

Planned Audit Approach
Wellington City Council
for the year ending 30 June 2009

Planned audit
approach

Audit Memorandum 2008/09

1 Introduction

The Auditor-General is the statutory auditor of the Council under section 14 of the Public Audit Act 2001. The Auditor-General has appointed 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 Wellington City Council (the Council), on his behalf, for the year ending 30 June 2009.

The terms of the audit engagement and respective responsibilities between the auditor and the Council are outlined in our audit engagement letter dated 21 February 2008.

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Legal status and powers of local authorities

One of the purposes sought to be achieved by the 2002 Local Government Act was to redefine the powers of local authorities. This was referred to in the development of the new Act as giving local authorities “a power of general competence”.

The balance to this broadening in the powers of local authorities is increased transparency

and accountability. Part 6 of the Act prescribes processes for decision making, consultation, planning and reporting. It also sets out the framework for financial management by local authorities. This supports the principles specified in section 14.

- Openness and transparency.
- Diversity of communities.
- Intergenerational equity.
- Impact of decisions on economic, social, environmental and cultural well-being.
- Maori participation in local authority decision-making.
- Collaboration and co-operation with other local authorities.

3 The role of the auditor in the accountability framework of local government

The Local Government Act 2002 sets out the information that local authorities and council controlled organisations are required to have audited. This is:

- a local authority's compliance with the content requirements applying to the annual report and statements required to be made by the local authority in the annual report;

- a local authority's summary of its annual report;
- a local authority's expenditure on advertising of a reorganisation proposal;
- a council-controlled organisation's financial statements and performance information.
- a local authority's draft Long Term Council Community Plan (LTCCP);
- a local authority's adopted LTCCP; and
- a local authority's amendment to the LTCCP.

This audit memorandum covers the audit of the Council's annual report and summary of its annual report.

As well as the Auditor-General's functions under the Local Government Act 2002, the Auditor-General may at any time examine under section 16 of the Public Audit Act 2002:

- “a the extent to which a public entity is carrying out its activities **effectively** and **efficiently**;
- b a public entity's **compliance** with its statutory obligations;
- c any act or omission of a public entity, in order to determine whether **waste** has resulted or may have resulted or may result; and
- d any act or omission showing or appearing to show a lack of **probity** or financial prudence by a public entity or

one or more of its members, office holders, and employees.”

This planning document sets out the relevant issues and our proposed audit approach to the audit of the above items which are related to the Council’s annual report.

4 Our audit approach

Our audit process focuses on key risk areas based on a thorough understanding of the Council’s business. Our identification, analysis and planned audit response to each key risk has been developed in consultation with the senior management team.

Audit New Zealand’s public sector audit approach is designed to give the Council, the public and the Auditor-General assurance and confidence that:

- core financial and non-financial processes and systems are in place, and are operating effectively and efficiently to enable the Council to deliver on its strategic goals;
- as new policies, procedures, systems and processes are designed, developed, tested and implemented, the Council’s core financial and non financial systems continue to operate effectively and efficiently;
- the Council has complied with significant legislation and given due consideration to issues of waste; and
- the Council has fairly reported its financial and non-financial performance.

In summary our public sector audit will provide assurance that the Council has effective and efficient platforms which provide accurate information for use by management in decision-making.

By its nature a public sector audit has a significantly wider scope than the traditional private sector audit, which is focused primarily on providing an audit opinion on the financial statements.

Audit New Zealand's approach reflects these added responsibilities that the public sector audit is required to fulfil under the Public Audit Act 2001.

Our risk identification process and planned audit response to those risks reflects the key concerns of the Auditor-General, which are central to the

way in which all auditors of public entities should undertake any work on his behalf.

Those key concerns are:

- **Authority** Have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?
- **Performance** Have the activities undertaken been in accordance with Parliament's intentions?
- **Waste** Have resources been obtained and applied in an economical way?

- **Probity** Are entities meeting Parliamentary and public expectations of an appropriate standard of behaviour in the public sector?
- **Accountability** Has the Council given full and accurate account of their activities and of their compliance with Parliament's intentions through the annual reporting cycle?

Public sector audit risk must therefore be viewed in two contexts:

- **Financial statement materiality.**

- **Wider audit mandate materiality** (performance, waste, probity and authority).

4.1.1 Financial statement materiality

The risk that we may unknowingly issue an inappropriate audit opinion. In accordance with generally accepted practice, our approach to the audit of the financial statements will ensure we hold audit risk to 5% (ie, achieve 95% confidence that the financial statements do not contain a material error).

4.1.2 Wider audit mandate materiality

The risk that we either:

- **form an incorrect conclusion about the appropriateness and robustness of internal controls in place to mitigate**

performance, waste, probity and authority risks;

- fail to detect a significant performance, waste, probity or authority issue during the normal course of our audit and report it through to both the Council and the Office of the Auditor-General (OAG).

