

Planned Audit Approach
Wellington City Council

**Planned audit
approach**

for the year ending 30 June 2010

Overview of the audit approach

This memorandum records our (Audit New Zealand's) overall approach to the audit of Wellington City Council (the Council). The purpose of this memorandum is to inform you of the framework under which the audit will be performed.

The terms of the audit engagement and respective responsibilities between the Council and Audit New Zealand are outlined in our audit engagement letter dated 21 February 2008 and the letter of undertaking, dated 22 July 2008.

1 Our audit approach

Our audit of the Council should be viewed in two contexts:

- The issuing of our audit opinion on the financial and non-financial statements.
- The wider audit mandate (accountability, performance, waste, probity, and authority).

1.1 Issuing of our audit opinion on the financial and non-financial statements

Our audit approach is designed to give the Council, the public, and the Auditor-General assurance and confidence (by way of an audit opinion) that:

- core financial and non-financial processes and systems are in place, and are designed and operating effectively;
- the Council has complied with significant legislation from an audit perspective and given due consideration to issues of waste; and
- the Council has fairly reported its financial and non-financial performance in accordance with New Zealand Generally Accepted Accounting Practice and/or legislative requirements.

To achieve our audit approach, we will:

- continue to build on our understanding of the Council's control environment and assess the effectiveness of the control environment;
- document and identify that key controls are in place for key financial and non-financial systems, and (where appropriate) test those systems to ensure that the key controls are operating effectively throughout the year; and
- test year-end financial and non-financial information for accuracy and validity.

In addressing the audit responsibilities (including the wider audit mandate), we will assess the control environment including financial and non-financial controls.

In planning our audit, we have to consider the extent to which significant issues affect our audit responsibilities and design an appropriate audit response.

1.1.1 Management control environment

The management control environment reflects the overall attitude, awareness, and culture of an entity towards managing risk, and its focus on meeting its objectives. A stronger management control environment increases the likelihood that specific controls will operate as designed, and will therefore lower the risk of errors within the financial statements.

The areas we believe are the foundations of a good control environment include:

- clarity of strategic planning;
- communication and enforcement of integrity and ethical values;
- commitment to competence;

- participation by those charged with governance (for example, the involvement and influence of an audit committee or equivalent);
- management philosophy and operating style;
- organisational structure;
- assignment of authority and responsibility;
- risk assessment and risk management;
- key entity-level control policies and procedures;
- information systems and communication (including information technology planning and decision-making);
- monitoring; and
- arrangements for legislative compliance.

In previous years we assessed the management control environment of the Council as effective.

We will carry out a high-level review of the Council's management control environment in the areas mentioned above. The purpose of this review is to ensure that the management control environment remains effective.

1.1.2 Financial and non-financial information and controls

To gain assurance over the financial statements and statements of service performance, we will assess the risk of material misstatements for individual account balances and non-financial measures that the Council reports in its Annual Report.

To address the risks for each account balance and non-financial measure, we plan to review and test the key internal controls that the Council has in place to mitigate those risks. The first step will be to assess how effectively key controls have been designed. If we consider that major internal controls are designed effectively, we will then test how effectively those controls operate to be satisfied that they have been operating effectively throughout the 2009/10 financial year.

We will report any concerns we have about how the controls that we consider to be important from an audit perspective are designed or operating.

The key systems that we will document and test for internal controls are:

- Expenditure/accounts payable.
- Revenue/accounts receivable.
- Payroll/employee entitlements.

- Journals.
- Property, plant, and equipment.
- Intangible assets.
- Cost allocation.
- Reconciliations between the Council's general ledger and subsidiary systems and other key information (such as bank statements).
- Systems for recording information associated with non-financial measures.

2 Specific areas of audit focus for 2009/10

2.1 Specific areas of focus and approach for the Council

Based on our understanding of the Council's business, and discussions held to date with members of the Council's executive leadership team, we have identified the following areas that will form the basis of our focus for the 2009/10 audit.

