

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

Key messages

We have completed the audit for the year ended 30 June 2015. This report sets out our findings from the audit and draws attention to areas where the Greater Wellington Regional Council (the Regional Council) is doing well or where we have made recommendations for improvement.

As part of our assessment of the overall control environment, we have considered the arrangements in place for some key Regional Council projects and our findings are summarised in this report. In our view the Regional Council has put appropriate governance arrangements in place in each of the areas reviewed.

However, we note that the PTOM process will continue to present challenges to the Regional Council as it moves to the later stages of implementation of what is a relatively new type of procurement process. Council will need to be mindful of risks at each stage of that process. We believe that the arrangements put in place will facilitate and support that risk management process.

Other areas of audit focus include:

- The audit of the financial statements has gone much better this year. Finance has been committed to delivery and a significant improvement has been seen compared to previous years. With the changes to the structure of the finance team, we believe that the main area of focus going forward should be the assignment of clear responsibilities for internal quality assurance for the annual report before the accounts and subsequent changes are presented for audit.
- The Regional Council has continued its strong commitment in the service performance information area. We noted no issues from our review on planning and reporting of service performance information and associated systems and controls used.

Thank you

We would like to thank members of the Regional Council, management, and staff for their co-operation throughout the audit process.



Andy Burns
Audit Director
5 November 2015

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1 Our audit opinion

We issued an unmodified audit opinion

We issued an unmodified audit opinion on 30 September 2015. This means that we were satisfied that the financial statements and service performance achievement against activities presented fairly in all material aspects the Regional Council's activity for the year and its financial position at the end of the year.

The financial statements and service performance achievement against activities are free from material misstatements, including omissions.

2 Assessment of your control environment

2.1 Management control environment

We performed a high-level review of the control environment. It is not an assessment of management's overall performance or an assessment of how effective the Regional Council is in achieving its financial and service performance objectives. We considered the overall attitude, awareness, and actions of members of the Council and management in establishing and maintaining effective management procedures and internal controls. Our assessment of these areas was based on regular discussions with key members of senior management, members of the Council, and our accumulated knowledge of the Regional Council's business.

In performing this assessment, we considered both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such, we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

2.1.1 Compliance with significant legislation

We did not identify any breach of legislative requirements during our audit.

We reviewed the systems in place to ensure that significant legislation has been complied with. The Regional Council has a number of policies and business processes in place to ensure the appropriate management of legislative obligations.

2.1.2 Policy refresh

We note that the Code of Conduct was last reviewed in 2010 and the Procurement/Purchasing policy was last reviewed in 2007. Internal policies and guidance should be reviewed every three years to ensure relevance with the current Regional Council operating philosophy.

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

Management comment

Management notes the audit findings, and confirms that both the Code of Conduct and Procurement/Purchasing policy will be reviewed and updated by the end of the 2015/16 financial year.

2.2 Financial information systems and controls

We reviewed the internal controls in place for your key financial information systems. Internal controls are the policies and processes that are designed, implemented and maintained by members of the Regional Council and management – to provide reasonable assurance as to the reliability and accuracy of financial reporting, as well as compliance with significant legislative requirements. Both “design effective” and “operationally effective” internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with members of the Regional Council.

We did not identify any issues from our review of financial information systems and controls used.

2.3 Service performance information and associated systems and controls

We reviewed the environment, processes, and controls for developing service performance objectives and targets, as well as monitoring and reporting on service performance achievement. This included reviewing the Regional Council's Annual Plan. We focused on obtaining an understanding of how the Regional Council:

- identifies its activities;
- develops its plans; and
- measures and monitors its performance.

The Regional Council has continued its strong commitment in this area. We did not identify any issues from our review on planning and reporting of service performance information and associated systems and controls used.

Next year's annual report will be the first time that the Regional Council reports against the new Long Term Plan measures. The measures have not changed significantly from previous years, but this may nevertheless be an opportunity for the Regional Council to simplify and reduce the level of detail in the annual report. We are satisfied that the Regional Council has processes in place to report against the new measures.

