

**Audit New Zealand****AUDIT AND ASSURANCE SERVICES**Audit New Zealand  
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Our ref: W010 99J

1 December 1999

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

Dear Howard

**AUDIT FOR THE YEAR ENDED 30 JUNE 1999****1 INTRODUCTION**

We have completed the audit of the Wellington Regional Council ("the Council") for the year ended 30 June 1999. This letter provides a summary of:

- A the audit opinion
- A our assessment of your financial and non-financial management
- ▲ our assessment of your compliance with legislative requirements
- ▲ the significant issues arising from the audit

The following reports were also issued to management during the year:

- ▲ Assurance Review of FIS Project (3 July 1998, 17 December 1998)
- ▲ Review of Staff Purchasing (6 May 1999)
- A Interim Audit Management Report for the Year Ending 30 June 1999  
(6 May 1999)
- a Implementation of SAP — Review of Business Activity Scripts (15 July 1999)
- a Tax Compliance Review (August 1999)

**2 AUDIT OPINION**

An unqualified opinion was issued on the Council’s financial statements on 23 November 1999.

**3 FINANCIAL AND SERVICE PERFORMANCE MANAGEMENT**

Our assessment of aspects of the Council’s financial and service performance management is set out in the table below. Issues identified in the “comments” column are reported more fully in section 6 of this letter, or in the reports already issued to management. Explanations of the assessment terminology is included in Appendix Three.

Management aspect	Assessment	Comment
Financial control systems	Good <i>(1998: Good)</i>	<p>The Council has strong controls surrounding the individual systems that process financial data.</p> <p>The implementation of the new FIS has required significant Council resources and as a consequence a number of key staff were seconded onto the project. Their positions were back filled with contractors during this period.</p> <p>With the exception of payroll reconciliations not being performed and reviewed on a regular and timely basis, no impact on internal controls was observed as a result of the reallocation of staff.</p> <p>The implementation of SAP is expected to result in stronger controls surrounding the Council’s purchasing system and accruals process.</p>
Financial management information systems	Good <i>(1998: Good)</i>	<p>The Council has a good IS/IT control environment. We are satisfied that the Council’s critical business systems are Y2K ready.</p> <p>The implementation of SAP has resulted in a significant change to the Council’s financial management information systems. We have reviewed and assessed the internal controls developed by the Council to ensure that transactions are recorded, real, properly valued, recorded in a timely manner, classified, summarised and posted. We will test the effectiveness of these controls during our interim audits of the financial statements for the year ending 30 June 2000.</p>

Management aspect	Assessment	Comment
Financial management control environment	Excellent <i>(1 998: Excellent)</i>	The Council has good higher level controls including :  <ul style="list-style-type: none"> <li>a A Policy and Finance Committee</li> <li>a Quarterly Reporting process</li> <li>a Bottom up, integrated budgeting processes</li> <li>a Self review</li> </ul>
Service performance information and information systems	Good <i>(1 998: Good)</i>	The Council has good systems to record service performance (non financial) data and the internal controls to ensure the completeness and accuracy of the data and the appropriateness of the performance measures.  The Council continues to enhance and refine its performance measures in particular the linkage between the short term and long term performance measures.
Service performance management control environment	Excellent <i>(1 998: Excellent)</i>	The Council has good higher level controls including :  <ul style="list-style-type: none"> <li>a Operations policies and decisions</li> <li>a Quality assurance</li> <li>a Planning processes</li> <li>a Policy and Finance Committee</li> <li>a Performance measures that link to the day to day management of the Council</li> </ul>

#### 4 COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

We reviewed the systems and procedures you employ to identify and comply with legislative requirements.

With the exception of the technical breach of legislation arising from Council's continued ownership of the Waterloo Interchange, we did not note any instances of non-compliance with legislation.

#### 5 COMMENTS ON AREAS OF AUDIT EMPHASIS

##### 5.1 WRC Holdings Limited restructure

We reviewed the transactions arising from the sale of Council's shares in CentrePort Limited to its subsidiary, Port Investments Limited. No issues were noted regarding the accounting or taxation treatment applied.

## 5.2 Waterloo Interchange

The Council has agreed to a divestment strategy whereby the land on which the Waterloo Interchange is sited was to be transferred to New Zealand Railways Corporation who would then lease it on the Tranz Rail. Council was to continue to fund the maintenance.

We understand that part of the land on which the Waterloo Interchange is sited is owned by Land Information New Zealand (LINZ). Although agreement in principle has been reached with the other parties, agreement regarding the terms on which the LINZ portion of the land will be transferred to New Zealand Railways Corporation still needs to be resolved.

We will continue to monitor any progress that is made during the year.

## 5.3 Financial information system (FIS) project

The Council has recently implemented its new financial information system, SAP. We reviewed and assessed the internal controls that have been developed by the Council to ensure that transactions are recorded, real, properly valued, recorded in a timely manner, classified, summarised and posted. Our findings are summarised below:

### A Understanding the system

The review of the business activity scripts (BAS) has enabled us to obtain a valuable understanding of the operation of SAP within the Council's environment. This understanding will be used to determine the most cost-effective approach for each significant group of accounts for the 1999/2000 and future audits.

### Identifying and analysing internal controls

We have identified and reviewed the adequacy of controls operating over the key systems used by management to control the business of the Council. We have satisfied ourselves that the controls as described in the BAS are sufficient for our audit purposes.