Key area of focus	Relates to	Risks	Audit response
Weather tightness			
<p>Exposure to liabilities from leaky home claims remains a significant issue for the local government sector. Early in 2007 there was heightened publicity surrounding this issue with significant media coverage of the judgement in the Dicks v Hobson Swan Construction Limited (in liquidation) case.</p>	<p>GAAP compliance. Expenditure Liabilities Contingent liabilities</p>	<p>Leaky homes liabilities not accounted for in accordance with Generally Accepted Accounting Practice.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Assess the appropriateness of the Council's provisions for leaky building liabilities, including narrative disclosures, and contingent liability disclosures. • Obtain copies of correspondence from RiskPool and assess the completeness of the accruals for further calls of capital included in the 2009/10 financial statements. • Review the accounting treatment to ensure it is in line with the requirements of GAAP. • Continue discussions with the Council on the appropriateness and completeness of the provision.
Property, plant and equipment			
<p>The Council has a three-yearly revaluation cycle. The relevant accounting standard (NZ IAS-16)</p>	<p>GAAP compliance Integrity of information within the annual report</p>	<p>Material misstatement of asset values and depreciation expense in the annual report.</p>	<p>We will continue to discuss our position on this issue with management, taking into account</p>

<p>requires that when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.</p> <p>We reviewed management’s initial assessment (“Fair value of revalued assets”) of the impact of changes in market values on fair value compared to the carrying valuation for those assets that are on a valuation cycle. This assessment is based on the latest available indices from BERL.</p> <p>The assessment covers the Council’s infrastructure assets (land, road, water), operational land and buildings, and library books.</p> <p>The Council does not intend to revalue these asset classes on the basis that it is on off-cycle year, and in managements opinion the projected movement in carrying values does not differ materially from their fair value.</p> <p>However, management has assessed that although not collectively material, two of these asset classes (infrastructure assets and library books) are projected to increase in value by greater than 10%. Management are currently</p>		<p>Depreciation not sufficient to cover the replacement cost of assets.</p>	<p>any additional information the Council can provide us.</p>
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<p>investigating this further to assess whether there is a more appropriate way to measure the estimated changes in the fair value of infrastructure assets.</p>			
<p>Funding arrangements and procurement</p>			
<p>The Auditor-General published the following reports in June 2008 that will be relevant to your operations:</p> <ul style="list-style-type: none"> • Public sector purchases, grants and gifts. Managing funding arrangements with external parties; and • Procurement guidance for public entities. 	<p>Probity, waste and performance.</p>	<p>Appropriate policies and procedures for procurement minimise the risk of:</p> <ul style="list-style-type: none"> • Poor value for money in spending; • Loss of reputation; and • Litigation. 	<p>We are aware that last year the Council reviewed their procurement policies and procedures against the published reports and made appropriate changes.</p> <p>As part of this year's audit, we will:</p> <ul style="list-style-type: none"> • Compare the Council's procurement policies and practices against guidance provided in the reports published by the Auditor-General; • Review a sample of significant procurement decisions for compliance with the Council's policy and good practice; and • Review the Council's post implementation review of the Facilities Maintenance Aggregation Project.
<p>Financial Information System (FMIS) Upgrade</p>			

<p>The Council is performing an upgrade of their FMIS (PeopleSoft).</p>	<p>Management information. Financial statements. Performance, waste and probity.</p>	<p>Upgrade unsuccessfully managed impacting on the integrity of financial information. Technology unable to support the delivery of Council services capability. IT Solutions not meeting the needs of the business.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Discuss the planned upgrade approach with the project manager. • Engage with the FMIS upgrade team to determine whether each stage of the upgrade is managed appropriately. • Determine whether sufficient controls have been implemented, by the project team, to ensure that the integrity of the information migrated from the old version of the FMIS is maintained.
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2.2 Sector-wide areas of focus

As in previous years, we will carry out a number of reviews on various issues across all Councils. The areas of focus for 2009/10 are outlined below.