3 Our areas of focus for this year

3.1 Public Transport Operating Model (PTOM)

The Regional Council has responsibility for planning and funding the Metlink public transportation network. We note the continued risks and challenges for the Regional Council resulting from the strategic changes to the way public transport is planned

and procured in the region (PTOM). The transition from the current arrangements to the application of the new model is relatively complex.

The Regional Council has taken appropriate steps in addressing these risks through the establishment of a project team along with probity and assurance advisors. This also includes establishing a Programme Change Group which will have oversight over the proposed public transportation initiatives. We have been monitoring the progress of the programme through periodic meetings with the transport group. We have also updated our understanding of the Regional Council's governance and risk management process for the project.

We note that work has progressed to the Expression of Interest stage for the provision of rail services, with three parties selected to respond to the PTOM Rail tender. We understand that the bus fleet requirements are at a relatively early stage, however the Regional Council is positive about the response from the initial sessions held.

During our audit we did not identify any issues with the Regional Council's approach to the Public Transport Operating Model to bring to your attention. We are satisfied that the Regional Council has appropriate governance and risk management arrangements in place to manage the risks associated with implementation.

Given the novel nature of these arrangements, it is clearly important that the Regional Council continues to utilise the expertise of probity advisors at each stage of the development of its arrangements.

The Regional Council will need to continue to be mindful of the importance of such advice, and being cognisant of it, at each stage of the decision-making process. We understand that the Regional Council has been doing so, is progressively working through issues as they arise, and is considering and responding to identified risks as it sees fit.

3.2 Operational changes

Over the course of the last year the Regional Council has carried out a strategic review and has reviewed its operational structures to ensure that these arrangements remain fit-for-purpose. This includes a re-defining of positions and centralising some functions within the organisation. Following consultation and feedback from staff a new organisational structure was implemented with effect 31 August 2015.

With any period of organisational change there are risks to the Regional Council that the resulting uncertainty for staff can negatively impact the control environment.

We did not identify any impact on the Regional Council control environment as a result of the organisational change programme that we need to bring to your attention.

We note, however, that the Regional Council is continuing to work through a period of transition as roles become more established and the new structure becomes embedded in the way services are delivered.

The new roles and responsibilities may also need to be reflected in the policy refresh referred above in section 2.1.2.

3.3 Delivery of tranche 2 of the Matangi trains

The Regional Council has entered into an agreement with the Matangi supplier Hyundai Rotem for the purchase of a further 35 Matangi trains, and is expecting full delivery by the 2015/16 financial year. We carried out a high level assessment only of the Regional Council's arrangements to ensure quality and timely project delivery.

The Matangi trains continue to be delivered in accordance with the specified terms and costs. The Regional Council has maintained effective oversight, which includes having a representative on site to monitor progress and quality.

We are satisfied that the Regional Council has considered the risk associated with this transaction and has established appropriate governance and monitoring process to manage the risks.

3.4 Sale of the Regional Council Centre and going concern of Pringle House Limited

On 2 June, Pringle House Limited entered into an agreement for the sale of the Regional Council Centre. The sale was completed on 31 August, with ownership changed and money received.

We are satisfied with the accounting treatment of the Regional Council Centre in the financial statements as at 30 June 2015 and the relevant subsequent events note disclosure.

The purpose of Pringle House Limited was to own and operate the Regional Council Centre. Since the Regional Council Centre has been sold, we will keep up-to-date on the Board of Directors' consideration of whether the Company is to be re-purposed, held dormant or dissolved.

4 Status of previous recommendations

The status of each matter that was outstanding in previous reports to members of the Council has been summarised in Appendix 1.

This includes reference to the process for the preparation of the financial statements.

In our view the process of preparation and audit of financial statements went more smoothly this year, and we also note that the finance team was in a period of transition at the time of the audit, and is also due for further strengthening going forward.

The main area for further improvement going forward relates to the level of internal quality assurance that takes place within the organisation before financial statements, and any subsequent changes to financial statements are presented for audit.

