

29 November 2011

Celia Wade-Brown  
Mayor  
Wellington City Council  
101 Wakefield Street  
PO Box 2199  
Wellington 6140

PO Box 2, Christchurch 8140

[www.auditnz.govt.nz](http://www.auditnz.govt.nz)

Freephone: 0508 AUDITNZ

(0508 283 4869)

Fax: 03 377 0167

Your Worship

## **Audit for the year ending 30 June 2012**

I am writing to outline our arrangements for the audit of Wellington City Council for the year ending 30 June 2012. This letter has two main sections – an agreement to be signed, and details of the audit.

### **Agreement to be signed**

Below is an acknowledgement that this letter matches your understanding of the arrangements for this year's audit. Once signed, I would be grateful if you return this to me.

### **Details of the audit**

Here we set out the proposed arrangements for this year's audit. This includes

- areas of audit focus;
- logistics (such as our audit team, timing, and fees); and
- additional information about the annual audit set out in Appendix 1.

If there are additional matters that should be included in this letter, or any matters requiring clarification, please contact me.

Yours sincerely



Andy Burns  
Director

**Agreement to be signed**

*I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.*

Signed \_\_\_\_\_ Date \_\_\_\_\_  
Celia Wade-Brown  
Mayor

## Details of the audit

### 1 Introduction

This document sets out the arrangements for the audit of Wellington City Council (the Council) for the year ending 30 June 2012. This includes:

- areas of audit focus for the annual audit;
- logistics (such as our audit team, timing, and fees); and
- additional information about the annual audit set out in Appendix 1.

### 2 Areas of audit focus for the annual audit

During audit planning we considered the current risks and issues facing the Council. These risks and issues may be relevant to the audit because they may affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of performance, authority, waste, and probity (as set out in the Audit Engagement Letter dated 23 March 2011).

The table below sets out the areas of audit focus that we have identified in line with these requirements, and our proposed audit response.

Areas of focus	Our audit response
<b>Weather tightness (leaky homes)</b>	
<p>Exposure to liabilities from leaky home claims remains a significant issue for both the Council and wider public sector.</p> <p>The new financial assistance package (FAP) to help homeowners repair their leaky homes faster has been in operation since July 2011. The total financial impact of the FAP and claims settled by other means, for both known and future claims as at 30 June 2011, was estimated and reported in the Council's 2011 annual report.</p> <p>With the passage of time, and the FAP in operation through the 2011/12 year, more historical information will be available to estimate the Council's future liability to homeowners as at 30 June 2012.</p>	<p>We will review the Council the information obtained by the Council to determine its financial exposure to weather tightness claims, how this is accounted for and disclosed in the financial statements.</p>
<b>Council governance role in relation to Council Controlled Organisations</b>	
<p>Local Authorities are responsible for the effective oversight of their Council Controlled Organisations (CCOs). This includes reviewing and commenting on draft SOIs of their CCOs within the timeframe in the LGA and ongoing monitoring of performance.</p>	<p>We will obtain an understanding of how the Council is fulfilling its oversight responsibilities relating to CCOs.</p>

