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**REPORT 1**  
*(1215/52/01/IM)*

## **STATUS REPORT ON AUDIT NEW ZEALAND AUDIT ARRANGEMENTS, PROGRESS AND RECOMMENDATIONS**

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### **1. Purpose of Report**

To update the Subcommittee on Audit New Zealand audit arrangements and progress in implementing the recommendations contained in the audit management letters presented to the Subcommittee.

### **2. Recommendations**

It is recommended that the Subcommittee:

- 1. Receive the information*
- 2. Note the content of the 2005/06 Financial Statements and 2006/16 LTCCP audit management letters (attached in Appendices One and Two).*

### **3. Summary of “Movements” in Recommendations since the last report**

At the last Subcommittee meeting in October 2006, two draft management letters had been received from Audit New Zealand and were in the process of being finalised — one in respect of the 2006/16 LTCCP audit, and the other for the 2005/06 financial statements audit. A summary of the content of the letters was presented to the October Subcommittee meeting.

These reports have subsequently been finalised, and are attached in Appendices One and Two.

#### **3.1 2005/06 Financial Statements Audit**

There were no significant issues arising from the audit. Two matters were raised for the Subcommittee’s attention:

- During the period Audit New Zealand performed a review of information systems on behalf of the Council’s Risk Assurance team. Detailed findings have been previously reported in the Director Risk Assurance’s report *Summary of Work Performed* to the Subcommittee. Audit New Zealand found that “overall the Wellington City Council
- Knowledge Solutions (KS) Business Unit operates professional and well-managed services.” The auditors also provided assurance to the Human Resources and Finance teams with regard to the upgrades of the Payroll and Rates and Water Billing systems, and were “satisfied that robust processes and procedures ensured the completeness and accuracy of the data.”
- As outlined in the Audit Arrangements Letter, the auditors have specifically reviewed entities’ policies for addressing and minimising fraud as an area of focus for 2005/06. Risk Assurance has since reviewed the *Investigating Possible Misconduct* Standard and the Code of Conduct, and has almost completed the development of a specific policy on fraud that will meet the requirements and expectations of the Auditor-General.

### 3.2 2006/16 Long Term Council Community Plan

The following table lists the issues identified by Audit New Zealand in relation to their audit of the 2006/16 LTCCP, and the Council’s management response:

<b>Audit NZ Recommendation</b>	<b>Response</b>
<p><b>Management of the LTCCP process</b></p> <p>We recommend Council complete a self-analysis of the project to identify areas that could be improved and areas of risk for the next LTCCP. A comprehensive review would provide a good basis for project improvement areas to work on over the next three years.</p>	<p><i>A comprehensive debrief/review process is undertaken at the end of the LTCCP/Annual Plan preparation, and improvements built into the planning process for the following year..</i></p>
<p><b>Performance Framework</b></p> <p>While we are satisfied that Council’s LTCCP included a reasonable performance framework, we still believe there is room for improvement in the proposed levels of service and performance measures themselves. Our main concerns in relation to the performance framework were as follows:</p>	<p><i>Our overall approach is to describe / measure our work in terms of outcomes. In general we have eliminated measures / descriptions of inputs or outputs. This is because, when read critically, they do not provide a basis to assess actual levels of service – that is, they do not provide a basis for the public to know the end state – often these do not provide an assessment of quality. Having eliminated these we believe we are ahead of the current</i></p>

Audit NZ Recommendation	Response
<ul style="list-style-type: none"> <li>• Weaknesses in aspects of the logic flow in the performance framework (lack of linkage between rationale for the service, service levels and performance measures);</li> <li>• Clarity of service levels; and</li> <li>• Completeness of performance measures.</li> </ul>	<p><i>practice across the sector.</i></p>
<p><b>Asset Management Planning</b></p> <p>The overall assessment of the Wastewater AMP was ‘marginal’. There were weaknesses in the linkages between the AMP and the draft plan. In particular:</p> <ul style="list-style-type: none"> <li>• the financial forecasts specified within the asset management plans do not flow into the prospective financial statements disclosed in the LTCCP. We accept that this is due to timing differences between when the revaluation information in the AMP was being updated.</li> <li>• Some targets remain to be set against the level of service measures, and there is not always consistency between the levels of service set out in the AMP and the performance measures used in the draft LTCCP. Again due to timing differences the revised performance measures have not yet been updated in the AMP.</li> </ul> <p>Additionally, the AMPs should be subject to formal peer review and a more formal, structured approach to improvement planning. The AMPs, and associated activity management plans, should be approved by Council to formally recognise their status in the planning framework.</p>	<p><i>AMPs are formally reviewed by an independent expert, and approved by Council as part of the LTCCP/Annual Plan process.</i></p> <p><i>The issues identified relate to timing differences between the finalisation of AMPs and the LTCCP. The final LTCCP included updated information in respect of asset valuations and performance measures that was not available at the time the AMPs were finalised. The timing of these processes has now been aligned.</i></p>

<p><b><i>Printers Proofs of Final LTCCP</i></b></p> <p>We found that the Council’s checks of the printers’ proofs required significant improvement. There was a lack of overall quality review over the document, and this put additional pressure on our ability to turn the document around within the agreed timeframe.</p>	<p><i>In accordance with timeframes for reporting, the proof reading of the final LTCCP document was carried out concurrently by Council and Audit New Zealand. As a result, the vast majority of the changes that the auditors identified had already been made as a result of that work. In future we will ensure that Council proofing of the document occurs in advance of a copy being made available to Audit New Zealand.</i></p>
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Audit New Zealand Director Rudie Tomlinson will be present at the Subcommittee meeting on 1 December to introduce and discuss the letters.

*Contact Officer: Helen Rogers  
Financial Controller*

**2005/06 Financial Statements Audit Management  
Letter**

**Appendix Two**

**2006/16 LTCCP Audit Management Letter**

## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

*The report supports Council's overall vision of Creative Wellington – Innovation Capital by ensuring that the Council's statutory obligations in respect of external audit are fulfilled, and the results appropriately communicated.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*The report has no specific Annual Plan reference. There is no long term financial impact arising from the report.*

### **3) Treaty of Waitangi considerations**

*There are no specific Treaty of Waitangi considerations.*

### **4) Decision-Making**

*There are no significant decisions required by the paper.*

### **5) Consultation**

#### **a) General Consultation**

*There are no parties significantly affected by this paper.*

#### **b) Consultation with Maori**

*Maori are not significantly affected by this paper.*

### **6) Legal Implications**

*This report has no specific legal implications.*

### **7) Consistency with existing policy**

*This report is consistent with existing policy.*