

3 March 2011 - DRAFT

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

Your worship,

Audit Engagement Letter

This letter is issued on behalf of the Auditor-General. The Auditor-General is the statutory auditor of Wellington City Council (the Council) under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audit of the financial statements and performance information of the Council, on her behalf, for the years ending 2011, 2012 and 2013.

The purpose of this letter is to outline to you:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities in the annual audit of the auditor and the Council.

The terms of the audit engagement are set out below.

These terms will remain effective until a new audit engagement letter is issued.

Objectives of the Annual Audit

The objectives of the annual audit are:

- to provide an independent opinion on the Council's financial statements and performance information; and
- to report on other matters relevant to the Council's financial and other management systems, which come to our attention and are material.

Our audit involves performing procedures to test the information presented in the financial statements and performance information. We assess the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in reported data;
- reviewing significant estimates and judgements made by the Council;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the test nature and other inherent limitations of the annual audit, together with the inherent limitations of any accounting and internal control systems, there is an unavoidable risk that some material misstatements may remain undiscovered.

We evaluate the overall adequacy of the presentation of information in the financial statements and performance information. We also read other accompanying information, to identify whether there are material inconsistencies with the audited financial statements and performance information.

Reports arising from the annual audit

The reports arising from the annual audit are:

- the audit report attached to the financial statements (the main report); and
- a governing body report provided to the Council, and a minor issues report provided to the chief executive.

The Auditor's report on the financial statements and performance information

The main report arising from the annual audit is an independent opinion to readers on whether the annual report prepared by the Council fairly reflects the Council financial position, the results of its operations and cash flows, and its service performance achievements for the year.

The audit opinion provides readers with reasonable audit assurance on whether the financial statements are free of material misstatements and comply with generally accepted accounting practice in New Zealand.

The audit opinion does not:

- provide a guarantee of absolute accuracy in the financial statements;
- express a view on the adequacy of the Council's accounting and internal control systems or the effectiveness and efficiency with which the Council has conducted its affairs; or

- guarantee the Council's future viability.

Provision of a governing body report to the Council

A secondary, but nonetheless important, report arising from the annual audit is the governing body report. This is provided to the Council and communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. For example, we will report:

- any weaknesses in the Council's accounting and internal control systems that come to our notice that we consider are of relevance to the Council, and provide recommendations for improvement;
- progress against our recommendations made in prior years; and
- uncorrected misstatements (that are not trivial) noted during the audit.

We will also provide a minor issues letter to the Chief Executive. An interim report will also be provided summarising our findings from the interim stage of the audit.

Materiality

Materiality is one of the main factors affecting our judgement on the areas to be tested and the timing, nature and extent of the tests and procedures we will perform during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error. Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. We may choose to revise our assessment of materiality at any time during the audit, before signing the audit report.

If we find material misstatements that are not corrected, we will refer to them in the audit opinion. Our preference is for the Council to correct any material misstatements and avoid the need for us to refer to them in the audit opinion.

The Auditing Standards applied when conducting the Annual Audit

We ensure that the annual audit is performed in accordance with the Auditing Standards published by the Auditor-General (the "Auditing Standards"), which incorporate the New Zealand Auditing Standards. The Auditing Standards can be obtained from the Office of the Auditor-General web site www.oag.govt.nz.

The Auditing Standards have two main areas of requirement relating to:

- planning, performing and reporting on the audit; and
- being alert to matters of performance, authority, waste and probity.

Planning, performing and reporting on the audit

The Auditing Standards require us to plan and perform the annual audit so as to obtain all the information and explanations which we consider necessary in order to obtain reasonable assurance that the financial statements and performance information do not have material

misstatements, whether caused by fraud or error. We will also evaluate the overall adequacy of the presentation of information in the financial statements and performance information.

