

ORDINARY MEETING

OF

AUDIT AND RISK SUBCOMMITTEE

AGENDA

Time: 9:15 am
Date: Tuesday, 1 December 2015
Venue: Committee Room 1
Ground Floor, Council Offices
101 Wakefield Street
Wellington

MEMBERSHIP

Mayor Wade-Brown
Peter Harris (External)
Councillor Marsh
Councillor Peck (Chair)
Councillor Woolf

Have your say!

You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803-8334, emailing public.participation@wcc.govt.nz or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.

AREA OF FOCUS

Providing objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's risk management, control and governance frameworks and processes. It is also responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

Quorum: 3 members (at least one external member must be present for a quorum to exist).

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1 Meeting Conduct

1.1 Apologies

The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

1.2 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1.3 Confirmation of Minutes

The minutes of the meeting held on 18 August 2015 will be put to the Audit and Risk Subcommittee for confirmation.

1.4 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

1.5 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Audit and Risk Subcommittee.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

Minor Matters relating to the General Business of the Audit and Risk Subcommittee.

No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Audit and Risk Subcommittee for further discussion.

2. General Business

AUDIT NEW ZEALAND GOVERNING BODY REPORT

Purpose

1. The purpose of this report is to present the Audit New Zealand Report to Council on the 2014/15 audit to the Subcommittee. This report contains audit recommendations from Audit New Zealand related to the 2014/15 audit as well as progress against recommendations made in prior years.

Recommendations

That the Audit and Risk Subcommittee:

1. Receive the information.
2. Note the content of the 2014/15 Report to Council from Audit New Zealand.

Background

2. Every year after the completion of the audit of the annual report, Council auditors, Audit New Zealand produce a report to the Council on the audit conducted, and within the report provide a number of recommendations on matters that they believe will strengthen the Council's control environment, or enable greater efficiencies or effectiveness.
3. The report outlines their recommendations and officers response to those recommendations. The progress of implementing these recommendations will be monitored and reported on by Internal Audit.

Discussion

4. The key findings from Audit NZ audit are:
 - An unmodified audit opinion on the Council parent and group's annual report on 26th August 2015
 - The Council's control environment continues to operate effectively
 - No significant issues arose from the review of the Council's compliance with the Local Government Rating Act 2002.
5. There are eleven recommendations on which officers have provided comments, that cover the following areas:
 - Project management
 - Procurement policy
 - Contract management
 - Conflicts of Interest
 - Meeting reporting deadlines
 - Accounting for service concession assets
 - Consideration WIAL in the consolidation of financial results
 - Accounting for Fines and Penalties
 - Accounting for Capital projects

- Disclosure of underlying operating result
 - Aged items in the work in progress balance
6. The report also has an update on the status of previous outstanding recommendations.

Attachments

Attachment 1. Audit New Zealand Report to Council on the 2014/15 audit

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Authors	Richard Marshall, Manager Financial Accounting Leslie Boardman, Team Leader Financial Accounting
Authoriser	Andy Matthews, Chief Financial Officer

SUPPORTING INFORMATION

Consultation and Engagement

There is no requirement to consult on the issues raised in this paper or report.

Treaty of Waitangi considerations

There are no specific Treaty of Waitangi considerations.

Financial implications

There are no new financial implications arising from this paper.

Policy and legislative implications

There are no new policy or legislative implications arising from this paper.

Risks / legal

There are no new risks or legal implications arising from this paper.

Climate Change impact and considerations

There is no climate change implications arising from this paper.

Communications Plan

No communication plan is required for this paper.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of
Wellington City Council
for the year ended 30 June 2015

Management report

Key messages

We have completed the audit for the year ended 30 June 2015. This report sets out our findings from the audit and where appropriate makes recommendations for improvement.

Our key findings are:

- We issued an unmodified audit opinion on the Wellington City Council (the City Council) and group's annual report on 26 August 2015.
- The City Council's control environment continues to operate effectively. No significant issues regarding internal control within key financial and non-financial systems were identified.