Area of focus	Relates to	Risks	Audit response
Application of AG-4 (Revised) The Audit of Service Performance Reports			
<p>The Auditor-General's standard AG-4 (revised), <i>The audit of service performance reports</i>, applies to our audit for the first time this year. This changes the nature of the audit opinion that we will issue on your Annual Report. The audit opinion on the service performance report will not only report on whether the annual report reflects council's performance for the year as expressed by the existing measures in the adopted LTCCP for the first time. It will also expressly cover compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects actual service performance for the year. In other words, we will report on whether, in our opinion, the measures in the</p>	<p>Statements of Service Performance</p>	<p>The information reported in the Statements of Service Performance does not:</p> <ul style="list-style-type: none"> • comply with Generally Accepted Accounting Practice; or • provide an adequate basis for fairly reflecting the Council's actual service performance for the year. 	<p>We will reconfirm that the assessment of the performance framework from the LTCCP remains appropriate, 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"> • the quality of the overall "story" the performance reporting tells; • the quality of the information included in the performance reporting; • the reliability/accuracy of the reporting;

Area of focus	Relates to	Risks	Audit response
annual report provide an adequate basis for an informed assessment of the Council's actual service performance.			<ul style="list-style-type: none"> the completeness of the reporting against the performance framework as outlined in the LTCCP; and compliance with relevant legislation (in particular the Local Government Act 2002, Schedule 10).
Elections			
The next election is scheduled for 9 October 2010. The Single Transferable Voting (STV) electoral system will be used for the 2010 elections.	Probity, waste and performance	With the election in October the content of the Annual Report and Summary Annual Report could be perceived by the public as electioneering by current Councillors.	Review the reports to ensure that there is no content that could be seen as electioneering.
Elected members – remuneration and allowance			
A local authority's Annual Report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period. This includes remuneration paid or payable to each member from both the local authority and any council organisation of the local authority.	Legislative compliance	Elected members are paid less than, or more than their entitlement.	We will review the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the Annual Report against the Local Government Elected Members (2009/10) Determination 2009 and any amendment to that

Area of focus	Relates to	Risks	Audit response
			Determination.
Possible LTCCP amendments			
<p>Councils may make changes to their LTCCP that constitute an amendment; this is more likely as it is close to elections.</p> <p>Every proposed amendment must be audited.</p>	Legislative compliance	The amendment to the LTCCP does not follow the formal amendment process specified in the Local Government Act 2002 (LGA 2002).	We will remain alert for possible amendments throughout the year, particularly during the preparation of the Annual Plan.
NZTA funding			
<p>The national land transport programme (NLTP) has been released for the three years beginning 1 July 2009. As a result many local authorities have received less funding than anticipated and budgeted for in the 2009-19 Long Term Community Plan (LTCCP).</p> <p>There could be immediate effects in the form of LTCCP amendments, as local authorities look to reassess the work that can be completed and the levels of service that can be provided in the wake of available funding.</p> <p>Based on our initial enquiries with management, this is not expected to have a significant impact on the</p>	<p>Legislative compliance</p> <p>Management control environment</p> <p>Revenue</p> <p>Possible LTCCP amendment</p>	<p>Funding from New Zealand Transport Agency (NZTA) in the future year may not be what was expected on the LTCCP forecast.</p> <p>This may require an LTCCP amendment. In addition, it may require funding from other sources or a reduction on level of services provided by the Council.</p> <p>Ineffective controls over the preparation of NZTA claims so that claims do not reflect actual expenditure involved on approved areas.</p>	<p>Discuss the potential impact on the Council and its proposed response while maintaining an awareness of potential amendments to the LTCCP.</p> <p>Understand the system for preparation of NZTA returns, and test the effectiveness of any key controls associated with these.</p>

Area of focus	Relates to	Risks	Audit response
Council.			
Local Authorities Emissions and Measurement and Reduction			
The LGA 2002 requires local authorities to take a sustainable development approach to mitigate the effects of their activities on economic, social, environmental and cultural wellbeing. We have been asked by the OAG to gather information about the activities of local authorities in the area of emissions measurement and reduction to obtain baseline information for 2009/10.	Legislative compliance	Non-compliance with laws and regulations	We will hold discussions with Council management in relation to how they are mitigating the effects of their activities on economic, social, environmental and cultural wellbeing.
Development contributions			
Development contributions under the Resource Management Act 1991 can attract a high profile and councils can be at risk of incorrectly levying development contributions.	Revenue Accounts receivable Liabilities	Non-compliance with laws and regulations Legal challenges against the Council	We will: <ul style="list-style-type: none"> • Enquire as to claims or potential claims, threats of legal actions or other matter which may indicate that requiring and collecting of development contributions is, or could be, challenged; and • Review unpaid development contributions