### Improving management of public sector resources

During the review we continued to maintain an awareness for opportunities for enhancing effectiveness and efficiency of the Council's operations, in keeping with our objective to improve the management of public sector resources. While the internal controls developed are comprehensive on paper, their application will be the test of this.

We will review the application of these controls during our interim audits in future years.

## 5.4 External influences

During the year the Council continued to be faced with significant challenges for the future. Areas which we considered could significantly affect the nature of Council's business were:

- A Land Transport Rooding Reforms
- A the outcome of the Council's water integration proposal
- A funding review
- A water and wastewater review
- A Resource Management Act review

No real progress has been made in any of these areas to date. We would appreciate Council keeping us informed of any developments.

## 6 ISSUES FOR MANAGEMENT ATTENTION

### 6.1 Revaluation of the water infrastructural assets

The Council is currently in the process of revaluing its water infrastructural assets. The results of the revaluation are expected in the first week of December 1999. We concur with the Council's intention to back date the revaluation to 1 July 1999. The revaluation information will provide support for the base data in the asset management plans and for the calculation of depreciation. This will also result in the Council entering into a revaluation cycle for these assets as per SSAP 28. We will maintain a watching brief over this area and will review the revaluation during our interim audits.

### 6.2 Reviews on behalf of the Controller and Auditor-General

Appendix One details the results of the reviews requested by the Office of the Controller and Auditor-General to be undertaken during the audit process.

### 6.3 Other issues

Less significant issues arising from the audit for the year ended 30 June 1999 have been detailed in a separate letter to the Chief Financial Officer.

### 6.4 Status of special projects

The status of special projects undertaken on behalf of Council are detailed in Appendix Two.

7 **ACKNOWLEDGEMENT**

I would like to thank you and your staff for the assistance received during the audit. Should you require clarification on any other matters raised in this report, please contact me on 496 3025.

Yours sincerely



Erica Mason  
Director

cc Greg Schollum, Chief Financial Officer

APPENDIX ONE

REVIEWS ON BEHALF OF THE CONTROLLER AND AUDITOR-GENERAL

Issue	Status/findings
Year 2000 compliance	<p>During our audit we have reviewed the Council's progress in preparing for the Year 2000 issue. The Office of the Controller and Auditor-General (OAG) requires us to consider whether the Year 2000 issue is likely to impact on the ability of entities to continue to operate as a going concern, or to provide essential services.</p> <p>We consider that Council has followed a reasonable process to ensure Year 2000 readiness of its critical business processes. All critical systems have been tested, contingency plans are in place for any essential services and third party representations as to Year 2000 readiness have been received.</p> <p>However, we emphasise that it is the responsibility of Council to identify and address the risks and deficiencies associated with the Year 2000 issue.</p>
Land and environmental liabilities	<p>Council has prepared a register for the whole of the Wellington region of any potentially contaminated sites.</p>
Borrowing regime	<p>Loans held by Council are within the criteria set out in the borrowing management policy.</p> <p>We understand that Council considers that the new borrowing regime provides greater flexibility of borrowing and greater simplicity and efficiency as a sinking fund is no longer required.</p>
Councillor remuneration	<p>No issues have arisen as a result of our review of Councillor remuneration.</p>

## APPENDIX TWO

## STATUS OF SPECIAL PROJECTS

<b>Extended scope audit</b>	<b>Timeframe</b>	<b>Status</b>
Review of 1999/00 Annual Plan	February/ March 1999	Completed
Review of Staff Purchasing	March 1999	Completed
Y2K Review	March 1999	Completed
Review of WRI Compensation	TBA	Carried forward to 1999/2000
Asset Management Plans Follow Up Review	September/ October 1999	Ongoing
Review of Call Out and Stand By Payments	TBA	Carried forward to 1999/2000
Tax Health Check	August 1999	Completed
Review of Consents Database	TBA	Carried forward to 1999/2000
<b>Additional extended scope audits</b>	<b>Status</b>	
Implementation of SAP	July 1999	Completed



APPENDIX THREE

MANAGEMENT ASPECTS TERMINOLOGY

Definition of gradings

Assessment term	Further explanation
Excellent	Works very well; no scope for 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 (whilst having regard for cost-benefit) in this and/or other reports for action during the coming year.
Just adequate	Does work but not 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 such as 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"> <li>a IS/IT strategic planning</li> <li>a Disaster recovery provisions</li> <li>a Data integrity</li> <li>a Access controls</li> <li>a Programme change controls</li> <li>a Physical security of hardware and software</li> </ul>
Financial management control environment	These are the upper level controls and include such things as: <ul style="list-style-type: none"> <li>a Financial management policies and procedures</li> <li>a Self review (including Internal Audit)</li> </ul>

Term	Definition
	<ul style="list-style-type: none"> <li>A Assurance (Audit) Committees</li> <li>A Budgeting Processes</li> <li>A Exceptions reporting</li> <li>A Other assurance measures</li> </ul>
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"> <li>A operations policies and decisions</li> <li>A quality assurance (where appropriate)</li> <li>A planning processes</li> <li>A Assurance (Audit) Committee</li> <li>A self-review (including Internal Audit)</li> <li>A exception reporting</li> <li>A other assurance processes</li> <li>A whether performance measures link into the day-to-day management of the entity</li> </ul>