We followed up our comments from 2014 on project management, procurement and contract management. We concluded that the City Council is taking steps to address most of our suggestions, and note:

- Management has taken steps to improve the project management support available to business units through creating a new Project Risk Advisor role.
- The procurement team is reviewing the procurement policy, supporting procedures guidelines, and developing an annual procurement plan. We undertook a review of the procurement policy and provided feedback to management on aspects they should consider addressing.
- A centralised contract register is now in place. Some of the data within the register is old and potentially out of date. We recommend that the contract register is reviewed to ensure the accuracy and currency of information.
- We performed a high level review of two contracts and found some areas that could be improved to conform to good practice. We recommend the City Council provide training and support to contract managers to help ensure they are complying with policy and good practice expectations.
- The City Council has not yet updated its longstanding policies and practices around managing conflicts of interest.

Project Odyssey is planned for implementation in 2015/16 with the selection of a supplier and detailed design occurring in 2014/15. There was no significant impact on the 2014/15 audit, however will be a significant area of focus in our next audit as the new systems and associated business processes are implemented.

- This was the first year the City Council was required to report under new public sector accounting standards. Overall the impact of the new standards was not significant, with the most notable change being the non-consolidation of the Wellington Regional Stadium and Basin Reserve trusts.

Details of transition issues and other accounting matters considered are detailed in section 4 of this report.

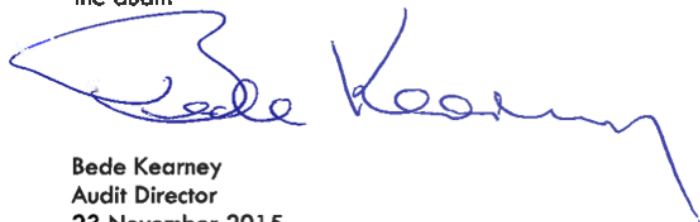
We also comment in this report on the City Council's progress in improving its asset management information and changes to its Council Controlled Organisations (CCOs).

Summary of recommendations from 2014

Number of recommendations from previous years' audits	Current status
2	Matters that have been resolved
2	Progress is being made, but not yet fully resolved

Thank you

We would like to thank the Council, management and staff for their assistance in completing the audit.



Bede Kearney
Audit Director
23 November 2015

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1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 26 August 2015. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the City Council's activity for the year and its financial position at the end of the year.

1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we discussed with management any misstatements that we found, other than those which were clearly trivial.

One matter that we consider a misstatement has not been corrected by management. This relates to judgements made by management in the accounting for capital projects. We are satisfied this misstatement is not material to the overall financial statements.

For further information refer to 4.6 below.

2 Control environment

Overall we concluded that the City Council's control environment continues to operate effectively.

Our testing confirmed that the key internal controls we expect within financial systems are in place, have been designed effectively and are operating as intended. As in previous years' audits, we placed reliance on key expenditure and payroll controls for the purpose of our audit.

The specific areas that we considered in relation to the impact of the overall control environment on our audit were:

- Organisational governance.
- Risk assessment and risk management processes.
- Planning and budgeting (primarily as part of our audit of the City Council's Long Term Plan).
- Information systems.
- Internal control systems.
- Monitoring of controls (including internal audit).

We reported our detailed findings on the control environment to management following our interim audit visits. For further detail on this refer to our interim management report.

3 Significant issues and risks addressed during the audit

3.1 Ongoing work to improve asset management information

During our audit of the 2015 to 2025 Long Term Plan we considered the work the City Council has put into improving its asset management information.

It has invested heavily in updating its knowledge of its asset base. This has involved a programme over the past three years to identify and fill gaps in data and to extrapolate this across all assets. Management has used this information to develop renewals profiles and factor in more explicit prioritisation of effort on critical infrastructure. A model has been generated with the assistance of expert advice on data analysis and modelling. The model factors in the relative importance of individual components of the network which is used as a basis for developing a risk management approach to managing the assets.

