



Audit New Zealand
AUDIT AND ASSURANCE SERVICES

Wellington Regional Council
20 AUG 2001

16 August 2001

Mr H J Stone
General Manager
Wellington Regional Council
PO Box 11 646
WELLINGTON

Dear Howard

**INTERIM AUDIT MANAGEMENT REPORT FOR THE YEAR ENDED
30 JUNE 2001**

1 SCOPE AND RESPONSIBILITIES

We have completed our interim audits of Wellington Regional Council (the "Council") for the year ended 30 June 2001.

The scope of our annual audit and our respective responsibilities are detailed in the audit engagement letter dated 12 November 1997. The objectives of the interim audit were to review the adequacy and effectiveness of controls operating over the key systems used by management to control, or undertake, the business of the Council.

Our work was structured to provide the most efficient means of obtaining the information necessary to achieve the above objectives.

2 FINANCIAL AND SERVICE PERFORMANCE MANAGEMENT

Overall, we are satisfied with the financial and service performance systems and controls in operation at the Council.

Our assessment of aspects of the Council's financial and service performance management is set out in the table below. An explanation of the assessment terminology is included in Appendix One.

FILE REF:	CFO/41	Attachment 1 to Report 01.751 Page 1 of 7
NAME	H. Stone (HJ) 20/8/01	
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TO ACTION:		

Management aspect	Assessment	Comment
Financial control systems	Excellent <i>(2000: Good)</i>	The Council has a strong control environment. The individual processing systems are well established and controls surrounding the input of data into these systems operate effectively. The Council completed a formal internal review of the application of the purchase order system as part of the overall review of the purchasing processes. It is pleasing to note that the new purchasing expenditure system is operating effectively and efficiently.
Financial management information systems	Excellent <i>(2000: Excellent)</i>	Financial management information systems are well managed throughout the Council. .
Financial management control environment	Excellent <i>(2000: Excellent)</i>	The financial management control environment is robust. Controls include: ▲ integrated budgeting process ▲ monthly reporting ▲ Policy and Finance Committee
Service performance information and information systems	Excellent <i>(2000: Good)</i>	The Council has good systems to record service performance and the internal controls over non financial data are well established.
Service performance management control environment	Excellent <i>(2000: Excellent)</i>	The Council has excellent higher level controls including: A Quality assurance A Self-review procedures ▲ Planning processes A Exception reporting Performance standards are outcome focused and are linked to the day-to-day operations of the Council.

3 ISSUES ARISING FROM THE AUDIT

I am pleased to report there were no significant issues arising from the interim audit. We have issued a separate report to the Chief Financial Officer containing some minor matters arising from the audit, which are viewed as routine in nature. All of these matters have been responded to positively by the finance team.

4 REVIEWS ON BEHALF OF THE OFFICE OF THE CONTROLLER AND AUDITOR-GENERAL (OAG)

Appendix Two details the results of the reviews we performed on behalf of the Controller and Auditor-General. No issues arose out of these reviews which would require your attention.

5 ACKNOWLEDGEMENT

I would like to express our appreciation for the assistance provided to us by your staff during our interim audit. If you have any queries on the above matters, please do not hesitate to contact me 496 3025.

Yours sincerely



Erica Mason
Director

cc Greg Schollum, Chief Financial Officer

APPENDIX ONE

MANAGEMENT ASPECTS ASSESSMENT TERMINOLOGY

Definition of gradings

Assessment term	Further explanation
Excellent	Works very well; no scope for cost-beneficial improvement identified
Good	Works well; few or minor improvements only needed to rate as excellent. We would only recommend improvements where benefits exceed costs
Satisfactory	Works well enough, but improvements desirable. We have recommended improvements in this and/or other reports for action during the coming year
Just adequate	Does not work well at all. Improvements recommended for action as soon as possible.
Not adequate	Does not work; needs complete review. We have recommended major improvements, in this report, for urgent action
Not applicable	Not examined or assessed