As auditors, our focus is on material misstatement. Wider presentational aspects of the financial statements are the responsibility of management. However, we do believe

that improved QA will result in a smoother and more efficient process for both the Regional Council and the audit team.

We would like to thank the finance team for the continued cooperation and support throughout the audit process.

Appendix 1: Status of previous recommendations

Outstanding matters

Recommendation	Status
Centralised Contract Management System	
<p>We recommended that the Regional Council consider the benefit of working towards implementing a centralised contract management system that is linked to its financial management systems. This will better manage the implementation of contracts, reconcile contract expenditure with other financial management systems, and provide strategic procurement management information.</p>	<p>In progress</p> <p>Management comment</p> <p>Management notes that this is an area that is being reviewed but given the varied nature of the council they are not fully convinced that the benefits from a centralised contract management system for all contracts outweigh the cost saving and gains we might get from a council wide system.</p> <p>While a centralised contract management system linked to the financial management system is not planned at this stage, several other projects that are under way or planned will contribute to addressing this issue:</p> <ul style="list-style-type: none"> • A new document management system is presently being implemented and as part of developing the hierarchical structure there is a specific place for contracts. While this does not directly link into the financial system it will see all contracts stored in a central location, searchable by vendor, and easily accessible. • Consideration is being given to allocating a unique number to each contract, and linking of contract numbers to purchase orders and/or vendors in the financial management system. • Processes for vendor management will be reviewed. • The new procurement function will review particular types of contract expenditure and vendor management, as the need arises.
High annual leave balances	
<p>We recommend the Regional Council consider what, if any, additional focus is needed to reduce the numbers of employees with high leave balances.</p> <p>As part of our interim audit, we reviewed employee annual leave balances including members of the Management Team, key finance</p>	<p>In progress</p> <p>Management comment</p> <p>Management notes the audit findings, and confirms that they monitor and manage staff leave balances. Balances are reported regularly to the CEO by the Group General Managers. Leave plans are required to be in place for staff with high balances whilst</p>

Recommendation	Status
and information technology positions, and division managers and noted some high annual leave balances.	<i>complying with the leave balance policies.</i>
Preparation of the financial statements	
Finance has been committed to delivery and improvement to prepare the financial statements for audit. There will be opportunities on the part of both the audit team and the finance team to improve the process this year, and we will continue to work closely with the finance team to ensure an effective and efficient audit programme is established for the final audit.	<p>In progress</p> <p><i>We have seen significant improvements in the timeliness and quality of financial statements and audit documentations required for your annual audit.</i></p> <p><i>See also section 4 in the main body of the report.</i></p>
Information technology general controls review	
Use of generic Administrator network login	
<p>We recommend that a review of elevated access accounts be performed, to ensure that access is limited to those people who need it. The password for the generic "Administrator" account should then be locked away by relevant staff for use only in an emergency.</p> <p>Our review of users with elevated access rights noted there are a high number of IT staff with domain Administrator access, and a generic "Administrator" login account. Use of the generic Administrator account prevents the ability to track who made changes.</p>	<p>In progress</p> <p>Management comment</p> <p><i>Domain Administration access is continually being reviewed and the number had already been reduced, between the auditor's last two visits.</i></p> <p><i>The "Administrator" account is being further reviewed, including the option to lock away the password. Where possible we are also looking to reduce its use, however care needs to be taken in any changes as it may have been historically embedded in applications and processes which could cause business disruptions.</i></p> <p><i>In addition, we will be conducting an independent audit of our systems to ensure that access and usage is compliant with our policies and procedures.</i></p>
System event logs filling up	
<p>The file which records system events, such as successful and unsuccessful logins, is filling up and overwriting itself during the day.</p> <p>A review of the event logging procedures should be done and file size increased so that logs are retained for a full day before being backed up.</p> <p>We note from the management comment below that this is considered to be resolved. We will confirm as part of our normal IS Auditor visit next year.</p>	<p>In progress</p> <p>Management comment</p> <p><i>The log file has been increased to its system maximum and we are now achieving at least 30 hours of logs even on the busiest day. This has been the case prior to the auditor's last visit (2 June 2015).</i></p>
Improvements to backups	
Backups are only being retained for six months due to the backup disc not having sufficient capacity for any more data to be retained.	<p>In progress</p> <p>Management comment</p> <p><i>There was already a project underway to review</i></p>

