

11 March 2007

Garry Poole
Chief Executive
Wellington City Council
PO Box 2199
WELLINGTON

Dear Garry

AUDIT ARRANGEMENTS FOR THE AUDIT OF THE PROVISIONAL NZ IFRS ACCOUNTING POLICIES, NZ IFRS OPENING BALANCE SHEET, AND FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2006 RESTATED UNDER NZ IFRS

The purpose of this letter is to outline our proposed arrangements for providing assurance over the transition to the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") for the Wellington City Council (the City Council) and to set out specific arrangements for the audit of the provisional NZ IFRS opening balance sheet, provisional NZ IFRS accounting policies and the financial results for the year ending 30 June 2006 restated under NZ IFRS.

1 BACKGROUND

The City Council wishes to adopt NZ IFRS in line with the SOLGM financial management working party's recommendation that the most appropriate time to adopt NZ IFRS is for the Annual Report for the year ending 30 June 2007. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* requires the City Council's financial statements for the year ending 30 June 2007 to include comparatives to 30 June 2006 restated in accordance with NZ IFRS, as well as some reconciliations explaining the impact of the transition to NZ IFRS.

2 OUR RESPONSIBILITIES

We are the City Council's Auditor, acting on behalf of the Auditor-General. Our responsibilities arise from the Public Audit Act 2001, and the Local Government Act 2002.

In order for us to provide an audit opinion on the City Council's financial statements for the year ending 30 June 2007, we will also need to audit the comparative figures for the year ending 30 June 2006 restated under NZ IFRS. This means that we will need to audit the NZ IFRS accounting policies adopted, the NZ IFRS opening balance sheet at 1 July 2005, the NZ IFRS financial performance and cash flow information for the year ending 30 June 2006, and the NZ IFRS balance sheet at 30 June 2006. The timing and use of the NZ IFRS information is also shown in the table in Appendix One to this letter.

We note that the NZ IFRS accounting policies, the opening balance sheet at 1 July 2005 and the NZ IFRS restated financial statements for the year to 30 June 2006 are initially considered "provisional", as NZ IFRS may change (in response to amendments made by the International Accounting Standards Board) in the period up until the City Council's NZ

IFRS adoption date (30 June 2007). Any consequential changes to the provisional opening balance sheet or accounting policies will also need to be audited.

We set out below further information on our audit approach and audit arrangements for the audit of the provisional NZ IFRS opening balance sheet, provisional NZ IFRS accounting policies and comparative financial statements for the year to 30 June 2006 for the City Council.

3 COUNCIL RESPONSIBILITIES

The City Council is responsible for the preparation of financial statements that fairly reflect the financial position and operations of the City Council in accordance with generally accepted accounting practice (in this case NZ IFRS), and also for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

Specifically for the transition to NZ IFRS, the City Council is responsible for:

- determining the appropriate date for adoption of NZ IFRS (we understand that all Councils have chosen 1 July 2005 as their transition date);
- determining whether the entity is a public benefit entity (PBE) or profit-oriented entity (we expect all Councils will be PBEs);
- following a robust process for identifying and appropriately addressing issues associated with the transition to NZ IFRS;
- determining which of the standards is relevant to the City Council's circumstances. The City Council will need to be careful with this process as the scope of some standards differs to the current standards, even though they may have similar titles and appear to deal with the same topic;
- adopting provisional accounting policies that are in accordance with the NZ IFRS standards applicable at the time. These policies will be applied in preparing the provisional opening balance sheet, but may need to be amended to reflect changes in NZ IFRS between now and when the City Council adopts its 2007 Annual Report;
- preparing a provisional opening balance sheet as at 1 July 2005;
- restating in accordance with NZ IFRS the financial performance and cash flows for the year ended 30 June 2006 and the balance sheet at 30 June 2006; and
- documenting the basis of preparation, assumptions and accounting policy choices for the opening balance sheet and restated 2006 financial results, as well as producing supporting work papers, including reconciliations, for all significant changes from the 30 June 2005 and 30 June 2006 audited financial statements.

