

DRAFT 3 April 2014

Ref.: WCC060

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

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Dear Celia

Proposal to conduct the audit of Wellington City Council and subsidiaries on behalf of the Auditor-General for the 2014, 2015 and 2016 financial years

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2014, 2015 and 2016. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal and/or covered by separate proposals;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any increase or decrease in hours;
- our proposed fees for the audit for the financial years ending 30 June 2014, 2015 and 2016 and reasons for any increase or decrease in costs;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conducting the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under section 15 of the Public Audit Act 2001, which states that “the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, the Council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audits of the following entities:

Wellington City Council

4 Key members of the audit team

Appointed Auditor	Bede Kearney
Review Director	Scott Tobin
Audit Manager	David Kidman
Information Systems Specialist	Robyn Dearlove
Associated Director (Specialist Assurance)	Martin Richardson

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to data from the previous financial year):

Audit team member	2013 budget	2013 actual	2014	2015	2016
Appointed Auditor	140	125	140	140	140
Review Director	20	12	20	20	20
Audit Manager	220	221	220	220	220
Other staff	940	1,018	921	921	921
Other specialists:					
Sector specialist support	21		20	20	20
Information Systems	120	86	110	110	110
Specialist Assurance Services	40	46	70	70	70
Tax	10	2	10	10	10

Audit team member	2013 budget	2013 actual	2014	2015	2016
Total audit hours	1,511	1,510	1,511	1,511	1,511

6 Proposed audit fees

Our proposed fees for the next three audits (compared to data from the previous financial year) are:

Structure of audit fees	2013 budget	2013 actual cost incurred	2014	2015	2016
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	237,383	241,108	250,952	255,426	260,441
OAG overhead charge	20,852	20,852	21,048	21,574	22,059
Total audit fee (excluding disbursements)	258,235	261,960	272,000 (5.3%)	277,000 (1.8%)	282,500 (1.9%)
Disbursements	2,000		2,000	2,000	2,000
Total billable audit fees and charges	260,235		274,000	279,000	284,500
GST	39,035		41,100	41,850	42,675
Total (including GST)	299,270		315,100	320,850	327,175

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for increased audit hours/fees

The major reasons for the increase in audit hours/fees for your organisation's audit are contained in the tables in appendix one.

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.

- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- there are no significant changes to mandatory auditing standards that require additional work.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Appointed Auditors are required to return to the OAG part of the fee paid by each public entity (the OAG overhead charge) to partially fund a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- quality assurance reviews of all auditors, and their audits and staff on a regular (three-year) cycle.

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including overhead charges) to be funded by public entities.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;

- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in Chapter 4 of the OAG Manual for Audit Service Providers.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my contract with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely

Bede Kearney
Director
Audit New Zealand

I accept the audit fees for the audit of the three financial years as stated above.

Full name: _____ Position: _____

Authorised signature: _____ Date: _____

Entity name: _____

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Bede Kearney
Audit New Zealand
PO Box 99
Wellington 6140

Appendix 1: Changes to audit hours and fee

Reasons for increased or decreased audit hours	
Realignment of specialist assurance services focus to match assessed risks at Council:	
- High level assessment of procurement policies and supporting systems	30
- Obtain an understanding of contract management procedures and assess risks	10
- Obtain an understanding of project management procedures and assess risks	10
- High level assessment of procedures to identify and mitigate conflicts of interest	5
- Reduced hours on asset management	(25)
Additional financial reporting requirements [Local Government Act (2012), Local Government (core asset information) Regulations (2013) Local Government Financial Prudence Regulations (2014)]	15
Efficiencies in audit approach identified	(45)
Total increase (decrease) in audit hours	nil

Reasons for increased or decreased audit fees	2014	2015	2016
Changes in staff salary costs between compared to the previous estimate made in 2011	\$9,100		
Forecast impact of cost driven increases in charge-out rates in 2015 (1.9%) and 2016 (2.0%)		\$5,000	\$5,500
Realignment of specialist assurance services focus to match assessed risks at Council:			
- High level assessment of procurement policies and supporting systems	\$6,000		
- Obtain an understanding of contract management procedures and assess risks	\$2,000		
- Obtain an understanding of project management procedures and assess risks	\$2,000		
- High level assessment of procedures to identify and mitigate conflicts of interest	\$1,000		
- Reduced focus on asset management	(\$5,000)		
Changes to financial reporting requirements (Local Government Financial Reporting Regulations)	\$3,000		
Efficiencies in audit approach identified	(\$4,335)		
Total increase (decrease) in audit fees	\$13,765	\$5,000	\$5,500