Area of focus	Relates to	Risks	Audit response
			for collectability.
Fraud			
<p>Every public entity should perform an assessment of areas susceptible to fraud.</p> <p>The Council and management is responsible for the prevention and detection of fraud through the implementation and continued operation of adequate accounting and internal control systems.</p> <p>We would expect to be notified without delay of any suspected or discovered serious fraud perpetrated upon the Council.</p> <p>The Council's fraud policy includes a requirement for undertaking regular reviews of transactions, activities or locations that may be susceptible to fraud.</p>	<p>Management control environment</p>	<p>Misappropriation of assets</p> <p>Fraudulent financial reporting</p>	<p>We will:</p> <ul style="list-style-type: none"> Undertake formal discussions with the Chief Executive, senior managers and the Audit and Risk Management Subcommittee in this regard. Follow up any findings arising from Risk Assurance's continuous audit programme.
Asset Management Plan (AMP)			
<p>Asset Management Plans (AMPs) play an integral part in the maintenance of the Council's significant infrastructure assets.</p> <p>The LGA 2002 requires local authorities to provide information in</p>	<p>Management control environment</p> <p>Property, plant and equipment.</p>	<ul style="list-style-type: none"> No clear strategy for future expenditure on property, plant, and equipment. Capital expenditure is not utilised effectively. 	<p>We will:</p> <ul style="list-style-type: none"> Review the consistency of AMP against the Annual Plan for any significant variances. We will follow up on

Area of focus	Relates to	Risks	Audit response
<p>their LTCCPs on how they manage their assets. Improvement planning is an important element of an asset management plan (AMP). Local authorities should be able to demonstrate ongoing development and enhancement as evidence of their commitment to improving their AMPs as planned.</p> <p>We reviewed the Council's asset management planning as part of our work in auditing the LTCCPs.</p> <p>We found the quality of asset management planning very good.</p>			<p>any progress made in relation to our recommendation provided as part of our AMP review.</p> <p>We recommended more explicit levels of services to be articulated in the AMP, specifically around wastewater.</p>
Transparency, Accountability and Financial Management – TAFM – Proposed changes to the Local Government Act 2002			
<p>The TAFM proposed reform of the LGA 2002 was initiated by the Minister of Local Government in April 2009 with the approval of Cabinet. The focus of the review is to “simplify” the planning, decision-making and accountability requirements of part 6 of the LGA 2002.</p>	Legislative compliance	The information in the annual report and LTCCP does not fully comply with legislative requirements.	We will remain alert about the progress of the TAFM reforms, in particular for notification of any amendments to the LGA 2002 that impact on disclosures and audit requirements for the 2009/10 year.
Auckland Reforms			
The Auckland reforms may have	Legislative compliance		We will remain alert and

Area of focus	Relates to	Risks	Audit response
potential impact on the Council in the medium to long term.	Management control environment Financial and performance reporting LTCCP		monitor the progress of the Auckland city reforms and make regular inquiries to management for potential impacts on the Council.
Council Governance role in completion of Council Controlled Organisation (CCO) SOIs			
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 2002 and ongoing monitoring of performance.	Management control environment		We will hold discussions with relevant staff members to consider arrangements for 2009/2010.
Treaty settlements and co-management			
The Government aims to settle all historical Treaty of Waitangi claims by 2014. One part of cultural redress provided by the Crown to claimant groups is the establishment of future relationships and arrangements ("co management") with government agencies, such as local authorities, that play significant roles in the areas with which the claimant group has traditional and cultural associations.			We will hold discussions with relevant Council staff to ascertain the degree of co-management of Council resources with Maori groups and potential future arrangements.

Area of focus	Relates to	Risks	Audit response
Employee severance payments			
Local authorities are required to disclose information about “severance payments” made to the Chief Executive or other staff in the annual report.	Performance, waste and probity. Legislative compliance.	Inappropriate behaviour of Council staff Non-compliance with laws and regulations.	We will: <ul style="list-style-type: none"> • Examine any severance payments made to employees as part of exit settlements, especially where senior ex-staff are the recipients, to ensure a principled approach has been followed in reaching the settlement. • Ensure the disclosures in the Annual Report are appropriate.
Audit Committees			
As part of last year’s audit, we reviewed the Audit Risk Management Sub-Committee’s (ARMS) terms of reference. Based on that review and our attendance at ARMS meetings and interaction with members, we considered that ARMS operates in accordance with the four main principles in the Auditor General’s Audit Committee Guide (the Guide). We understand that Risk Assurance evaluated ARMS (in discussion with	Management control environment.	That there are not appropriate systems and processes to support the Governing Body.	We will follow up on the completing of the self evaluation checklist and the review report.