Definition of terms

Term	Definition
Financial control systems	These are the individual systems that process financial data. For example, processing payments (expenditure and creditors), billing system (revenue and debtors), asset management (Fixed Asset Register) and general ledger. This covers controls surrounding the processing of these transactions to ensure the completeness and accuracy of data.
Financial management information systems	This is the IS/IT control environment. This includes such things as: <ul style="list-style-type: none"> a IS/IT strategic planning a Disaster recovery provisions a Data integrity a Access controls a Programme change controls a Physical security of hardware and software

Term	Definition
Financial management control environment	<p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> A Financial management policies and procedures A Self review (including Internal Audit) A Assurance (Audit) Committees A Budgeting processes A Cashflow forecasting A Exceptions reporting A Other assurance measures
Service performance information and information systems	<p>These are the systems to record service performance (non-financial) data and the internal controls (manual and computer) to ensure the completeness and accuracy of the data, and the appropriateness of your performance measures.</p>
Service performance management control environment	<p>These are the upper level controls and include such things as:</p> <ul style="list-style-type: none"> A Operations policies and procedures A Quality assurance (where appropriate) A Planning processes A Assurance (Audit) Committee A Self-review (including Internal Audit) A Exception reporting A Other assurance processes A Whether performance measures link into the day-to-day management of your entity

APPENDIX TWO

REVIEWS ON BEHALF OF THE CONTROLLER AND AUDITOR-GENERAL

Issue	Status/Findings
Regulatory functions — integrity of procedures	<p>The OAG continues to receive a number of ratepayer enquiries in relation to regulatory functions, particularly processes under the Resource Management Act 1991. The OAG has identified a number of areas of risk in the provision of regulatory functions. We discussed with Council management the areas of risk surrounding the provision of regulatory functions and Council's approach to addressing those risks. We are satisfied that Council has adequate processes in place to manage any risks arising from the regulatory function.</p>
Resource Management Act 1991- Transitional Resource Consents	<p>The Resource Management Act contains transitional provisions relating to consents and permits issued under previous legislation. Many water permits or discharge permits will expire on 1 October 2001. The purpose of our work was to undertake a "stock-take" of transitional resource consents that are due to expire in relation to water permits and discharge permits for contaminants and advise the OAG of the sector's progress in renewing these consents.</p> <p>Council has adopted a proactive approach to ensuring that transitional resource consents are renewed. We understand that the Council expects to have all consents completed by 1 October 2001.</p>

Issue	Status/Findings
Sustainable Planning and Financial Management	<p>The OAG wishes to ascertain the extent to which the planning regime under Part VIIA is leading to better long term planning for the sustainability of key services to communities. The OAG will use this information to form a sector-wide perspective on the implications that will flow from the LTFS reviews in terms of sustainable provision of services and the overall approach to Local Government legislation.</p> <p>We discussed with Council staff the extent to which Council reviewed its LTFS in terms of</p> <ul style="list-style-type: none"> A alignment and consistency with other significant plans and policies of Council, A population demographics, A the level of service that the community will expect and can afford, ▲ how well was the intentions of the previous LTFS and asset management plans met, ▲ how is Council using the LTFS as a means of identifying upcoming issues for service sustainability and prepare ahead for changes. <p>We are satisfied that Council has a thorough approach to the development of its LTFS and that consideration is given to the impact of any emerging issues or changing community preferences on service sustainability.</p>
Anticipating Future Rates Increases to Fund Depreciation	<p>The OAG is aware of some local authorities, in order to deal with the impact of funding depreciation, adopting an approach where a rates increase is phased in over time — for example, over five years. This approach anticipates that deficits will be incurred in early years but will be made up by surpluses in later years. The OAG has questioned the prudence of this approach and whether it technically complies with the legislation. Therefore, the OAG would like to monitor the Councils that are using this approach. For Councils to which it relates, we have been asked to advise the OAG whether Council's 2001/02 Annual Plan provides for rates increases to make up prior years' deficits and whether planned rate increases continue to be reflected in the LTFS and Funding Policies.</p> <p>We have no issues to bring to your attention.</p>