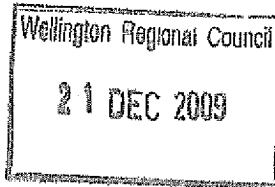




18 December 2009



Our Ref: LG04-0001

Ms Fran Wilde  
Greater Wellington - The Regional Council  
PO Box 11-646  
Wellington

Lyn Provost

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Dear Ms Wilde *Fran*

At the end of the year, it's natural to look back on what's been achieved and what's in-store for the year ahead. It has been significant for me at a personal level with my appointment as Controller and Auditor-General, succeeding Kevin Brady and quickly becoming reacquainted with the local government sector.

I am glad that, in the short space of time since my appointment, I have had the chance to catch up with a good number of the sector at both Local Government New Zealand and Society of Local Government Managers events, as well as through visits to individual councils and convening the Auditor-General's Local Government Advisory Board.

The recent Advisory Board meeting reinforced for me the importance of the changes in Auckland, both for the communities within Auckland and to the rest of the country. Increasingly, the transition is affecting my Office's resources and, indeed, I have commenced taking a "direct hand" – in conjunction with my Office's Local Government group and auditors – on the many ways in which the heralded changes affect the Office.

**Looking back at 2009**

Much of the 2008/09 financial year was dominated by the preparation and adoption of the 2009-19 Long-Term Council Community Plans (LTCCPs). Most Councils prepared much better plans in comparison to the 2006-16 iterations.

I think this reflects a maturing attitude to long-term thinking. While I appreciate the "TAFM" initiative has raised substantial debate over the form of the LTCCP, there is little questioning of the need to plan long-term. This is an important development and one that should be built on. I acknowledge part of that development must be the question of retention of an audit role in the clearance of LTCCPs. I acknowledge that our work must be of value and have asked my Local Government group to consider this matter further and report to me and my Local Government Advisory Group in the new year.

It is pleasing to note that most Councils appropriately managed their 2008/09 accountability requirements, and all but one local authority adopted their financial statements by the statutory deadline. This is a substantial improvement on prior financial years. Later in the financial year, I will be reporting fully, not only on this, but also on the time all councils took in getting user-friendly summaries to their communities. We have long held the view that summaries are the best vehicle for effective communication with communities.

Our inquiry work has continued apace. Many of the inquiries we receive are matters that, using our discretion, we do not choose to follow up. However, it can take a reasonable level of work, including contact with your staff, to be able to assess the request, determine if it is a matter that we wish to inquire into, and, if not, turn it down. I am appreciative of any effort and co-operation given to my staff.

We have published reports on a number of inquiries on our website at [www.oag.govt.nz](http://www.oag.govt.nz).

The key themes we have noted again this year are:

- your decision-making processes; and
- managing conflicts of interest – including non-financial conflicts.

Our findings, where we have chosen to inquire, show Councils need to remain vigilant about their processes in both areas, and councillors need to come to an individual and corporate understanding about conflicts.

### **Looking forward to 2010**

Reform of Auckland and the review of Part 6 of the Local Government Act 2002 through the TAFM initiative have also been heavy workloads for many in 2009. However, without wanting to understate the significant work undertaken – particularly in Auckland – the real challenge to deal with these initiatives will come in 2010. As already noted, I recognise that my Office has its part to play in supporting the transition and playing our part in bedding in suitable accountability arrangements with the new Council and group.

I am grateful that the Auckland Transition Agency has provided my Office with an open door to address transition matters and help us prepare to audit the new Council as well as the dissolving organisations.

In addition to these, I have confirmed the initiative commenced by Kevin Brady into improved performance reporting within the public sector. As this will affect the local government sector in 2009/10, I thought it useful – to expand at some length on our approach.

### *My views on service performance information and reporting*

This is the first time you have heard my views on this matter of shared importance to the public sector. I admit that I was disappointed to find on returning to this Office that performance reporting has improved very little in the last 15 to 20 years despite a lot of talk and considerable effort by many.

From 2009/10, audit teams will not only be reporting on whether the annual report reflects the local authority's performance for the year as expressed by the existing measures in the adopted LTCCP. They will also be checking that the annual report's use of these measures "provides an adequate basis for the informed assessment" of the local authority's actual service performance.

I consider that better performance information and reporting will help us to address the current and ongoing challenges for the public sector, and I ask for your continued support to achieve improvement.

*Changes arising from improvements to auditing standards, methodology, and reporting*

During the last couple of years, my Office has been phasing in improvements to how we audit service performance information, as we have reviewed and updated our approach to auditing this information. During 2009, we consulted on and finalised a revision of my auditing standard on service performance information (AG-4),<sup>1</sup> which is available on our website at [www.oag.govt.nz](http://www.oag.govt.nz). The previous version of this standard required auditors to attest to whether the statement of service performance (SSP) fairly reflected the standards of service delivery *compared with the forecast standards* in the forecast SSP. The key change in the revised standard is that auditors will be required to attest to whether the SSP fairly reflects *actual service performance* for the year. This is a subtle wording change but an important change to the judgement required by auditors and the reporting required from your organisation.

*Implications for your audit*

The local government sector has an important advantage over the rest of the public sector through its developing practice of planning and monitoring performance through LTCCPs.

AG-4 (revised) outlines how auditors are assessing you as a preparer of service performance reports. The expectation is for local authorities to report against their actual achievements, including a description of achievements.

You may observe the following from your auditor as they undertake the 2009/10 annual audits:

- greater focus on understanding of your organisation and its management control environment;
- greater SSP testing, including more focus on reviewing SSP systems; and
- increased liaison and communication with you, your staff, and your Council and/or Audit Committee.

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*Suggestions for your consideration*

There are actions you can take to get maximum benefit from our increased audit effort. From my perspective, your leadership would be usefully focused on confirming that your organisation has:

- service performance information and reporting that clearly describes your actual achievements/progress (and doesn't just report against planned measures in the LTCCP/annual plan).
- service performance information systems and controls (including collection, aggregation, and monitoring and reporting systems) to ensure that the information is accurate and relevant; and
- an internal quality assurance programme that gives you confidence about the quality and relevance of information for internal service performance management and monitoring, and subsequent external reporting.

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<sup>1</sup> The revised AG-4 is intended to apply to local authorities and government departments, and to Crown entities that are required to prepare a Statement of Intent and Statement of Service Performance under sections 139 and 150 of the Crown Entities Act 2004.

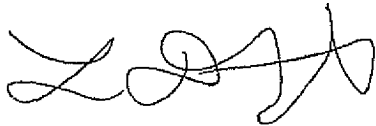
I know there are challenges that we need to work through to get improvement, and I recognise that my Office has a key role to play. I am convinced that we can and, indeed, must work together to meet the reasonable expectations for useful information to underpin our system of accountability.

I expect my auditors to be actively preparing to audit and report on this basis and keep you informed. Please ensure that you are fully aware of the implications, and do not hesitate to contact your auditor to discuss further if necessary.

**Closing comments**

As I think we all know, 2010 will be full of challenges. Fortunately, we all have the joy of Christmas to look forward to before then. I and the Local Government Group – Bruce, Barbara, Andrea, Jonathan, Sarah, and Tony – wish you well for the festive season and hope you and your staff have a relaxing break. We look forward to working with you in the New Year.

Kind regards

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost  
Controller and Auditor-General