Area of focus	Relates to	Risks	Audit response
<p>the Chair) and its current practice against the Guide.</p> <p>In addition, we understand that as part of the review process audit committee members will be asked to complete the effectiveness self evaluation checklist.</p>			
Sensitive expenditure			
<p>In February 2007 we published: Controlling sensitive expenditure: Guidelines for public entities (the Sensitive Expenditure Guidelines). The Sensitive Expenditure Guidelines offer three levels of guidance:</p> <ul style="list-style-type: none"> • the principles applicable to sensitive expenditure; • an organisational approach, embracing leading from the top of the organisation and drawing up suitable sensitive expenditure policies and procedures; and • audit expectations in relation to specific types of sensitive expenditure. 	<p>Performance, waste and probity.</p> <p>Legislative compliance.</p>	<ul style="list-style-type: none"> • Inefficient acquisition or use of resources. • Inappropriate behaviour of Council staff. • Non-compliance with laws and regulations. 	<p>Our audit approach will be to</p> <ul style="list-style-type: none"> • review the Council's policies and procedures against best practice; and • test a sample of transactions to ensure the Council is complying with its own policies and procedures. • communication of policies and behavioural expectations to staff; • training procedures; and • application of policies through testing staff

Area of focus	Relates to	Risks	Audit response
			<p>expenses</p> <p>We will liaise with the Council's Risk Assurance team to avoid any duplication of effort.</p> <p>Sensitive areas of expenditure focused on in 2009/2010 include:</p> <ul style="list-style-type: none"> • Senior management remuneration and expenditure. • Payments to/from related parties. • Severance and redundancy payments and associated disclosures. • Expense claims and travel expenses.
Conflicts of interest			
<p>Conflicts of interest remain a high profile area of probity concern.</p> <p>During 2007 the Auditor-General published <i>Managing conflicts of interest: guidance for public entities</i>, which is intended for anyone who works with or for a public entity. It</p>	<p>Probity, waste and performance</p>	<p>A conflict of interest that is not well managed can create significant legal and reputational risks for the Council.</p>	<p>In the course of our normal audit work we will remain generally alert for potential conflicts of interest.</p>

Area of focus	Relates to	Risks	Audit response
<p>explains how to understand conflicts of interest in a public sector context, and how to identify, disclose, and manage them.</p> <p>It sets out the Office of the Auditor General (OAG)'s view of what constitutes good practice in the public sector. It considers both the legal and ethical dimensions of conflicts of interest, and includes a series of case studies.</p>			

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2.3 Follow-up of findings from the previous year

We will check the Council's progress towards addressing the findings we raised in our 30 June 2009 management report.

We are aware that progress is monitored and reported through the Audit Risk Management Sub-Committee's quarterly. We will follow up any outstanding matters at each visit.

3 Legislative compliance

As part of the Auditor-General's mandate, we carry out a review of legislative compliance. This review is limited to obtaining assurance that you have complied with significant legislative requirements. It does not cover all of the Council's legislative compliance requirements.

Our approach to this will involve assessing the systems and procedures that the Council has in place to ensure compliance with significant legislation. We will also complete our own checklists covering the key requirements of significant legislation.

Our assessment of legislation that includes requirements applicable to the Council from an audit perspective are:

- Local Government Act 2002

- Local Government (Rating) Act 2002

4 Reporting of misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the entity's financial statements.

During the course of our audit we will provide timely communication to an appropriate level of managers on details of any misstatements we identify. We will ask for each misstatement to be corrected in the Council's financial statements. Where your management chooses not to correct a misstatement, we will seek from them a written representation setting out the reasons why this correction will not be made.

Before we sign our audit opinion, we will also inform the Chief Executive about each uncorrected misstatement, management's representation for these misstatements, and the effect of each misstatement, as well as the accumulated effect of all uncorrected misstatements, on our audit opinion.

