AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Wellington City Council

for the year ended 30 June 2013

Management report

Contents

1 Introduction

This report summarises the findings of our 2013 audit, and discusses any significant accounting and other issues considered.

The report focuses on the issues that we wish to bring to the attention of Council. We will also provide a report to management with some minor recommendations for improvement relating to the final audit visit.

2 Our audit opinion

We issued an unmodified audit opinion on 28 August 2013.

2.1 Significant matters considered during the audit

Matters that required significant audit judgement, or involve a high degree of estimation, are discussed in Appendix A. We have raised some suggestions for improvement. There are no significant issues arising from these.

3 Legislative compliance

The Council has effective procedures to identify and comply with significant legislation. One matter for Council's attention is described below in Section 4.4.

4 Assessment of your control environment

Consistent with previous years, the Council operates an effective control environment.

Our high-level review of your control environment included a consideration of Council and management's overall attitude toward, awareness of, and actions in establishing and maintaining effective management procedures and internal controls.

We found that internal controls are operating effectively. We also note:

- The draft annual report and supporting information provided to us for audit was prepared to a high standard. The Council's quality assurance procedures were maintained through restructuring and staff changes within the finance and research, consulting and planning teams.
- There is a need to closely monitor entity and process level controls with the recent departure of the Chief Financial Officer and Manager of Risk Assurance.

4.1 Asset management planning improvements

In our Report to the Council on the audit of the Long Term Plan (LTP) for the period 1 July 2012 to 30 June 2022 we commented on the Council's approach to maximising the effectiveness of asset renewals spending. At the time of the LTP audit, work was starting to improve the Council's knowledge of asset condition.

Wellington City Council is facing more fundamental decisions on its assets than has been the case in the past, within a tighter fiscal environment. Good quality asset

information will be key to making decisions appropriately. Because of the importance of improving the Council's approach to asset management planning ahead of the next LTP in 2015, we have maintained a watching brief over progress in the last 12 months.

The Council is underway with a detailed programme to improve the quality of asset information and develop a new format for asset management plans. Some work is also planned to reconsider the approach to asset valuation. These are good initiatives. In particular we welcome and support the approach to improving asset information, including the Council dedicating significant funding ($3.6 million this year) and staff to the information project.

We understand that the intention is to have sufficiently reliable data available by July 2014 to inform analysis ahead of planning in support of the 2015-2025 LTP, which we understand is scheduled for spring 2014. Whilst there is good evidence of progress to date, there is still a significant amount of work to do between now and June 2014. It is important that the Council maintains its focus on this programme as effort moves significantly from planning to the phase of the programme where the bulk of data collection and analysis needs to be done. We will maintain a watching brief over this in the coming year.

We understand that some of the major renewals pressures facing the Council fall outside of the 10 year planning horizon that the LTP process requires. Regardless of LTP being a 10 year plan and its associated audit requirements, we would expect the Council to adopt a planning horizon appropriate to the significance and timing of the key decisions it has to make. There has been a recent release of a cabinet paper as part of the "Better Local Government" programme which proposes a 30-year planning horizon for infrastructure assets. If approved as legislation, this will provide the appropriate consideration to the future funding commitments that these infrastructural assets require and the Council will have to comply in time for its 2015-25 LTP.

In the longer term we understand that work is underway to develop some tools to help decision makers prioritise spending between asset/service areas. This will be welcome, but needs to follow the collection and analysis of sufficient, reliable information on the assets to make its inputs meaningful.

4.2 Governance of Council Controlled Organisations (CCOs)

A significant function of the Council's governance arrangements is the oversight of its CCOs.

The Council carries out this oversight via the CCO Performance sub-committee (CCOPS). During the year the Council completed its governance review of its CCOs. This recommended no changes in structure, but noted a range of options to enhance alignment and performance. CCOPS has also taken steps to ensure that CCO's strategies are consistent with Council.

We are also aware of the Office of the Auditor-General's interest in this area across the local authority sector. The Council has been included in the OAG's fieldwork for a report due to be issued in this financial year.

We were pleased to see that the Council implemented our recommendation that it consider requesting access to the external audit letters produced separately for the Council's significant CCOs.

The Council's annual report includes a range of key measures related to services provided by CCOs, as set out in the LTP.[1] An observation from this year's audit is that due to the timing of the finalisation of CCO statement of intents (SOIs) one of the performance measures for Positively Wellington Venues used in the Council's LTP was not consistent with the CCO's own measure and focus as set out in their SOI. While we acknowledge the timing difficulties that can arise, we believe the Council's goal should be to align the timing of the completion of these documents as far as possible to ensure alignment with Council strategies as well as consistency of both financial and non-financial performance measures.

Management comment

There is an inherent timing challenge with the preparation of the Council Annual Plans and the legislative framework for the completion and approval of statements of intent for CCOs. Council has made changes to the statement of intent process to engage the CCOs at an earlier stage in the planning process to better ensure alignment. This has been reflected in a much greater focus on alignment between the activities of the CCOs and Council's strategies.

The specific instance referred to relates to a measure in the LTP that was carried forward into the Annual Plan but as the Venues business has matured they had changed the way they measure occupancy, to provide more meaningful information.