Matters of performance, authority, waste, and probity

The annual audit also requires us to be alert to:

- Performance – Has the Council undertaken its activities in an effective and efficient manner?
- Authority – Has the Council carried out its activities, used its resources, and fulfilled its accountability requirements, in accordance with the authority granted by Parliament and all other relevant directions?
- Waste – Has the Council obtained and applied its resources in an economical manner? Is any public money being wasted?
- Probity – Is the Council meeting Parliament's and the public's expectations of appropriate standards of behaviour in the public sector?

Our requirement to remain independent

It is essential that we remain both economically and attitudinally independent of the Council. This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council, other than the annual audit. We can accept certain types of other engagements, subject to the requirements of the Auditing Standards.

Any such other engagements must be the subject of a separate written arrangement between the Council and us.

Responsibilities of the Council

General responsibilities

The Council's responsibilities extend to all resources, activities, and entities under its control - as the term "control" is defined under generally accepted accounting practice. We expect that the Council will ensure, in respect of the resources, activities, and entities under its control, that:

- it operates effectively and efficiently;
- it complies with laws, regulations, and contractual requirements;
- waste is minimised; and
- its business is conducted with regard to probity.

The Council should have and apply documented policies and procedures to support its general responsibilities. In addition, the Council should regularly monitor performance against its objectives in these respects.

Specific responsibilities

The Council has certain specific responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in the attachment to this letter. We assume that members of the Council are familiar with those responsibilities and, where necessary, have obtained advice about them.

Responsibilities of the Auditor

In addition to the responsibilities set out in the body of this letter, we have certain specific audit responsibilities relating to the financial statements and performance information, financial management and accountability. These specific responsibilities are also set out in the attachment to this letter.

General matters

Statutory reporting deadlines

In order to assist you to meet your statutory reporting deadlines, we are dependent on receiving, within agreed timeframes, your financial statements and performance information. This should:

- comply with Section 111 of the Local Government Act 2002; and
- be ready for audit.

It is important that we work together to meet statutory reporting deadlines. We will agree a timetable with you for each audit to ensure that the statutory reporting deadline is met.

Workpapers

The workpapers we produce in carrying out the audit are our property. Workpapers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.

Liaison

If you have any questions about the annual audit generally, or have any concerns about the quality of service you are receiving, you should contact us as soon as possible. If after contacting us you still have concerns you should contact the Director of Audit Appointments at the Office of the Auditor-General on 04-917 1500.

Health and safety

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for auditing staff. We therefore ask that you clearly inform Audit New Zealand staff visiting your premises what you require of them in relation to health and safety, particularly safety equipment, emergency evacuations and the reporting of accidents and hazards.

Audit New Zealand employees have been made aware of their responsibilities to report any hazards, accidents or unsafe action to both your Health and Safety representative and to Audit New Zealand's Human Resources representative.

Access to documents and information

We look forward to the full co-operation of the Council’s staff and we trust that they will make available whatever records, documentation and other information are requested in connection with our audit.

Your acknowledgement of the terms of the engagement

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to myself.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely,

Andy Burns
Director
On behalf of the Auditor-General

The terms of this engagement are acknowledged by the Mayor on behalf of the Council.

Signed

Celia Wade-Brown
Mayor

Date

Respective responsibilities of the council and the auditor

Responsibilities of the Council	Responsibilities of the auditor
<p>Responsibility in respect of the financial statements</p> <p>The Council is required by section 111 of the Local Government Act 2002 to prepare financial statements that comply with generally accepted accounting practice in New Zealand. The Council is also required to prepare performance information. These financial statements and performance information must fairly reflect the financial position of the Council's results of its operations and cash flows, and its service performance achievements.</p> <p>The Council must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>The Council is required, by section 98(1) of the Local Government Act 2002 to prepare an audited annual report containing the information required by Part 3 of Schedule 10 of that Act. Section 99 of the Local Government Act 2002 requires the annual report to be audited. In order to comply with section 98(3) of the Local Government Act 2002, the audited audit report must be adopted by the Council within 4 months after the end of the financial year. It is normal practice for the Council to set its own timetable in order to comply with statutory reporting deadlines.</p>	<p>Our responsibilities are to conduct an annual audit, on behalf of the Auditor-General, and to form an opinion on whether the Council's financial statements comply with generally accepted accounting practice in New Zealand. We are also responsible for forming an opinion on the performance information. We form an opinion on whether these financial statements and performance information fairly reflect the Council's financial position, the results of its operations and cash flows, and its service performance achievements.</p> <p>We will also read other accompanying information to the financial statements and performance information to identify whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>As part of our audit, we will ask the Council for written confirmation concerning representations made to us in connection with the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern assumption is appropriate; • all applicable legislative, regulatory and contractual requirements have been complied with; • all material transactions have been included in the financial statements; and • uncorrected misstatements noted during the audit are immaterial to the financial statements. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p>