This improved knowledge and more sophisticated modelling has resulted in a decrease in forecast renewals programme of \$10 million per annum (approximately 10% of total renewals) over the period of the LTP.

In contrast, the 2012 to 2022 LTP forecasts were based on a renewals profile that factored in a much higher level of extrapolation and assumption, as the asset data was less complete.

We are satisfied the overall quality of underlying information provides a reasonable base for the forecasts in the LTP.

We note that the City Council is currently beginning the next phase of the process which includes evaluating this information and assessing whether there is any significant impact on asset lives and depreciation rates across its infrastructure assets. We have emphasised to management that it is important to complete this review as soon as possible, ideally before the next annual plan. If appropriate it should update the depreciation rates in the Fixed Asset Register accordingly, to ensure the depreciation charge is consistent with the City Council's updated knowledge of its asset base.

3.2 Changes to the City Council's CCOs

During the year the Wellington Regional Economic Development Agency Limited (WREDA) was established, using the renamed CCO Wellington Venues Limited company structure. In December 2014 WREDA assumed ownership of Grow Wellington Limited and the operations of the Partnership Wellington Trust.

I was appointed as auditor of WREDA and completed the audit. No issues significant to the City Council audit were identified.

As noted in section 4.2 below, management has removed the Basin Reserve Trust and the Wellington Regional Stadium Trust from the City Council's group structure. We are satisfied that these changes are reasonable and have been disclosed appropriately.

4 Significant accounting matters considered during our audit

The City Council's 2015 financial statements were prepared using the new public benefit entity accounting standards.

We have reviewed the changes to accounting policy, changes to prior year comparators and associated changes in format of the financial statements and notes. Overall we are satisfied that the City Council has appropriately complied with requirements of PBE IPSAS.

During our 2014/15 audit the following significant accounting matters were addressed:

4.1 Accounting for the Social Housing Upgrade Project grant in line with the requirements in PBE IPSAS 23 – Non-Exchange Revenue

This was a complex issue and PBE IPSAS 23 is a difficult standard to interpret. We held a number of discussions with Finance staff on this matter and reviewed the detailed analysis and assessment they prepared.

After considering the issues and the City Council's assessment, we are satisfied that the manner in which the City Council has accounted for revenue received for the housing upgrade project is acceptable under the standard PBE IPSAS 23 – Non-Exchange Revenue.

4.2 Non-consolidation of the Wellington Regional Stadium Trust (WRST) and Basin Reserve Trust (BRT)

We assessed the City Council's decision to not consolidate the WRST and BRT into its 2014/15 financial statements.

The City Council has previously accounted for WRST and BRT as associates, and consolidated into the Group accounts based on the City Council's voting rights with each entity. On transition to the new accounting standards, the City Council determined that while the WRST and BRT are associates of City Council, its equity interest in the trusts is nil. It has therefore removed its investment in the Trusts from its parent and group financial statements.

We accepted that this accounting treatment was reasonable.

4.3 Accounting for the City Council's service concession assets

The City Council has a service concession arrangement in the Mōa Point wastewater treatment plant. This facility is owned by the City Council and operated by Veolia Water under a design, build and operate contract.

The treatment plant itself is recorded within the City Council's property, plant and equipment. Veolia is contracted to provide the plant back to the City Council with a 25 year life (although it is possible the contract will be renegotiated and rolled over).

In our view the contractual requirement for a 25 year life at the end of the contract is too broad for the complex nature of the plant (for example some assets are by design less than 25 years).

We have been advised that the Council has taken steps to assess the renewals profile of the facility. The Council's aim is to use this information to assess whether the operator's current replacement regime is in accord with the implicit intent of the contract, and the likely extent of large expenditures in the post contract period.

This work is on-going to ensure that Council and the operator are informed on approach when the contract expires in 2019 to ensure that the conditions of the contract are met.

