
REPORT 1
(1215/52/01/1M)

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

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. Recommendation

It is recommended that the Subcommittee:

- 1. Receive the information*

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

At the last Subcommittee meeting in June 2006, all remaining outstanding recommendations from Audit New Zealand management letters were cleared. Since the last meeting, Audit New Zealand has issued two draft management letters, one in respect of the 2006/16 LTCCP audit, and the other for the 2005/06 financial statements audit.

At the time of writing this report, the draft management letters were in the process of being finalised. We have included a summary of the highlights of the reports below, and expect to table the finalised reports at the 6 October Subcommittee meeting.

3.1 2005/06 Financial Statements Audit

This report provides a summary of the audit opinion, the assessment of the control environment and any significant issues arising from the audit of the financial statements for the year ended 30 June 2006. Key highlights are as follows:

- As the Subcommittee is aware, an unqualified opinion was issued on the Council and Group’s financial statements.

- Audit New Zealand’s assessment of our control environment was that “consistent with previous years, the Council continues to operate a sound management control environment and there are effective financial management processes in place.”
- 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 included in the Director Risk Assurance’s report *Summary of Work Performed* (Report 3) 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. The auditors found that “while the Council is aware of the risk of fraud occurring, it does not have a fraud policy in place.” In response to this point, we have advised as follows:

“At the 10 March 2006 Audit and Risk Management Subcommittee, Risk Assurance set out its proposed approach to auditing sensitive areas of activity potentially open to fraud. Risk Assurance developed a forward work programme for testing and reviewing these areas to provide assurance for the committee and senior management. This testing will be spread over a three year cycle from 2006-2009. This was endorsed by the Subcommittee.

Council also has a standard in place called the Investigating Possible Misconduct Standard. The purpose of this standard is to explain who to report an allegation or suspicion of misconduct with potentially serious implications to. It also describes how a preliminary investigation is carried out and how that is escalated to a full investigation. In addition, the Code of Conduct sets out behaviour that is unacceptable to the Council and which states that swift and appropriate action will be taken in respect of any breach.

Notwithstanding the above, Risk Assurance will, in conjunction with Human Resources, review both the standard and the Code of Conduct to ensure these documents meet the Council’s requirements and expectations of the Auditor-General in terms of a specific policy on fraud. This review will consider whether there is the need for a separate

standard on fraud or whether the Auditor-General's requirements are adequately met by existing standards.”

- The report advises that “in recognition of the Council’s strong performance during the LTCCP audit process, the Office of the Auditor-General has agreed that the Council’s 2006 attest audit fee will be reduced by \$9,996 (5% of the agreed fee).

3.2 2006/16 Long Term Council Community Plan

This report provides a summary of the audit opinion, the assessment of the control environment and significant issues arising from the audit of the LTCCP for the 2006 – 2016 period. As this was the first year that the LTCCP was required to be formally audited by Audit New Zealand, this is the first LTCCP audit management letter received by the Council. Highlights are as follows:

- As the Subcommittee is aware, the Council received an unqualified audit opinion for both the draft and final LTCCP.
- The auditors have assessed the management control environment in respect of the LTCCP as satisfactory.
- Overall the auditors found that “the LTCCP Statement of Proposal document produced by Council for consultation fulfilled its primary purpose of providing the basis of consulting with the community on the 10 year forecast of the services and activities Council expects to provide, and the associated costs and funding. The final LTCCP provides a reasonable basis for long term, integrated decision making by the Council and for participation in decision making by the public and subsequent accountability to the community about the activities of the Council.”
- The report from Audit New Zealand makes recommendations for improvement in the following areas:
 - Proposed levels of service and performance measures.
 - Asset Management Plan and LTCCP linkages
 - Administration of the printers proofing process.

As noted previously, we are in the process of formally responding to and finalising these reports and expect to table them at the 1 December Subcommittee meeting.

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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.