Responsibilities of the Council	Responsibilities of the auditor
<p>Responsibility in respect of the accounting records</p> <p>The Council is responsible for maintaining accounting records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of the Council ; • enable the Council to monitor the resources, activities, and entities under its control; • enable the financial position of the Council to be determined with reasonable accuracy at anytime; • enable the Council to prepare financial statements and performance information that comply with the Local Government Act 2002 (and which allow the financial statements and performance information to be readily and properly audited); and • are in accordance with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable audit assurance as to whether the underlying records are reliable and adequate as a basis for the preparation of the financial statements and performance information.</p> <p>Where, in our opinion, the accounting records are not sufficiently reliable or accurate to enable the preparation of the financial statements and performance information, and we are unable to obtain the evidence we require by other means, we will need to consider the effect on our audit opinion.</p>
<p>Responsibility in respect of accounting and internal control systems</p> <p>The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in the Council's accounting and internal control systems. We review the accounting and internal control systems only to the extent required to enable us to express an opinion on the financial statements and performance information.</p> <p>We will report to the Council separately any weaknesses in the Council's accounting and internal control systems, provided that the weaknesses come to our notice and we consider that they may be of relevance to the Council. Any report will provide constructive recommendations to assist you and your management team to address any weaknesses in the Council's accounting and internal control systems.</p>

Responsibilities of the Council	Responsibilities of the auditor
<p>Responsibility in respect of prevention and detection of fraud and error</p> <p>The Council is responsible for the prevention and detection of fraud and error through the application of internal control systems (appropriate to the size of the Council) supported by written policies and procedures.</p> <p>In the event of suspected fraud, we expect the Council to report the matter to the appropriate law enforcement agency, which will decide whether or not proceedings should be instituted for a criminal offence. We expect to be informed immediately of any suspected fraud. We are prepared to give guidance as to how the matter should be handled.</p>	<p>We will design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. Although we will review the accounting and internal control systems only to the extent required for us to express an opinion on the financial statements and performance information, we will:</p> <ul style="list-style-type: none"> • assess the effectiveness of internal control systems and procedures by which fraud and error are prevented and detected within the Council ; and • report to the Council weaknesses in internal control systems and procedures related to monitoring the prevention and detection of fraud and error, provided that the weaknesses come to our notice and we consider that they could be of relevance to the Council . <p>As part of our audit, we will ask the Council for written confirmation that it has disclosed to us all known instances of fraud or suspected fraud affecting the Council.</p> <p>If we become aware of the possible existence of fraud – whether through the application of audit procedures, advice from the Council's management, or any other means - it is our responsibility to communicate this to the Council with the expectation that action will be taken to inform the appropriate law enforcement agency.</p>
<p>Responsibility in respect of compliance with laws and regulations</p> <p>The Council is responsible for ensuring that systems, policies and procedures (appropriate to the size of the Council) are in operation that will ensure that all applicable legislative, regulatory and contractual requirements that apply to the activities and functions of the Council are complied with. Such systems, policies and procedures should be documented.</p>	<p>We will assess during the course of audit work whether the Council has systems, policies and procedures in operation (to the extent that such systems, policies and procedures are appropriate – given the size of the Council) to ensure compliance with those legislative, regulatory and contractual requirements that we consider to be relevant and material to our audit role. We will specifically perform audit tests to assess whether the Council has complied with the following:</p> <ul style="list-style-type: none"> • Local Government Act 2002; • Local Government (Rating) Act 2002; • Local Authorities (Members' Interests) Act 1968 (members' compliance only).

