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Barry Turfrey  
Chief Financial Officer  
Greater Wellington Regional Council  
142 Wakefield Street  
WELLINGTON 6011

5 October 2006

Dear Barry

### Development of your Internal Audit Plan - Terms of Reference

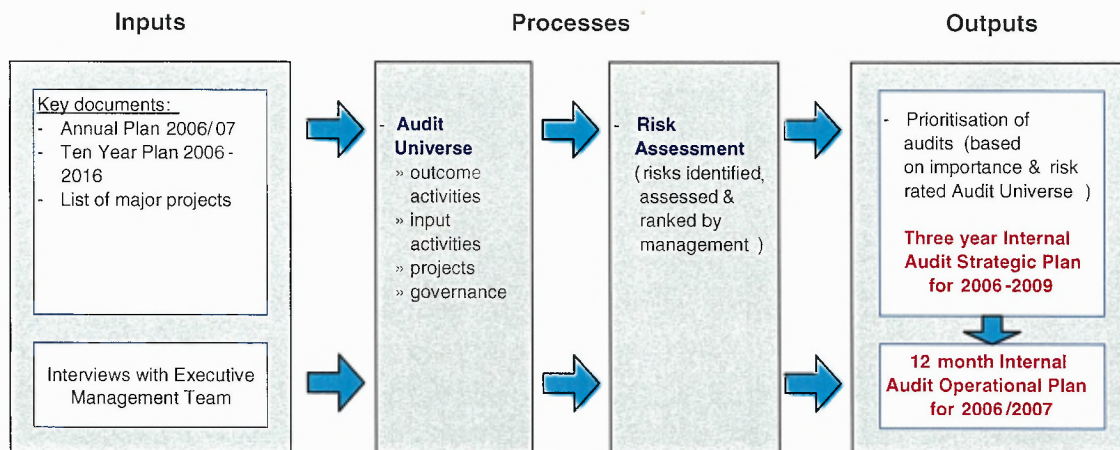
You are looking for assistance in developing an Internal Audit Programme for the Greater Wellington Regional Council. We set out below a terms of reference which explains the approach that we would propose for developing this programme.

### Focus on Risk

To ensure that the internal audit programme is relevant and focused on what really matters, it is important to link the internal audit activity to the key objectives of the organisation, and to the risks with the achievement of these objectives. This clearly links your strategy and business plans through to the work undertaken by Internal Audit. This overall approach continues to be recognised as good practice by the Institute of Internal Auditors.

### The End-to-End Process

The internal audit plan will be developed in consultation with the Management Team. The approach is outlined in the diagram below:





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**Review of Documents**

To ensure that the internal audit programme addresses itself to the Council's key inputs and outcomes, we will review key strategic documents including the Ten Year plan 2006-2016 incorporating the 2006/07 Annual Plan, documentation for major projects, and other governance type records, such as the Audit Committee Charter and Internal Audit Charter (where these exist).

Our review would also include research of our firm's knowledge of the Greater Wellington Regional Council gained through other PricewaterhouseCoopers services to you, and through our broader sector knowledge from the internal audit services we provide to Christchurch City Council, Palmerston North City Council, New Plymouth District Council, and a number of other District Councils in the North Island.

**Management Interviews**

We will hold interviews with the Management team. The purpose of these meetings will be to:

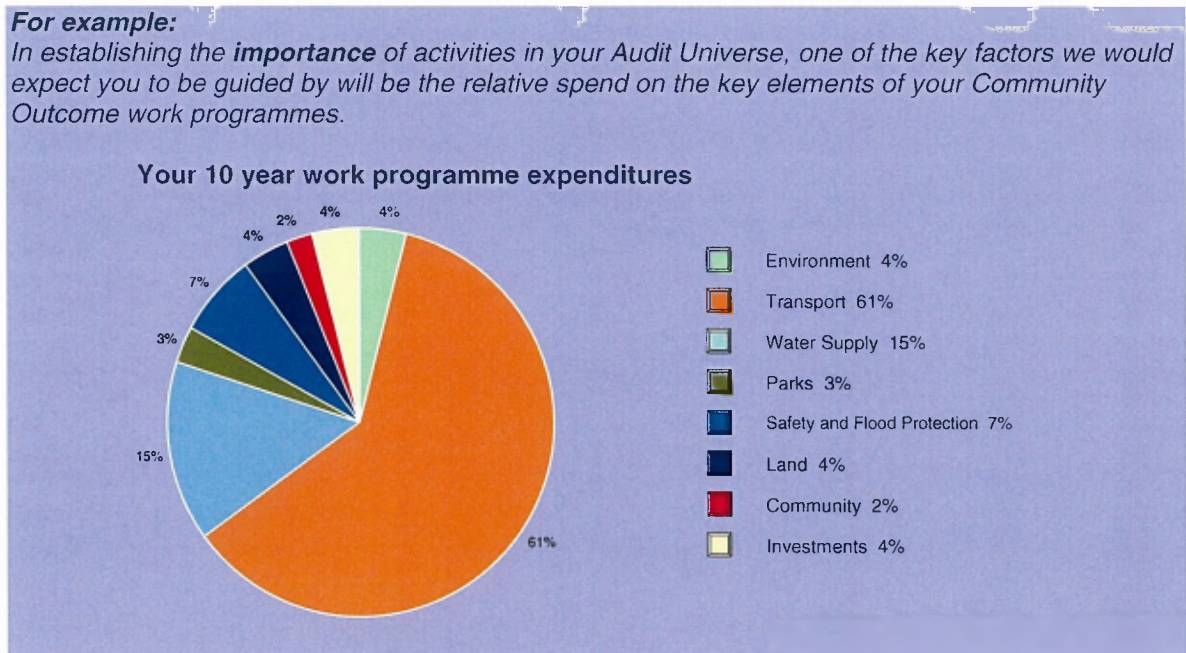
- Identify the major activities and processes that the Council is engaged in (this information will be used to build the audit universe)
- Identify the risks, controls and assurance activities associated with the major activities
- Gain management's views on areas of concern / interest
- Identify management's expectations of internal audit
- Establish areas in which management would value internal audit focus.

**Audit Universe**

The Audit Universe is a summary of all key business activities, processes, systems and projects over which the Management Team may require assurance over time. It identifies the degree of importance that management attaches to each one and records the sources of assurance, including internal audit, external audit, management, consulting experts, and other systems (e.g. legal, health & safety, quality systems).

The aim is to provide management and the Audit Committee with a single, integrated view of the relative importance of all business processes and where assurance of their effectiveness comes from.

**For example:**  
*In establishing the importance of activities in your Audit Universe, one of the key factors we would expect you to be guided by will be the relative spend on the key elements of your Community Outcome work programmes.*





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An indicative example<sup>1</sup> of what your Audit Universe might look like is:

Activity/ Process	Importance (High/Med/Low)	Risk (from Risk Assessment)	Source of Assurance (examples)	Review Freq (1-3yrs)
<b>OUTPUTS</b>				
<b>1. Environment</b>				
- Manage resources ~ key processes	High	High	Internal Audit	1
- Monitor state of environment ~ key processes	High	Med	Expert Consultant	2
- Environment Education ~ key processes	Med	Med	Expert Consultant	2
<b>2. Transport</b>				
- Plan & monitor transport network ~ key processes	High	High	Expert Consultant	1
- Public transport infrastructure ~ key processes	High	High	Internal Audit	1
- Promote public transport ~ key processes	High	Med	Internal Audit/ Expert	2
- Fund Total mobility ~ key processes	High	Med	Internal Audit/ Expert	2
<b>3. Water Supply</b>				
- Collect, treat & deliver water ~ key processes	High	Low	Quality system	3
- Plan for current & future demand ~ key processes	Med	Low	Internal Audit	3
- Plan for emergencies ~ key processes	High	Med	Test civil defence plan	2
<b>4. Parks etc</b>				
<b>INPUTS</b>				
<b>1. Governance</b>				
~ key processes	High	Low	Internal Audit	3
<b>2. Financial Management</b>				
~ key processes	High	Med	Ext & Int Audit	1-2
<b>3. Human Resources Management</b>				
~ key processes	Med	Low	Internal Audit	3
<b>4. Information Systems</b>				
~ key processes	High	High	Internal Audit	1-2
<i>etc</i>				

<sup>1</sup> This is purely hypothetical and does not represent an informed view of Greater Wellington processes and risk levels