<b>Procurement of goods and services / contract management</b>	
<p>We have previously assessed the Council's procurement policy as very good. The documentation is reflective of modern, public sector procurement standards.</p> <p>Council recognises that formal mechanisms to support staff to undertake procurement and contract management need to be further strengthened.</p> <p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring the delivery of goods or services to the agreed levels.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the Council's progress in developing a contracts and procurement strategy to support the Council to achieve its procurement and contractual outcomes.</li> <li>• Review a sample of significant procurement decisions made during the year to ensure consistency in line with policy. This work will be co-ordinated with Risk Assurance, and we will rely on their work where possible.</li> <li>• Discuss the Council's contract management processes to ensure appropriate management is taking place.</li> </ul>
<b>Audit of Service Performance Reports (AG-4 (revised))</b>	
<p>We expect the Council to have appropriate systems in place to collect, record, analyse and report data to support the performance information reported. The system needs to include appropriate internal controls to provide assurance over the integrity of this information. An appropriate standard of supporting documentation must be retained to provide a robust audit trail.</p>	<p>We will reconfirm that the performance framework from the 2009-19 LTCCP remains appropriate. This will include taking into account any changes in activity since the LTCCP was adopted.</p> <p>Our audit work will also focus on:</p> <ul style="list-style-type: none"> <li>• the quality of the overall "story" the performance reporting tells;</li> <li>• the reliability/accuracy of the reporting;</li> <li>• the completeness of the reporting against the performance framework as outlined in the LTCCP; and</li> <li>• compliance with relevant legislation (in particular the Local Government Act 2002, Schedule 10).</li> </ul>
<b>Revaluation of assets due this year</b>	
<p>The Council periodically revalues certain operational and infrastructural asset classes. In 2011/12 the Council will revalue its operational land and buildings, and investment properties portfolio.</p> <p>The Council will also need to formally review whether a revaluation is required for other asset classes.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• ensure the revaluation of land and building assets and investment properties has been appropriately performed and accounted for in the Council's annual report; and</li> <li>• review the Council's assessment of whether there is any significant difference between the carrying amount and fair value of its other significant asset classes.</li> </ul>

### Emerging matters that may impact the audit

Below are other emerging issues potentially affecting the Council that do not directly affect our audit:

- **Earthquake strengthening.** The Council has begun to identify key infrastructure strengthening projects within its portfolio of buildings and is prioritising those which it sees as key risks. The Council's strategy with regard to private building owners is also being considered.
- **Ownership of water assets –** An independent report has been prepared to explore options for the optimal ownership structure of the region's water assets. This is currently being discussed between Councils.
- **Local Government Amendment Act 2010 –** This Act, previously known as Transparency, Accountability and Financial Management (or TAFM), has recently been passed. The changes generally affect future financial years, but do impact the audit of LTCCP amendments and the LTP.
- **Auditor-General's cross cutting theme.** In December 2011 the Auditor-General will announce its cross cutting theme. This will become the focus of the Office of the Auditor-General's activity over the next 18 months, including a potential impact on the work required in annual audits.

We will maintain an awareness of progress in these areas and any financial and non-financial reporting implications.

If any further audit work is required we will discuss with management in the first instance.

We are discussing the impact of the Local Government (Financial Reporting) Regulations 2011 with management. These regulations require the Council to present its group of activity statements in a prescribed format, and may necessitate some changes in Council's reporting systems for the LTP.

We will also follow up on progress made by the Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

### 3 Audit of the Council's 2012-22 Long Term Plan

In addition to the annual audit, we will be auditing the Council's 2012-22 Long Term Plan (LTP). This audit work will be conducted at time co-currently with the annual audit. Our arrangements for the LTP audit are contained in our letter dated 1 September 2011. A detailed timetable is being agreed with the Strategy and Planning team.

We will focus on how we can leverage off the LTP audit to create audit efficiencies.

At present the key areas of focus for the LTP audit will be:

- **Financial strategy** – a clear financial strategy that underpins Council's LTP is essential to ensure that the community is aware of the effect that the Council's decisions have. The Local Government (Financial Reporting) Regulations 2011 include specific requirements for the content of a financial strategy in the 2012-22 LTP.
- **Asset Management Plans** – we will assess and review the Council's control environment in relation to the development and maintenance of its AMPs.
- **Performance reporting** – we will reconfirm that the Council's performance framework is appropriate and enables users to make an informed assessment of the Council's performance.
- **Strategic decisions** that Council has made that will have an impact on the LTP.

#### **4 Information systems**

The design and operation of an effective IS control environment is critical to ensuring the accuracy, integrity and availability of the Council's information.

The best controls for ensuring the accuracy, integrity and availability of the Council's information are those that prevent unauthorised transactions or errors from occurring in the first place.

