliance with the Act. We will consider the effect of the changes and review the final LTP to gain assurance that all appropriate, material, consequential changes and disclosures have been made.

At the conclusion of the audit, we will ask Council to provide us with a signed management representation letter on the final LTP.

5 Thank you

We would like to acknowledge and thank the Council, management and staff for all the very good cooperation we received during the audit. We really appreciated it.

Yours sincerely

Karen Young

Karen Young
Director

Appendix 1: Unadjusted misstatements

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Note	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue		-	-	-	-	-	-	-	-	-	-
Expenditure	1	26	51	80	108	137	166	195	223	252	281
Operating surplus		-	-	-	-	-	-	-	-	-	-
Current assets		-	-	-	-	-	-	-	-	-	-
Current liabilities	1	26	51	80	108	137	166	195	223	252	281
Non current assets		-	-	-	-	-	-	-	-	-	-
Non current liabilities		-	-	-	-	-	-	-	-	-	-
Equity		-	-	-	-	-	-	-	-	-	-

Note 1

The Council is a guarantor for the Local Government Funding Agency. It has not provided for in its LTP Statement of Proposal the estimated proportion of the amount it would be required to pay if the guarantee as set out in the Deed of Guarantee is called up. Therefore expenditure and current liabilities are understated by the amounts in the table above.

Management response

Agreed: as noted by Audit NZ, these amounts not provided for in the LTP Statement of Proposal are not individually or collectively material and therefore no adjustment is required.

Unadjusted disclosure deficiencies

Detail of disclosure deficiency	Management's explanation of why this was not corrected
None	N/A

Appendix 2: Audit Scope and Objectives

Audit New Zealand is appointed as auditor of the Regional Council under contract to the Office of the Auditor-General (OAG). The Auditor-General is the statutory auditor in terms of Section 15 of the Public Audit Act 2001.

The objectives of the audit of the LTP SOP are:

- to provide an independent opinion on the LTP SOP (under s 84(4) of the Act) about the activities of the Council in respect of:
 - the extent to which the LTP SOP complies with the requirements of the Act;
 - the quality of the information and assumptions underlying the forecast information provided in the LTP SOP;
- to report on matters relevant to the Council's planning systems, which come to our attention and are relevant to the Council.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts and other disclosures in the LTP SOP, determining compliance with the requirements of the Act, and evaluating the overall adequacy of the presentation of information.

We also reviewed other accompanying information associated with the LTP SOP to identify whether there are material inconsistencies with the audited LTP SOP. In particular, we reviewed the summary of the LTP SOP for its representation of the major matters in the LTP SOP to enable general consultation with the community.

Audit New Zealand's responsibility

Audit New Zealand's responsibility is limited to expressing an opinion on the LTP SOP. The audit opinion does not:

- provide a guarantee of absolute accuracy in the LTP SOP;
- express an opinion on the merits of any policy content within the LTP SOP; and
- include an opinion as to whether the forecasts will be achieved.

Responsibilities of the Council

The Council is responsible for preparing the LTP SOP under the Act, by applying the Council's assumptions and in accordance with generally accepted accounting practice in New Zealand. The Council's responsibilities arise from section 93 of the Act. We assume that members of the Council are familiar with those responsibilities, and where necessary, have obtained advice about them.