All uncorrected misstatements will have to be included in the letter of representation that you provide to us as part of the process for signing the financial statements.

We will also include all uncorrected misstatements in our management letter to the Chief Executive.

5 Audit of exempt CCOs

We have been asked by the Auditor-General to advise them on the Council's use of Section 7 of the LGA 2002. Under section 7 of the LGA 2002, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.

6 Annual Report adoptions and public release dates

We have been asked to note the dates that the Council adopts its Annual Report, and makes the full and Summary Annual Report available to the public. This information will be forwarded to the Office of the Auditor-General.

7 Reviews on behalf of the Auditor-General

As in previous years, we will undertake a number of reviews on behalf of the Auditor-General on various issues across all councils as detailed in section 2.2.

Prior to advising the Auditor-General of the findings from this work, we will discuss them with your staff. A summary of those findings will be included in the

management report addressed to you at the end of the audit.

8 Our interaction with internal audit

To deliver the most effective audit approach and to avoid duplication of effort, we will take into account any work that is scheduled to be covered by the Risk Assurance plan.

We have had, and will continue to have, regular meetings with Risk Assurance to ensure our audit programmes complement each other and that there is no unnecessary duplication of audit effort.

We will consider if the internal audit function complies with Auditing Standard AS604 – *Reliance on Internal Audit*. The extent to which we can rely on the work of internal audit depends on the quality and independence of their work. It also relies on the timely availability of relevant reports and supporting workpapers.

We also note the Council are using a computer assisted system to assist in analysing data in various financial systems such as account payables, payroll, journals etc. We will assess any impact this may have on our procedures.

Where we choose to rely on the work of Risk Assurance, we remain required by the auditing

standards to further evaluate and test the work of your internal audit in order to confirm its adequacy.

We have worked with Risk Assurance to develop a draft working protocol setting out the proposed working relationship between Risk Assurance and ourselves.

9 Liaison arrangements

9.1 Communication with the Council

Open, honest, timely communication between parties is fundamental to the audit process. We are committed to maintaining effective and open communication with the Council.

Our communication is based on a “no surprises” policy, which involves the discussion and resolution of issues as they arise to minimise disruption to the Council’s operations.

Refer to our communication plan attached in Appendix 1.

9.2 Expectations

For our understanding of the respective expectations relating to the audit, please refer to Appendix 2.

In particular, to enhance the effectiveness and efficiency of our audit, we would appreciate a

detailed workpaper file substantiating the build-up of financial statement account balances and disclosures.

Where necessary (for example, creditor accruals), the general ledger balances should be broken down into further detail clearly showing the main transactions/balances.

10 Audit logistics

10.1 Audit personnel

We have structured our audit team to ensure an appropriate level of skill, experience, sector knowledge, level of continuity on the audit, and to provide the necessary service to the Council. The team members on the audit are:

Appointed Auditor	Andy Burns
Peer Standards Review Director	Scott Tobin
Audit Manager	Thor Gudjonsson
2 nd Manager	Desikan Naidoo
Audit Supervisor	Ingrid Eichler
Tax Director	Jason Biggins
IS Manager	Jan Venter
Specialist Assurance	Martin Richardson

10.2 Audit timing

Our planned timetable is set out in Appendix 3.

10.3 Professional fees

Our estimated audit fee for the year ending 30 June 2010 is \$234,000 plus disbursements (GST exclusive). This is in keeping with our letter of undertaking dated 22 July 2008.

This fee is an estimate and assumes that the expectations set out earlier in this letter will be met. If this does not occur or the scope of the audit changes, we will need to discuss this further with you and revise the fee accordingly.

We propose to bill you as follow:

Month	Amount
February 2010	\$20,000
March 2010	\$50,000
June 2010	\$50,000
July 2010	\$30,000
August 2010	\$40,000
September 2010	\$44,000
Total fee	\$234,000

Appendix 1: Communication plan

We will communicate with you as specified in this plan – for the following purposes and at the times indicated.

Communication with	Communication will be provided by	Purposes	Timing
Chief Executive.	Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Thor Gudjonsson 	<ul style="list-style-type: none"> • To confirm major areas of audit focus and to discuss audit arrangements. • To discuss major findings from the audit process and add value to the Council through discussion of current and emerging sector issues. • To discuss emerging issues that may affect the Council's operations, as they arise. 	<ul style="list-style-type: none"> • Quarterly, and as required.