As part of the 2012 audit we will:

- review the Council's Information Technology General Controls (ITGC). We will focus on the follow up of issues raised in prior year, and will report the extent to which the Council has progressed resolution of these issues. See below for further information about this review;
- review the planned upgrade to the Peoplesoft system in 2011/12; and
- review the controls in place around the Peoplesoft budget module that is used to prepare the forecasts in the annual plan and the LTP.

##### **Further information above the ITGC review**

The ITGC review is in two parts. The first being a risk assessment of the entity level controls in place. These controls are management's activities in the following areas:

- IT governance and strategic planning;
- IT processes, organisation, and relationships;
- assess and manage IT risks;
- monitor and evaluate performance; and
- monitor and evaluate internal control.

The second part being an assessment as to the design and operational effectiveness of activity level controls. These control areas cover the Council's ability to manage risk associated with the following areas:

- Systems acquisition/project management.
- Security (network and applications).
- Change management.
- Management of physical hardware.
- Management of third-party services.
- Data management.
- Operations management.
- Configuration management.
- Problems and incident management.
- End-user computing (applications and development).

The results of the ITGC review will be reported back to the Council.

## **5 Logistics**

### **5.1 Our audit team**

The Audit New Zealand staff involved in the audit are:

Andy Burns	Director
Scott Tobin	Professional Standards Review Director
David Kidman	Audit Managers
Desikan Naidoo	
Nicola Davies	Audit Supervisor
Robyn Dearlove	Information Systems Auditor
Jason Biggins	Tax Director

### **5.2 Communications plan**

Open, honest, timely communication between parties is fundamental to an efficient audit. We will maintain regular contact with the Council and management as specified in the table below:

Communication with	Purpose	Timing
Chief Executive.	<ul style="list-style-type: none"> <li>• To confirm major areas of audit focus and to discuss audit arrangements.</li> <li>• To discuss major findings from the audit process and add value to the Council through discussion of current and emerging sector issues.</li> <li>• To discuss emerging issues that may affect the Council's operations, as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly, and as required.</li> </ul>
Audit and Risk Management Subcommittee	<ul style="list-style-type: none"> <li>• To establish major areas of audit focus and discuss audit arrangements.</li> <li>• Discussion of emerging strategic, operational, accounting or financial issues facing the Council.</li> <li>• Consider timely action to resolve emerging issues and proactive identification and discussion of significant issues to ensure no surprises.</li> <li>• Discuss major audit findings from the Council's audit process including summary of issues material to the Council and Group audit resulting from the subsidiary audits.</li> </ul>	<ul style="list-style-type: none"> <li>• Attendance at each Audit and Risk Management Subcommittee meeting.</li> <li>• Prior to signing the audit opinion – meeting to be scheduled in August 2012.</li> <li>• As required.</li> </ul>
Council	<ul style="list-style-type: none"> <li>• To discuss the major findings from the audit.</li> </ul>	<ul style="list-style-type: none"> <li>• At the conclusion of the audit – meeting scheduled for 29 August 2012.</li> </ul>
Chief Financial Officer and/or Manager, Financial Accounting and/or Manager, Research, Strategy, Urban Design and Heritage	<ul style="list-style-type: none"> <li>• To discuss major areas of audit focus.</li> <li>• Discuss operational and financial issues affecting the Council.</li> <li>• Discuss audit issues and obtain an operational perspective.</li> <li>• Identify and resolve financial reporting issues arising.</li> <li>• Monitor and manage audit process against agreed deliverables and timeframes.</li> </ul>	<ul style="list-style-type: none"> <li>• During the course of the planning and interim visits.</li> <li>• Throughout the course of the interim and final audits as required.</li> </ul>
Members of the Senior Management Team	<ul style="list-style-type: none"> <li>• Discuss key and emerging issues and developments affecting the Council.</li> <li>• To provide appropriate advice as required.</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly or six monthly.</li> </ul>