4.4 Consideration of Wellington International Airport in the City Council's consolidation of financial results

Wellington International Airport Limited (WIAL) is 34% owned by the City Council, which accounts for it as an associate. WIAL is a for-profit entity, and applies a different set of accounting standards (NZ IFRS) to those applied by the City Council (PBE IPSAS).

We recommend that each year the City Council performs an analysis of any potential accounting differences between WIAL and itself. Any adjustments necessary should be reflected in the balances consolidated into the City Council's group financial statements.

Management comment:	As part of Council's year-end process, Council will analyse WIAL financial statements for any potential accounting differences and will make any necessary adjustments when consolidated into the group financial statements.
Responsibility for implementation:	Richard Marshall
Date to be actioned by:	31 July 2016

4.5 Accounting for Fines and Penalties in line with the requirements PBE IPSAS 23 – Non-Exchange Revenue

The City Council recognises fines and penalties at face value, but at balance date makes an impairment provision reflect their low collectability.

Under PBE IPSAS 23 the City Council is required to initially recognise non-exchange revenue at fair value rather than face value. Due to fines and penalties having a low historic collection rate, we believe the fair value of the fines and penalties is significantly below face value at the point of recognition.

Given the overall impact was negligible, we accepted this was not a material matter.

We recommend the City Council record its fines and penalties revenue at fair value in future years.

Management comment:	Council will record its fines and penalties revenue at fair value.
Responsibility for implementation:	Richard Marshall
Date to be actioned by:	31 July 2016

4.6 Accounting for capital projects

The City Council has capitalised \$4.66 million of costs for Project Odyssey incurred to date. This includes all costs incurred after the initial request for proposal process. The amounts capitalised include the user requirements and the costs of the procurement process.

In our view costs related to early design and procurement process for selection of the supplier should not be directly attributed to the final asset and do not meet the definition of "development" costs in PBE IPSAS 31 *Intangible assets*.

We reviewed the costs and identified \$519k that appears to be procurement in nature. These costs have been recorded as an unadjusted misstatement in the financial statements. The size of this misstatement is not material to the City Council's overall financial performance and position. A number of other costs related to the early design and could also not clearly be identified as operating or capital in nature.

We will continue to review the accounting for the Odyssey project during the 2015/16 audit.

We recommend that the City Council continue to monitor spending against the project to ensure the actual costs capitalised are consistent with generally accepted accounting practice.

Management comment:	Council has detailed guidance for accounting for capital projects, and a specific paper for accounting for the capitalisation of Odyssey. We will review our processes to ensure that the appropriate costs are reviewed and either capitalised or expensed at each stage.
Responsibility for implementation:	Richard Marshall
Date to be actioned by:	On-going

4.7 Asset revaluation

The revaluation process has been reasonable and the revaluation has been accounted for in accordance with generally accepted accounting practice.

The City Council revalues its assets on a rolling triennial cycle. In line with this cycle, it revalued its operational land and buildings in 2014/15. The net increase in carrying amount due to this revaluation was \$11.2 million.

4.8 Civic Precinct proposal - accounting for the town hall

The City Council's impairment adjustment to the value of the town hall of \$5.1 million is reasonable. The impairment is appropriately disclosed in the notes to the financial statements.

A number of the City Council's buildings have been assessed as earthquake prone. The most significant earthquake prone building is the town hall. The impairment has arisen in this year because the City Council has now made a decision about the standard to which the town hall will be earthquake strengthened and as a result now has a firm cost basis on which to make the impairment assessment.

4.9 Provision for weathertight homes

The City Council has appropriately reflected the valuation of its weathertight homes obligations in its financial statements and notes.

The City Council's provision for leaky homes is the most significant accounting estimate in its financial statements. The provision for remaining weathertight homes costs is valued on an annual basis by external advisors. During our audit we reviewed the advisor's work, their valuation method and key assumptions. We were satisfied that these are an appropriate basis.

5 Broader audit risk

In our 2014 report to Council we reported on applied a more detailed and systematic approach to assessing key audit risks within the wider control environment.