Communication with	Communication will be provided by	Purposes	Timing
Audit and Risk Management Subcommittee	Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Thor Gudjonsson 	<ul style="list-style-type: none"> • To establish major areas of audit focus and discuss audit arrangements. • Discussion of emerging strategic, operational, accounting or financial issues facing the Council. • Consider timely action to resolve emerging issues and proactive identification and discussion of significant issues to ensure no surprises. • 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. 	<ul style="list-style-type: none"> • Attendance at every Audit and Risk Management Subcommittee meeting. • Prior to signing the audit opinion. • As required, to discuss emerging issues. • As required, for assistance.

Communication with	Communication will be provided by	Purposes	Timing
Chief Financial Officer and/ or Manager, Financial Accounting and/ or Manager, Strategy Planning and Performance	Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Thor Gudjonsson 	<ul style="list-style-type: none"> • To discuss major areas of audit focus. • Discuss operational and financial issues affecting the Council. • Discuss audit issues and obtain an operational perspective. • Identify and resolve financial reporting issues arising. • Monitor and manage audit process against agreed deliverables and timeframes. 	<ul style="list-style-type: none"> • During the course of the planning and interim visits. • Throughout the course of the interim and final audits as required. • Bi-monthly, as required.
Various Senior Management Team members	Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Thor Gudjonsson • Desikan Naidoo 	<ul style="list-style-type: none"> • Discuss key and emerging issues and developments affecting the Council. • To provide appropriate advice as required. 	<ul style="list-style-type: none"> • Quarterly or six monthly and as required.
Director Risk Assurance	Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Thor Gudjonsson • Desikan Naidoo 	<ul style="list-style-type: none"> • Discuss audit arrangements. • Discuss emerging issues that may impact on the Council's operations, as they arise. • To discuss internal audit activities and findings. • Discuss major findings from the audit process. 	<ul style="list-style-type: none"> • During planning discussions. • Quarterly, as required. • After completion of audit work but prior to reporting finalisation.

Communication with	Communication will be provided by	Purposes	Timing
Knowledge Solutions Business Unit Manager	Will be conducted by: <ul style="list-style-type: none"> • IT staff member 	<ul style="list-style-type: none"> • Discuss emerging Information Systems and Information Technology issues that may impact on the Council's operations, and service delivery. • To discuss Information Systems Strategic Planning. • Discuss major findings from the audit process and add value to the Council. 	<ul style="list-style-type: none"> • During planning discussions. • After completion of work but prior to reporting finalisation.

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Appendix 2: Expectations

Meeting the Council's expectations

Our aim is to deliver a public sector audit that adds value to the Council and fulfils the Auditor-General's legislative responsibilities. We anticipate that you will have the following expectations. We have listed these and how we intend to respond.

Your expectations	Our response
Audit New Zealand will maintain a close working relationship with the Council's senior management team, the CFO, and Manager, Financial Accounting, while retaining independence, to ensure that emphasis is placed on significant issues.	Audit New Zealand will maintain communication with the senior management team to ensure mutual understanding of each other's roles and responsibilities. This will be achieved through our communication plan. We will raise with management, in a timely manner, those issues that may have a significant effect to allow either controlled changes and corrections or management action if necessary.
Audit New Zealand will have an audit team that is knowledgeable about the Council's operations. Additionally, members of our audit team will have experience with the current systems in use and will develop knowledge of any new systems introduced.	Audit New Zealand will consider continuity of staff who are familiar with the operations and systems of the audit before any rotation of staff.
Attend Audit Committee and relevant Council meetings.	Both the Audit Director and Audit Manager will attend and participate in these meetings.
Audit New Zealand will maintain a close working relationship with the internal audit team, ensuring (where appropriate) that Audit New Zealand's approach is integrated with the audit programme.	We will work with the Manager, Risk Assurance, to ensure, where appropriate, duplication of effort is reduced to a minimum. Meetings will be held on a regular basis to discuss progress of the audit.