<b>Communication with</b>	<b>Purpose</b>	<b>Timing</b>
Director Risk Assurance	<ul style="list-style-type: none"> <li>• Discuss audit arrangements.</li> <li>• Discuss emerging issues that may impact on the Council's operations, as they arise.</li> <li>• To discuss internal audit activities and findings.</li> <li>• Discuss major findings from the audit process.</li> </ul>	<ul style="list-style-type: none"> <li>• During planning discussions.</li> <li>• Quarterly, as required.</li> <li>• After completion of audit work but prior to reporting finalisation.</li> </ul>
Information Systems Business Unit Manager	<ul style="list-style-type: none"> <li>• Discuss emerging Information Systems and Information Technology issues that may impact on the Council's operations, and service delivery.</li> <li>• To discuss Information Systems Strategic Planning.</li> <li>• Discuss major findings from the audit process and add value to the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• During planning discussions.</li> <li>• After completion of work but prior to reporting.</li> </ul>

### 5.3 Important dates in the annual audit process

<b>Key milestone</b>	<b>Date</b>
Detailed planning visit	16 January 2012
Interim audit begins	30 April 2012
Draft interim management report to the Chief Executive	28 May 2012
Pre-final visit	5 June 2012
Final audit begins	30 July 2012
Draft financial statements available for audit	30 July 2012
Provisional clearance to ARMS	TBC
Audit opinion issued	29 August 2012
Draft Chief Executive report (if required)	29 August 2012
Draft Governing Body report	29 August 2012
Summary Annual Report received	3 September 2012
Summary Annual Report opinion issued	17 September 2012

### 5.4 Professional fees

Our audit fee estimate for the year ending 30 June 2012 is \$247,230 plus disbursements (GST exclusive). This is as set out in the Audit Proposal Letter dated 23 March 2011.

As noted above, we will seek to leverage off the LTP audit to create audit efficiencies.

**Summary of actual audit costs in 2010 and 2011**

<b>Structure of audit fees</b>	<b>2010 actual audit cost</b>	<b>2011 budget</b>	<b>2011 actual audit cost</b>
Hours	1708	1511	1505
Net audit fee (excluding OAG overhead and disbursements)	\$242,264	\$220,800	\$219,346
OAG overhead charge	\$18,707	\$20,036	\$20,036
<b>Total audit fee (excluding disbursements)</b>	<b>\$260,971</b>	<b>\$240,860</b>	<b>\$239,382</b>
Disbursements	\$1,767	\$2,000	\$1,208
<b>Total billable audit fees and charges (excl GST)</b>	<b>\$262,738</b>	<b>\$242,860</b>	<b>\$240,590</b>

# **Appendix 1: Additional information about the audit**

## **Our reporting protocols**

### **Management reports**

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Council.

### **Reporting of misstatements**

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from Councillors that specify the reasons why the corrections will not be made.

### **Annotated audit opinion needed if the annual report is published on your website**

We understand that the Council intends to publish its annual report on its website. We need to review the information before it is published on the website. An annotated audit report will need to be used for this purpose. This contains some additional paragraphs setting out the risks associated with documents published in an electronic environment. This version of the audit report needs to be published with the electronic version of the annual report.

Examining the controls over the electronic presentation of audited financial information on the Council's website is beyond the scope of the audit of the financial statements. When information is presented electronically on a website, the Council should address the security and controls over information on the website to maintain the integrity of the data presented.

### **Our expectations of you to enable an efficient audit**

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the Council's website.

### **Liaison with Risk Assurance**

Our approach will be to continue to liaise with the Director of Risk Assurance to ensure appropriate co-ordination of effort, in both the annual audit and LTP.

We will be meeting with Risk Assurance in December 2011 to finalise the areas where we intend to place reliance on their work.

### **How we consider your compliance with statutory authority**

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the Council's financial statements or general accountability. Our audit does not cover all of the Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.