4 AUDIT APPROACH

Our audit will be carried out so as to obtain the necessary evidence to support our audit opinion, in accordance with the Auditing Standards published by the Auditor-General, which incorporate the standards of the Institute of Chartered Accountants of New Zealand.

Our audit involves performing procedures to test the information presented in the opening balance sheet, restated 2006 financial results, and relevant accounting policies. We assess the results of those procedures in forming our opinion. Wherever possible we will place reliance on work already performed during the annual audits for the years ended 30 June 2005 and 30 June 2006.

The significant NZ IFRS related tasks that we will need to perform include:

4.1 Council

- Review of the project planning, management and governance structures established by the City Council for the NZ IFRS transition project and comparison with our expectations for projects of this significance.
- Audit of the provisional NZ IFRS accounting policies to be adopted by the City Council to confirm that they are in accordance with the requirements, and available options, under NZ IFRS.
- Specific consideration of the proposed NZ IFRS treatment of any key transactions, assets and liabilities.
- Review and testing of any changes made to systems and processes in order to collect and collate information in accordance with NZ IFRS for the provisional opening NZ IFRS balance sheet and NZ IFRS financial results for the years ending 30 June 2006.
- Audit of the provisional opening balance sheet as at 1 July 2005, including all significant adjustments from the closing balance sheet and the reconciliation of equity under current NZ GAAP to equity under NZ IFRS.
- Audit work to confirm that all the required opening balance sheet adjustments have been identified and made.
- Review of pro-forma financial statements to confirm they are in compliance with disclosure requirements of NZ IFRS.
- Audit of the restated NZ IFRS financial performance and cash flow information for the year ended 30 June 2006 and the restated balance sheet at 30 June 2006 (including Notes to the financial statements). This will include the audit of the reconciliations between the NZ GAAP equity and surplus/deficit and the NZ IFRS equity and surplus/deficit.
- Review of Council's hedging regime. Specifically audit focus will be on whether:
 - hedging relationships have been correctly identified,

- hedging documentation meets NZ IAS 39 requirements,
- hedged forecast transactions meet IAS 39 probability levels,
- effectiveness testing has been correctly carried out and the results correctly accounted for, and
- journals to record hedge accounting are complete and accurate.

4.2 Group

- Review of the process by which the City Council has produced the group provisional NZ IFRS opening balance sheet and the group 2006 comparatives restated under NZ IFRS. This will entail the City Council requiring an audited provisional NZ IFRS opening balance sheet and audited 2006 comparatives restated under NZ IFRS for each entity in the group.
- Audit of the City Council group provisional NZ IFRS opening balance sheet and the group 2006 comparatives restated under NZ IFRS, including the reconciliations required by NZ IFRS 1.
- Audit work to confirm that the NZ IFRS compliant accounting policies have been applied consistently throughout the group. As the City Council group is a public benefit entity, there may be adjustments to convert the financial results of any profit-oriented entities within the group into a form that complies with the group's public benefit entity compliant accounting policies

5 OUR REPORTING

We understand that the City Council does not intend to separately publish its provisional NZ IFRS opening balance sheet or NZ IFRS comparatives. Instead, the opening balance sheet and comparatives will be included within the Annual Report for the year ending 30 June 2007. We note also that the opening balance sheet has previously been published within the Council's NZ IFRS transitional note disclosure in the 2006/07 LTCCP and Annual Report for the year ending 30 June 2006. There is no legal requirement for us to issue a specific audit report on the provisional opening balance sheet or NZ IFRS comparatives for the years ending 30 June 2006 as stand-alone financial statements.

However, at the conclusion of our audit, we will issue a letter to the City Council providing audit assurance on the provisional opening balance sheet at 1 July 2005, the provisional accounting policies adopted under NZ IFRS and the restated comparatives for the year ended 30 June 2006. This assurance letter will contain a caution that makes it clear there is some uncertainty about the entity's accounting policy choices and assumptions as to standards and interpretations expected to be effective. The uncertainty arises because standards and interpretations that will be applied when the first complete set of NZ IFRS financial statements are prepared in 2007 could be different to those upon which the provisional opening balance sheet and NZ IFRS accounting policies have been based.