Recommendation	Status
<p>Backups are not finishing due to speed issues, so the Regional Council does not have good backups from which it could restore in a disaster.</p> <p>A project to improve backups was to commence the week following our information systems audit visit in March.</p> <p>We recommend that the Regional Council review and document how long backups are required to be kept, and ensure that systems and processes are implemented to achieve successful backups.</p>	<p><i>and enhance the current back-up system and patching prior to commencement of this year's audit. To date approximately 92/100 of the virtual (Production) servers have now been re-configured for the new back-up system. The bulk of the remaining servers are at the Masterton office.</i></p>
<p>Formally test restores from backup</p>	
<p>There are no formal restore tests being performed to ensure that systems could be re-established after a disaster.</p> <p>Once the problems with backups have been resolved, the Regional Council should implement regular formalised restore tests to ensure that systems can be recovered.</p>	<p>In Progress</p> <p>Management comment</p> <p><i>Once the enhancements with backups have been completed (as described above), the council will re-instate regular and formalised restore tests to ensure that systems can be recovered.</i></p>
<p>Improvements to management of server configurations</p>	
<p>Configuration changes and patching of servers is not being done on a timely basis. There is no formalised "Outage window" in which servers can be patched or reconfigured and restarted.</p> <p>There are different versions of the Antivirus management software on servers and some servers have not had anti-virus signature updates loaded this year. Furthermore, patches have not been loaded on to the SAP servers for a few years.</p> <p>Formal reporting on patching and virus management should be established. All Servers should be patched and have anti-virus signatures updated regularly. A formal after hour's outage window should also be established so that configuration and restarting of servers can be done when required.</p>	<p>In Progress</p> <p>Management comment</p> <p><i>As has already been mentioned above, there is already a project underway to review and enhance the patching (Windows & Anti-virus) of servers in conjunction with the current back-up system enhancements. This project was commenced prior to the commencement of this year's audit. To date approximately 92/100 of the virtual (Production) servers have now been re-configured and patched consistently. The bulk of the remaining servers are at the Masterton office The SAP servers are patched and backed up as part of the 92.</i></p> <p><i>It should also be noted that the council also patches (Windows & Anti-virus) on its desktop devices daily, with an alternate vendor's product, providing additional security by running two antiviruses across the systems in parallel.</i></p> <p><i>When configuration changes are being applied to business systems, a formal after hour's outage change request process is followed by ICT staff, external support resources and the business units affected. The change processes is managed by our ITIL compliant online change management system (BMC Track-It). All changes are auditable, which also proves extremely valuable in a problem management situation.</i></p>

Matters resolved

Recommendation	Status
Sale of the Regional Council Centre and going concern of Pringle House Limited	
The Regional Council has extended its financial support for PHL, which will expire on 24 September 2015. We understand that the PHL Board is testing the market for the possible sale of the Regional Council Centre. We will keep up to date with developments and consider the impact on PHL future reporting and possible dis-establishment of PHL.	Matter resolved See section 3.4.

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 service performance achievement against activities, and reporting that opinion to you. This responsibility arises from section 215 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 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 and service performance achievement against activities. 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 Greater Wellington Regional Council's financial statements and service performance achievement against activities 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>In addition to this audit, which includes our report on the Other Requirements, we have carried out assignments in the areas of Long Term Plan 2015-2015, Debenture Trust Deed 2015, and Probity Audit for the Public Transport Operating Model, which are compatible with those independence requirements. Other than these assignments we have no relationship with or interests in the Regional Council or any of its subsidiaries.</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 Greater Wellington Regional 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 Greater Wellington Regional 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>