We followed up the City Council's response to matters raised.

5.1.1 Project management

The City Council manages a wide range of projects including; Odyssey, the social housing upgrade, earthquake strengthening works, the invest to grow programme, as well as ongoing infrastructure upgrade, replacement and maintenance.

In 2014 we reported our view that the decentralised approach to project management carries some risk that variability in practice may result in some risks not being managed consistently across the City Council's portfolio. Management considered the approach was appropriate, but has taken steps to improve the support available to business units through creating a new Project Risk Advisor role. This role is to:

- Provide assistance and advice to project sponsors and managers across the City Council.
- Provide mechanisms for monitoring progress and reporting on progress and completion.
- Provide mechanisms for escalation of risk where required.

- Support the on-going development of project management capability across the City Council.

We note the new Project Risk Advisor has been in place since June 2015. It is too early at this stage for us to assess the impact this role will have. We will monitor the impact of the role and any improvements it brings to developing project monitoring and oversight, and in building capability across the City Council.

Management comment:	The Council continues to be comfortable with the decentralised approach to project management. The nature and diversity of projects that are undertaken does not support a one stop shop for project management. The Executive Leadership Team has identified 10 key projects where the Project Risk Advisor is providing assistance to ensure that the project has appropriate mechanisms in place, key risks and issues are being managed and accurate reporting is being provided to the internal governance structures that have been established. In conjunction with assisting specific projects a project framework and good practice guides are being established that will provide assistance and support for project manager where required and overtime increase the internal capability.
Responsibility for implementation:	Geoff McRobie
Date to be actioned by:	

5.1.2 Procurement

The City Council operates a devolved procurement model, supported by a small team within Finance.

Procurement policy and planning

In 2014 we recommended the City Council document an overall procurement strategy. This should be a long term strategy that has been approved at service management level.

At the time of our audit, a workshop with the CFO had just taken place to confirm the contracts and procurement team role and responsibilities. The task of developing a procurement strategy now sits with the procurement team.

We note that the procurement team are also developing an annual procurement plan. This will assist with the forward planning of the team's work programme but can also be used to assist with the development of the strategic focus.

The policy is due to be reviewed. We reviewed the procurement policy to assess it against our good practice expectations and provided feedback on aspects management should consider addressing.

The City Council has supporting procedures and guidelines. However it appears that these are not always used as they are seen as out of date and inflexible. The procurement team intends to refresh these as well.

Procurement policy - training

In 2014 we noted that the City Council had recently updated its procurement policy, and we recommended that organisation-wide training be provided to help ensure procurement practice is consistent across the organisation. We also recommended that all staff involved in procurement be provided with training on managing conflicts of interest.

At the time of our audit no training had been delivered. However the procurement team was liaising with human resources to deliver training in 2015/16. We also understand a guide on COI management will be appended to the COI forms on the City Council's intranet.

We recommend that the City Council complete its planned procurement and conflict of interest training for staff.

<p>Management comment:</p>	<p>Strategy. A further review of procurement roles and responsibilities and in particular the function, role and responsibilities of the Contracts and Procurement team is being completed alongside the implementation of the Odyssey/Tech One project to ensure efficiency in the use of standardised processes. A longer term procurement strategy will then be developed by 30 June 2016.</p> <p>Annual Procurement Plan (APP). The APP will be formed using current LTP information and data from the current contract register exercise. It is intended to deliver the APP by 18 December 2015.</p> <p>Policy. This will be developed as part of the Project Odyssey implementation of the Technology One solution. The Manager, Contracts and Procurement will complete the new policy by 30 June 2016.</p> <p>Training. The Contracts and Procurement team have delivered two Conflict of Interest training sessions (October 2015), and have an introductory procurement session scheduled for 20 November 2015.</p> <p>Conflict of Interest (COI). A guide on COI has been available on StaffNet since 2012. This will now be appended to the COI form before 30 November 2015.</p>
<p>Responsibility for implementation:</p>	<p>Brett Rigden</p>
<p>Date to be actioned by:</p>	<p>30 June 2016</p>

5.1.3 Contract management

Previously the City Council did not have a central register of contracts in place. In 2014 we advised our support for a centralised contract management approach with standardised processes. Such a system would also allow the City Council to track contract performance, spending, and risk across the whole organisation.