4.3 Information systems – matters from prior years

Management have continued to take steps to resolve the longstanding matters raised in prior audits. A summary of the Council's progress in addressing our recommendations from prior audits follows:

Information system policies	**Cleared**
Business Continuity and IT Disaster Recovery plan	In progress – due for completion in September
Generic and powerful user accounts	Cleared
IM Risk Framework	Cleared
Access to the computer room	Cleared

Further to these matters, management have commissioned a more comprehensive review of its information systems, including vulnerability to cyber-attack. This work will be completed in the 2013/14 year.

[1] This is required by the Local Government Act 2002, Schedule 10(28)(c) .

Management comment

The Business Continuity plan has been updated from the activity undertaken during the recent earthquakes in Wellington. It's important to note the BCP worked well during the recent events.

With the completion of the production Data Centre move, we are now planning to migrate to a new disaster recover (DR) site with improved capability at the Revera Albany Data Centre facility. This project will be completed by December 2013. Once completed, we will not only have a new DR facility but also a simpler and more robust DR plan and testing schedule in place.

4.4 Local Government Rating Act 2002

From time to time issues are highlighted regarding a Local Authority's compliance with the Local Government Rating Act 2002 (the Rating Act). The consequences of non-compliance can be serious.

We note that the High Court recently took a strict view on the amount of latitude that was available in meeting these types of statutory requirements: see Tacon v Hastings District Council (Wylie J, 6 May 2013) (2013) NZHC 1078.

Compliance with the Rating Act is a risk acknowledged by Council and included in its risk management framework.

While it is not our role as auditors to assess the nature of the legal risk raised by any issues identified, we would bring these to Council's attention so it can have an opportunity to consider them and form its own view.

We have no issues to bring to your attention in respect of our review of the process for setting 2012/13 rates.

The Council's Risk and Assurance team has conducted a review of the Council's setting of rates for the 2013/14 year.

We commend the Council for keeping its focus in this area, and encourage it to keep this focus by periodically reviewing its rates setting process using people with relevant sector legal expertise.

We will consider the risk and assurance findings as part of ongoing audit work and will bring any issues arising to the attention of Council management.

Management comment

I note that there were no findings or recommendations arising from the Risk Assurance review of the setting of rates for the 2013/14 year. We will continue to focus in this area to ensure compliance with the Rating Act.

5 Changes to public benefit entity accounting standards

The New Zealand Accounting Standards Board recently released new accounting standards that will apply to public benefit entities (PBE) with expenses greater than $2 million. PBEs are required to transition to the new PBE standards for reporting periods beginning on or after 1 July 2014. This means the Council's first financial statements, including its forecast financial statements, under the new standards are for the year ending 30 June 2015.

We are satisfied with the Council's work to date as it prepares for transition to the new standards. The Audit and Risk Management subcommittee is updated at each meeting.

We will continue to discuss the adoption of the new accounting standards with the Council as appropriate.

Thank you

We would like to thank the Council and management for the consistent high level of support we received in performing our work.

A P Burns
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
30 October 2013

Appendix 1: Matters noted during our audit of the Council's financial and non-financial performance information

1 Financial statements

1.1 Review of Leaky Homes Liability

We are satisfied that the provision for leaky homes is fairly stated.

The Council's provision for leaky homes is the most significant accounting estimate in its financial statements. The total provision of $67.0 million is a $10.9 million increase from the 2012 year.

There is a high inherent degree of estimation and uncertainty in this balance. The success or otherwise of larger claims can significantly impact the result. The Council's provision is estimated using information from its legal advisors and actuary Melville Jessup Weaver (MJW).

The Council's estimation process has three major elements:

1. $39.4 million (2012: $27.7m) provision for active claims.

   This is for claims which have a legal and settlement reserve estimate and are considered to be in an active resolution process. The net value of the active claims is up considerably on 2012. The primary driver for the increase is attributed to an increase in the number of claims and also by a small number of multi unit claims increasing significantly in value.

2. $19.9 million (2012: $19.5m) provision for reported claims.

   This is for claims which have been notified to the Council and which are considered likely to progress through a resolution process. The value of the reported claims is similar to 2012 with a decrease in the number of claims valued offset by a higher assumptions for the cost of claims, higher percentage of costs arising to the Council, and a lower proportion of claims following the FAP process.

3. $7.7 million (2012: $8.9m) provision for unreported claims.

   This is for eligible claims which have yet to be notified to the Council. The value of unreported claims is down due in the main to a reduction in the number of future expected claims. This is anticipated as the limitation period now excludes most dwellings constructed before the leaky buildings problem was highlighted, after which construction methods improved.

The Spencer/Byron case of the Supreme Court widened the Council's duty of care to some commercial premises. No provision has been made for commercial claims. The Council's view, shared by the Council's actuary and consistent with other local

authorities, is that it is not yet in a position to make any reliable estimate of what future commercial claims might arise.

Section 3.9 of the MJW report notes some improvements which could be made to the data collection processes of Council. We recommend that Council consider these.

Management comment

We already collect all of the data which MJW note in their suggested improvements.