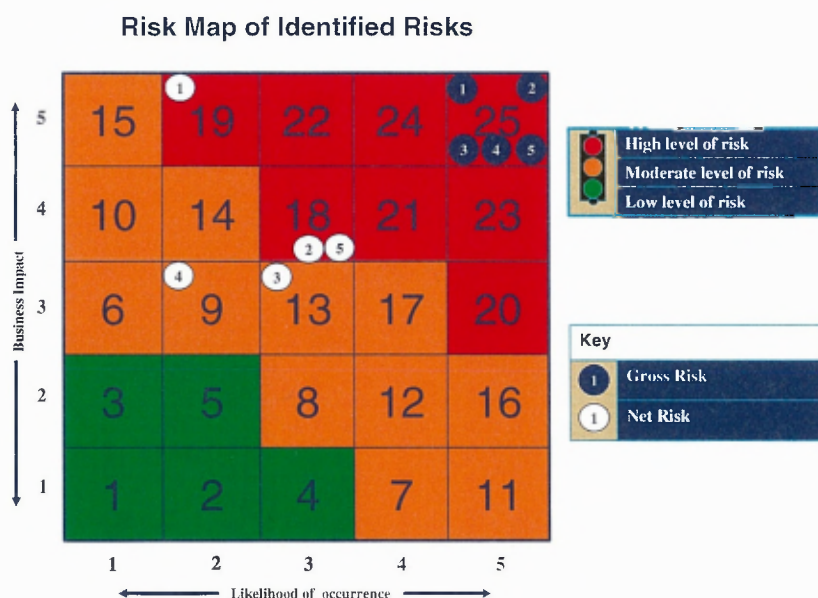
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**Risk Assessment**

The risk assessment would normally involve the following, but we would wish to agree with the Management team whether this or a different approach suits you:

- Undertake a 3-4 hour **Risk Workshop** with the Management team to identify the key risks and the key mitigations being relied upon
- **Prioritise** each risk as to the gross risk (before any effect of mitigations / controls) and net risk (reflecting how effective mitigations / controls put in place by management are assessed to be)
- Produce a **heat map** plotting the gross and net risks identified. The results will also be presented in tabulated form for ease of extraction of all the relevant data for the next stage. We use a weighted approach to ranking that gives a higher risk index for those risks with a greater impact.

A risk **heat map** looks something like the example below:



The next stage is to update the Audit Universe for the risk workshop outcomes, whereafter the Audit Universe contains all of the information needed to translate into the **Three Year Internal Audit Strategic Plan**.

**Three Year Internal Audit Strategic Plan, and One Year Internal Audit Operational Plan**

The final step in Internal Audit Programme development process is taking all activities identified for internal audit in the Audit Universe, and transferring these into a Three Year Internal Audit Strategic Plan, and from this to arrive at the plan for the immediate year ahead.

The reason that we suggest a Three Year Plan is that, in our experience, it is seldom necessary nor cost effective to attempt to cover all auditable areas in a single year. Some higher risks areas may need as much as annual coverage while for other activities a three-yearly frequency may be more appropriate. Our experience is that a three year rolling internal audit programme is generally considered to be good practice for covering all areas deserving of internal audit attention.



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Prioritisation – to establish the relative priority of each auditable activity, we assess both the importance of the activity and its assessed level of risk. For example, if an activity is high importance and high risk, it will be given a higher priority in the three year strategic plan than activities, for example, that may be of medium importance and medium risk.

The One Year Internal Audit Operational Plan will include those audits that are prioritised in the Three Year Strategic Internal Audit Plan as deserving of attention in year one.

## Sponsor

The sponsor for the development of the Internal Audit Plan will be the Chief Financial Officer.

## Our Team

The review will be conducted by the following team:

Partner	Andy Wotton
Director	Murray Harrington
Associate	Brad Wong.

## Timetable

We have set out below our proposed timetable. These dates are dependent upon the Management Team being available to meet with our team. We expect that development of the Internal Audit Plan will require a total of approximately seven days of effort.

Review of key Council documentation	Mid October 2006
Meet with Management Team members	Mid October 2006
Develop draft Risk Universe and prepare and issue Risk Workshop briefing document to Management Team	Mid October 2006
Risk Workshop with Management Team	Mid – late October 2006
Produce risk Heat Map and update Audit Universe - send both the Management Team members for validation	Early November 2006
Prepare three year rolling Internal Audit Plan and 2006/07 Internal Audit Plan and issue to Sponsor for approval and submission to the Audit Committee	Early December 2006

## Fees

Our estimated fee for undertaking this service will be within a range of **\$13,000 - \$16,000** plus GST. This includes time estimates for interviewing nine Divisional Managers, preparing for, and conducting, the four hour risk workshop with the Management Team, and allowance for validation of the Internal Audit Plan with the Chief Executive and the Management Team.

We will also charge a service fee of 5% to cover our costs in respect of photocopying, postage, tolls and faxes, filing fees, stationery, couriers, taxis and mileage. The fee will be invoiced in accordance with our standard monthly billing arrangements.



Barry Turfrey  
5 October 2006

## General

If you have any questions with regard to the above terms of reference, please contact me on 04 462 7200. We would appreciate if you could acknowledge receipt of these terms of reference and indicate your acceptance of them.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Andy Wotton', written over a horizontal line.

Andy Wotton  
Partner  
Business Assurance  
PricewaterhouseCoopers  
WELLINGTON