A centralised contract register is now in place. We used this to select a small sample of contracts for review. This identified that some of the data within the register is old and potentially out of date.

We recommend that the City Council review its contract register to ensure the accuracy and currency of information.

Contract management plans are important to ensure that the product or service is still relevant, that relationships with suppliers are maintained, that risks are managed and that operational procedures are in place to facilitate the effective administration of contracts. Such plans would be expected for high value or risk contracts but they can be tailored for smaller contracts.

There was no contract management plan in place for one contract that we reviewed. The contract manager advised that as it was a relatively small contract, this was not required.

Management comment:	<p>Contract Register. The Contracts and Procurement team is currently running another contract collection exercise in the hope of identifying (and recording) the bulk of Council contracts. These are required (by 31 January 2016) to ensure only current and accurate contract information is transferred to Technology One before the go live date of 1 July 2016.</p> <p>Contract Management Plans. Contract management guides exist and are available on StaffNet with training on this having occurred in 2012. A new training schedule has been developed and will be delivered in 2016 with a focus on contract and supplier management.</p>
Responsibility for implementation:	Brett Rigden
Date to be actioned by:	30 June 2016

5.1.4 Conflicts of interest

Overall the City Council has effective procedures for the identification and recording of conflicts of interest. In 2014 we recommended some areas where it should consider reviewing and further strengthening its procedures. These were:

- Make sure that all policies and guidance are up to date and reflect current good practice.
- Review the content of interest registers and update them so they are more comprehensive and reflect all aspects of good practice.
- Extend the registers to clearly document how interests have been judged as giving rise to conflict, and how these will be managed.
- Develop a programme/guide for business units to apply at induction.

We note that based on our enquiries during 2014/15, limited progress has been made against the all of these recommendations. We will continue to follow up this area in 2015/16.

Management comment:	Conflict of interest training has been incorporated into the council induction programme. Policies and guidance has and will continue to be updated as internal policies are addressed as part of our programmed cycle of policy review. Management see no undue risk with this approach. Most recently the Gifts and Hospitality Policy has been reviewed and updated by the Policy Steering Group. A refresher training programme will be implemented on release of this and subsequent policy reviews that contain a conflict of interest component. Council have has noted the audit recommendation in regard to extending registers to document how interests have been judged as giving rise to conflict and how these will be managed - a review of declaration templates is programmed for early 2016.
Responsibility for implementation:	Gareth Lawrence, Geoff McRoble, Brett Rigden
Date to be actioned by:	n/a

6 Other matters noted during the final audit

6.1 Meeting reporting deadlines

In recent years the City Council has adopted its annual report on the last Wednesday in August.

Increased reporting and disclosure requirements have over time added pressure to this timetable. In particular we note the Local Government (Financial Reporting and Prudence) Regulations 2014 has added additional reporting, which is based on the finalised financial results.

During the 2014/15 audit there were also a number of significant technical accounting issues to resolve (see section 4 below). An earlier and more detailed analysis of the key issues by the City Council would have reduced the time pressure at the conclusion of the audit.

We understand that the implementation of a new finance system will occur during 2015/16 as part of project Odyssey, with a potential "go live" date of 1 July 2016. Depending on the date of transition to the new system, the change in finance system may add conflicting priorities and complexity to the financial reporting process at year-end.

We intend to work with the City Council during 2015/16 to:

- ensure a clear and achievable timetable is set for the 2016 annual report; and
- identify any issues that need to be addressed early so they can be addressed in a timely manner in 2015/16.