APPENDIX TWO

Responsibilities of the Council	Responsibilities of the Auditor
	<p>The way in which instances of non-compliance that come to our attention are reported will depend on the significance. All significant instances of non-compliance will be reported to the Council and to the Auditor-General.</p> <p>We will also report to the Council weaknesses that we observe in internal control systems, policies and procedures relating to monitoring compliance with laws, regulations, and contractual requirements, where relevant.</p>
<p>Responsibility to establish and maintain appropriate standards of conduct and personal integrity</p> <p>The Council should at all times take all practicable steps to ensure that its members and employees maintain high standards of conduct and personal integrity. The Council's expected standards of conduct and personal integrity should be documented in a "Code of Conduct" and, where applicable, be supported by policies and procedures.</p> <p>The Council's expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the local government sector. The Council is part of a group and it is expected that a common "Code of Conduct" will apply to all entities within the group.</p>	<p>During the audit we will have regard to whether the Council maintains high standards of conduct and personal integrity. Specifically, we will remain alert for significant instances where members and employees of the Council may not have acted in accordance with the standards of conduct and personal integrity that is expected of them [as documented in a "Code of Conduct" and, where applicable, supported by policies and procedures.]</p> <p>The way in which instances that come to our attention are reported will depend on the significance. All significant instances of departure from expected standards of conduct and personal integrity will be reported to the Council and to the Auditor-General.</p> <p>The Auditor-General, on receiving our report, may, at her discretion, and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with the Council.</p>

Responsibilities of the Council	Responsibilities of the Auditor
<p>Responsibility in regard to conflicts of interest and related parties</p> <p>The Council should have policies and procedures in place which require its members to carry out their duties free from bias. It should also have specific processes in operation to inform members of their responsibilities under the Local Authorities (Members' Interests) Act 1968.</p> <p>The Council should also maintain a full and complete record of members' voluntary disclosures of related parties and their interests. While it is the individual Council member's responsibility to comply with the requirements of the Members' Interests Act, it is the responsibility of the Council to record and disclose related party transactions in the financial statements – in accordance with generally accepted accounting practice.</p>	<p>In order to help determine whether members have carried out their duties free from bias, we will review information provided by the Council that identifies related parties and will be alert for other material related-party transactions. For related-party transactions that come to our attention, we will check that the Council has complied with any statutory requirements relating to conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements.</p>
<p>Responsibility relating to publishing the financial statements and audit report on a web site</p> <p>The Council is responsible for the electronic presentation of the financial statements and financial information on the Council's web site –including ensuring that the security and controls over information on the web site are sufficient to maintain the integrity of the data presented.</p> <p>If the Council intends to publish or reproduce the financial statements and financial information, together with the audit report, electronically on an internet web site, the Council must, in advance of the publication:</p> <ul style="list-style-type: none"> • provide us with a draft of such document to read; and • obtain our approval for inclusion of the audit report. <p>Where the audit report is reproduced in any medium, the Council should present the complete financial statements, including performance information and notes.</p> <p>Where the Council intends to post any new material not previously read by us, the Council is required to advise us in advance of the new material being posted.</p>	<p>We will perform audit procedures to satisfy ourselves that the information the Council intends including on the Council's web site is consistent with the audited financial statements and financial information and that the audit report will not be inappropriately associated with any unaudited information. The examination of the controls over the electronic presentation of audited financial statements and financial information, and the associated audit report, on the Council's web site is beyond the scope of the annual audit.</p> <p>We will modify the audit report published on the web site in accordance with the Auditor-General's general policy on the publication of financial statements and performance information and related audit reports on web sites.</p> <p>We will review the material upon initial posting and upon notification from the Council when new material is posted on the web site. Ongoing monitoring of the material is not performed by us.</p>