The majority of the data, with the exception of insurance details, is held in our database/document management system, Teamwork.

Teamwork manages the processing of Council Building Consents, Resource Consents, Public Health and other regulatory services.

A separate workflow has been built within this system to monitor and capture the workflows of each leaky home claim. A unique identification, also known as a service request (SR), is assigned to each workflow through the system.

This workflow process aligns to FAP & WHRS process administered by Department Building Housing, now Ministry of Business, Innovation and Employment (MBIE) and the Councils own in-house litigation process. This process has been reviewed by our own internal audit team.

Insurance information is held outside of Teamwork. This includes specific criteria which are applied to different insurance fund years.

1.2 Wellington Waterfront Project – deferral of audit

The Council's financial statements incorporate the results of the Wellington Waterfront Project (WWP). The separate audit of WWP was delayed until October 2013 as the information is not yet ready for audit.

We discussed this matter with management at the time, and agreed to perform some high level reviews of the significant balances and transactions within WWP.

We are satisfied the deferral in the audit of WWP does not materially impact the Council's audit.

2 Service performance reporting

2.1 Residents monitoring survey

For 2013 the Council changed the methodology (and provider) of its residents monitoring survey. The main change has been a move from a telephone based survey to one conducted online.

The results from the new survey show performance has dropped compared to the previous year, in some cases significantly. The results are summarised in the table below:

Drop compared with previous year – number of measures				
Less than 5%	5% - 9%	10% - 19%	20%+	No baseline given
6	12	10	6	6

The Council has been investigating the reasons for the results, however, before it changed the methodology the Council knew the time series would be broken and that the new method could change the results.

Our audit work over the residents monitoring survey was focussed on:

- obtaining information from the Council and its survey provider on what steps were taken to ensure the survey results were representative and free from bias; and
- ensuring an appropriate and balanced disclosure around the drop in results in the Council's annual report. We worked with the Council's research, consultation and planning team around this.

Overall we are satisfied that the results are fairly stated and disclosures are appropriate.

We recommend the Council continue to analyse the results. This should include what other reasons may explain the drop in satisfaction, and the more unusual results, such as measures that are not satisfaction measures (e.g. the significant decline in % of children who walk to and from school daily).

Management comment

With regards to the table identifying that no baseline data was given for six measures - baseline data is the data from the first year the information is collected. No baseline data is to be expected in the first year of a new performance framework.

We are doing focus groups, on-line discussion boards and more customer surveying to investigate further why satisfaction has dropped.

With regards to the school children walking to school measure, we are not proposing any further action apart from waiting to see the next year's results. We are confident this is a result from respondents being more honest when completing a survey online as opposed to speaking to a person.

2.2 Building consents – timeliness of processing

The Building Act 2004 requires that the Council process building consents within 20 working days.

The building consents processing team operate a system where the timeliness of processing and compliance with the Building Act is assessed electronically. Performance is monitored daily, weekly and monthly. This enables the team to prioritise effort to consents that are nearing the statutory limit.

When applicants are required to submit further information to support their application, the status is changed to "request for information" and the timer is stopped (i.e. the building consent is suspended).

When complete information is received the timer is restarted. This is a manual process which relies on an assessor to change the status back to an "active" state.

Our review of the system found that the time period between receiving new information and restarting the timer is often within one working day, but can vary considerably. Longer times may be reasonable, as building consents are complex. Requests may be for a range of information and require assessment for completeness. Some information may remain outstanding or require further clarification. Suspended building consents are monitored; but there is no systematic process focussed on those applications where requested information has been logged as received.

We performed further testing to determine whether there was documentation to show the time taken was reasonable. We could not find evidence on all files to explain each time delay. However evidence on some files shows further information being requested and received – in these instances the consents were then finalised within one working day.

Management has a number of processes in place to mitigate risk in this area, including:

- All incoming correspondence is received by an administration team and logged. This is retained in an area visible to the entire processing team to track what information is awaiting assessment/processing.
- Dedicated staff monitor all consents with a suspended status (which include "RFI information received" – although this aspect is not focussed on). They will determine the reasons for any delay and take corrective action.

We also note the Council has renewed its building consent authority certification from International Accreditation New Zealand and the Ministry of Business, Innovation and Employment.

We recommend that:

- the building consents team actively monitor the timeliness of processing following receipt of new information, with a focus on any outliers; and
- the Council make a more conscious effort to retain sufficient information on file explaining the reasons for keeping the timer stopped in these cases.

Management comment

We agree with recommendations and have discussed with Audit New Zealand a number of changes proposed to mitigate these issues including increased visibility of new information as it is received, improved monitoring and improved recording of information on files to explain the reasons for keeping the timer stopped in these cases.

Appendix 2: Mandatory disclosures

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.

We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.

Statement of auditor independence

We confirm that, for the audit of the Council's financial statements for the year ended 30 June 2013 we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

During the year we undertook a review of the Clifton Terrace car park managed by the Council on behalf of the New Zealand Transport Agency. Other than the audit, the review of the Clifton Terrace car park and the audit of the long-term plan, we have no relationship with or interests in the 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 Council that is significant to the audit.