Management comment:	Council is currently reviewing the annual report timetable and has set the adoption date for the annual report to 28 September 2016, the last Council meeting of the triennium. Council will work with Audit NZ to ensure there is a clear and achievable timetable and will identify any issues to enable that they are addressed in a timely manner (for example, moving the revaluation dates from 30 June to 1 July).
Responsibility for implementation:	Gunther Wild/Richard Marshall
Date to be actioned by:	30 June 2016

6.2 Disclosure of underlying operating result

The City Council's annual report and its summary annual report include disclosure of an "Underlying Operating Result" along with a reconciliation of this to the accounting surplus recognised in the financial statements.

In our view the disclosure is complex and does not necessarily convey its intended key messages to readers effectively.

We recommend that the City Council revisit its objectives in relation to this information and assess whether the current disclosure of underlying surplus achieves its purpose.

Management comment:	Council continually reviews the most appropriate way to explain its financial results and in particular the underlying surplus.
Responsibility for implementation:	Richard Marshall
Date to be actioned by:	28 September 2016

6.3 Aged items in the work in progress balance

The City Council has a wide variety of assets under development at balance date. Within the work-in-progress balance of \$69.5 million, some \$5.2 million relates to items prior to 30 June 2013.

This balance represents a number of minor items, and it is not clear whether they still represent valid capital projects that will be completed.

We recommend that Finance staff review the work in progress balance to determine the validity of items within the balance, and assess whether they are being recognised and accounted for correctly.

Management comment:	Council will review the capital WIP balance to ensure that it is appropriate.
Responsibility for implementation:	Richard Marshall
Date to be actioned by:	31 July 2016

7 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the Council was included in our interim management report.

During our final audit we were able to clear one further matter:

7.1 Leaky Homes liability – data improvements

The City Council's actuaries recommended some improvements to data collection processes. We recommended that the City Council consider these.

There are very few claims are now covered by the City Council's insurance and this number is constantly decreasing. The insurance information is now available for every claim. The valuer acknowledges improvement in data quality compared to 2014.

Appendix 1: Uncorrected misstatements

Note	Statement of comprehensive revenue and expense (SORE)		Statement of financial position (SOFP)	
	Dr	Cr	Dr	Cr
1	\$519,000			\$519,000

1 Odyssey costs included in WIP prior to the relevant contract being signed

The City Council has included in WIP \$3,551,000 of costs for the Odyssey project incurred prior to the contract being signed. Audit New Zealand is of the opinion that costs related to the procurement process, incurred prior to the successful supplier being selected, should be expensed rather than capitalised.

It has been difficult to isolate costs related to the procurement process from those which are attributable to the Odyssey project asset, which were incurred prior to the contract with Technology One being signed. The City Council has reviewed its WIP and believes \$519,000 could be potentially attributed to the procurement process. It considers the proportion related to the procurement phase to be immaterial to the Financial Statements and the Statements of Service Provision as a whole.

Appendix 2: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We 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.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the City Council.</p>
Auditing standards	<p>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 the Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We confirm that, for the audit of the Wellington City Council's financial statements for the year ended 30 June 2015, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>During the year we undertook an independent assurance review in respect of the City Council's Debenture Trust Deed, we carried out a review of the revenue and expenditure of the Clifton Terrace car park managed by the City Council on behalf of the New Zealand Transport Agency and a review of the City Council's process to select providers for the proposed Wellington Regional ICT Infrastructure Shared Services.</p> <p>Other than the audit and the other work above, we have no relationship with, or interests, in the City Council.</p>
Other relationships	<p>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 Wellington City Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Wellington City Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>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.</p>

3. Public Excluded

Resolution to Exclude the Public:

That the Audit and Risk Subcommittee :

Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
3.1 Council Debtors Report	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.2 Internal Audit - Update	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
3.3 Project Odyssey - Update	7(2)(c)(i) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

7(2)(h)

The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.

2. Permit Audit New Zealand to remain at this meeting after the public has been excluded, because of their specialist knowledge of the matters under discussion.
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