We may also issue a management letter on any aspect of the City Council's financial and other management systems, including the management of the NZ IFRS conversion project that come to our attention and are significant.

As with the results of our annual audits of the City Council's financial statements, we will provide a copy of the management letter to the Office of the Auditor-General.

6 TIMING AND COSTS

We have estimated the cost (excluding disbursements and GST) of our audit to be in the range of \$28,000 to \$33,000. This cost will be reduced to reflect the extent that some of the verification work already completed on the opening balance sheet and accounting policies during our audit of the 2006/16 LTCCP, has remained valid.

This estimated fee covers the audit of the provisional NZ IFRS opening balance sheet, the NZ IFRS accounting policies and the NZ IFRS financial results for the year ending 30 June 2006.

The estimated fee reflects the seniority of staff that we believe are appropriate for this assignment. The estimated fee assumes the provision of information in a timely manner, the appropriate level of assistance from your staff.

As this process is new for the City Council and for us, we plan to closely monitor our actual cost as there is some uncertainty regarding the expected fees. Where such cost significantly exceeds our initial expectation outlined above, we will seek to recover the actual costs incurred from the City Council. We will endeavour to discuss this with you before incurring any additional costs. Similarly, if actual costs are less than our estimates we will invoice accordingly.

Where applicable, we wish to interim bill as work progresses.

7 AUDIT TIMING

Item	Timing
NZ IFRS accounting policies and opening balance sheet at 1 July 2005 together with supporting reconciliations and work papers provided for audit – Parent (changes from 2006/16 LTCCP only)	12 March 2007
Audit of opening balance sheet - Parent (changes from 2006/16 LTCCP only)	12 March 2007
30 June 2006 financial results restated under NZ IFRS together with supporting reconciliations and work papers provided for audit - Parent (changes from 2006/16 LTCCP only)	7 May 2007
Audit of restated comparatives - Parent (changes from 2006/16 LTCCP only)	7 May 2007
NZ IFRS accounting policies and opening balance sheet at 1 July 2005 together with supporting reconciliations and work papers provided for audit - Group	7 May 2007
Audit of opening balance sheet - Group	7 May 2007
30 June 2006 financial results restated under NZ IFRS together with supporting reconciliations and work papers provided for audit - Group	6 August 2007
Audit of restated comparatives	6 August 2007
Assurance letter issued	13 August 2007

Item	Timing
Draft management report issued	28 August 2007

8 PERSONNEL

The Audit New Zealand personnel involved in the management of the opening balance sheet and 2006 comparatives audits are:

Rudie Tomlinson	Director
John O'Connell	PSR Director
Jason Biggins	Tax Director (if applicable)
Karen Young	Audit Manager
Aimee Gould	Audit Supervisor

9 AGREEMENT

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for this audit.

If there are any matters requiring further clarification, please contact Karen Young on 021 222 6164 or me on 021 222 8629.

Yours sincerely

Rudie Tomlinson
Director

I acknowledge that this letter is in accordance with my understanding of the arrangements for this audit.

Signed
Garry Poole
Chief Executive

Date

APPENDIX ONE

TIMELINE FOR TRANSITION TO NZ IFRS

Date	30 June 2005	30 June 2006	30 June 2007
Current NZ GAAP information to be prepared and audited	Financial statements for year to 30 June 2005	Financial statements for year to 30 June 2006	No longer applicable
NZ IFRS information to be prepared and audited	Provisional opening balance sheet at 1 July 2005	Restated financial performance, cash flows and financial position for the year to 30 June 2006	Financial statements for year to 30 June 2007
Use of NZ IFRS information	<p>a) Opening position for comparatives in annual and monthly financial statements for year to 30 June 2007</p> <p>b) NZ IFRS base point for 2006 LTCCP figures.</p>	Comparatives in annual and monthly financial statements for year to 30 June 2007	Financial statements for year to 30 June 2007