Your expectations	Our response
Audit New Zealand will provide guidance on emerging sector accounting and auditing issues, and provide information on good practice examples observed in the public sector.	We will provide up-to-date information through regular meetings and organised information sessions. We will work with the Council on the Annual Plan, LTCCP amendments and major projects or initiatives that have an accounting and auditing impact.
Audit New Zealand will provide management with the opportunity to provide formal and informal feedback during the audit process.	In addition to our formal client surveys (which we conduct on an ongoing basis), we welcome your feedback during the audit process.

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Audit New Zealand's expectations

The following list indicates our expectations of the Council, and how we plan to meet these expectations.

Our expectations of the Council	Our reasons, and what we need from you
We expect that you will provide us with comprehensive knowledge of the business.	<p>Our audit approach requires us to have a thorough knowledge of your business to ensure that we add value to the Council. Therefore, it is imperative that we receive updates on developments in the Council, including major strategies, projects, initiatives, operational and business processes beyond the core finance areas.</p> <p>It is our expectation that the interaction outlined in our communication plan (see Appendix 1) will provide the basis for regular updates from the senior management individually, or as a group, on major developments and strategies.</p>
We expect that you will prepare important information by certain dates.	<p>As part of our audit planning process, we will request certain schedules, reconciliations, and reports, to be available for audit by certain dates. The format of the schedules and reports, and dates when this key information will be available, will be mutually agreed to ensure that the audit can be completed on a timely basis. This will be agreed with the Manager, Financial Accounting.</p> <p>We will work with the Council to ensure quality variance explanations (comparing this year's actual results with last year's results and also against the mains budget) are provided.</p> <p>Appendix 3 provides the agreed timetable for the key milestones of our audit.</p>

Audit New Zealand's reporting expectations

The following list indicates our expectations of our reporting to you, and how we will achieve our reporting.

Our reporting expectations	What we will do
We will issue an independent audit report on the financial statements for the year ending 30 June 2010.	We will work closely with the Council to plan and progress the audit of the financial statements. Regular meetings will be held with the Chief Financial Officer and the Manager, Financial Accounting to discuss accuracy and disclosure issues for the financial statements periodically during the year. An independent audit report will be issued in keeping with the agreed reporting time frame (see Appendix 3).
We will report to the Chief Executive and management on the results of the audit, including any identified areas where improvements in business processes and internal controls would benefit the Council.	We will issue our draft management report within two weeks of completing our audit fieldwork. The final management report will be issued after all matters have been discussed and management comments have been incorporated as appropriate. The focus of the management report will be on current audit issues. The management report will also identify those issues already cleared and the progress made on all other issues previously identified.
We will advise management informally of matters that are not material but where opportunity for business improvement exists.	Our audit team will liaise with the Council's staff about less significant matters where opportunity for improvement exists.
We will give you advance notice of new and developing accounting issues and the Auditor-General's approach to those matters.	Our audit team and the Council's representatives will meet regularly to discuss and resolve matters that could potentially have an effect on accounting procedures and/or affect the preparation of financial statements.
Presentation of key information	As part of our audit planning process we will request certain schedules, reconciliations and reports, to be available for audit by certain dates. The format of the schedules and reports, and dates when this key information will be available, is then mutually agreed in order to ensure that the audit can be completed on a timely basis. This will be agreed with the Manager Strategy, Planning and Performance and the Chief Financial Officer or Manager, Financial Accounting.

Appendix 3: Timing

We will agree the timetable for each year's annual audit of the Council during our initial planning phase. Our audit is planned to allow us to complete our audit fieldwork and provide the Council with a signed audit opinion in keeping with the agreed time frame. The following list is the timetable that we have agreed with you. Please note these milestones and dates.

Our agreed milestones	Date
First interim audit visit	8 March 2010
Second interim audit visit	31 May 2010
Final audit visit commences (key balances including provisions and plant property and equipment to be available to be audited from this date)	26 July 2010
Draft Annual Report and financial statements received	2 August 2010
Provisional clearance for Audit and Risk Management Subcommittee	9 August 2010
Audit and Risk Management Subcommittee	16 August 2010
Audit clearance required	18 August 2010
Audit Opinion issued/Council adopts Annual Report	25 August 2010
Draft Governing Body report	25 August 2010
Draft CEO Report	25 August 2010
Summary Annual Report received	3 September 2010
Summary Annual Report Opinion issued	10 September 2010