“Significant” means either a transaction or issue which, in the judgement of Audit New Zealand, may affect the form of either the audit opinion or any other report, to either the OAG or the Council.

Key sources of information used to perform the risk assessment include:

- 2006–2016 LTCCP.
- Previous audit results.

- Review of Annual Plan.
- Review of Internal Audit reports.
- Review of other strategic reports.
- Discussion and confirmation of risks, with the Chief Executive, senior management and relevant staff.

5 Delivery of Council’s strategic objectives

5.1.1 Significant issues impacting on the audit

Annual audit

We are required to issue an independent audit report on the Council’s financial statements.

We have identified the following significant matters that impact on our audit approach, in discharging this obligation:

- Financial statements.
- Performance framework.
- Revaluation of property, plant and equipment.
- Asset Management Plans.
- Review of Annual Plan.
- Long Term Council Community Plan.

5.2 Council specific issues and audit approach

Based on our understanding of the Council's business and discussions held to date with members of the Council's senior management team, we have identified the following areas that will form the basis of our audit focus for the 2008/09 audit.

- Organisation Strategy
- Housing development
- Facilities Maintenance Aggregation Project

5.3 Sector issues and audit approach

As in previous years, we will undertake a number of reviews on various issues across all Councils. The areas for 2008/09 are outlined below:

- Revaluation of property, plant and equipment
- Performance framework
- Information systems
- Performance, Probity and Waste

- Employee severance payments
- Accounting for leaky homes
- Development contributions
- Audit committees
- Conflicts of interest
- Funding arrangements and procurement

Key issues	Impacts on	Risks	Audit response
Council specific issues and audit approach			
Organisational strategy			
<p>The Council has rolled out an Organisational Strategy which consists of an integrated programme of projects and activities that will be completed over the next 5 years. The aim is to position the Council for future challenges.</p>	<ul style="list-style-type: none"> • Management control environment • Service levels and delivery of service • Financial sustainability • Levels of rates and debts 	<ul style="list-style-type: none"> • Insufficient capability and capacity to achieve vision. • Savings not realised <p>Key challenges include:</p> <ul style="list-style-type: none"> • Reviewing/redesigning systems and processes to improve efficiency and effectiveness. • Staff reorganisation. • Maintaining service delivery whilst making improvements to support processes. • Ensuring core financial and non-financial systems to operate effectively and 	<p>As part of our audit we will review and assess:</p> <ul style="list-style-type: none"> • management control environment. • key systems of internal control in respect of significant, financial and non-financial reporting systems. <p>We will also review and assess the extent to which the Council’s risk management framework has identified, assessed and treated the capability, culture and service delivery risks arising out of the organisational strategy and change initiatives.</p>

		<p>efficiently.</p> <ul style="list-style-type: none"> • Culture shift. • Staff buy-in. 	
Housing development	•	•	
<p>The Crown will provide Council with financial assistance of \$220 million over the next 10 to 15 years to upgrade its housing portfolio to provide safe, secure housing to a good standard.</p> <p>In return, the Crown requires the Council to agree to various terms and conditions.</p>	<ul style="list-style-type: none"> • Asset management plans 	<ul style="list-style-type: none"> • Project management of construction • Being aware of the potential for contingencies and associated costs, and how these will be funded. • Potential non-compliance with Generally Accepted Accounting Practice. • Asset management practices. • Issues of probity and waste. • Breach of terms and conditions. 	<p>We will discuss with management and make an assessment of the management control environment and practices over:</p> <ul style="list-style-type: none"> • Project management. • Accounting treatment of items which are capital versus operational. • Timely transfer of work-in-progress to the fixed asset register. • Sufficiency of/componentisation of assets in accordance with accounting standards. • Disposal (including the security

			<p>of assets awaiting disposal, method of disposal etc.) and write-off of assets that are no longer in use.</p> <ul style="list-style-type: none"> • Asset management planning. <p>We will monitor the project's progress and provide assistance as required.</p>
Facilities Maintenance Aggregation Project			
<p>The Council identified that bringing together its facility maintenance services into one contract with City Care would provide a range of savings and efficiencies.</p>	<ul style="list-style-type: none"> • Maintenance expenses • Service delivery 	<ul style="list-style-type: none"> • Preferred supplier's capacity and capability. • Asset management planning. • Issues of probity and waste. • 	<p>We will discuss with management:</p> <ul style="list-style-type: none"> • Change management processes. • Assurances obtained to ensure effective implementation of the initiative. • Monitoring of service delivery.
Sector specific issues and audit approach			

Revaluation of property, plant and equipment			
<p>The Council has a three-yearly revaluation cycle. The relevant accounting standard (NZ IAS-16) requires that when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.</p>	<ul style="list-style-type: none"> Integrity of information within the annual report 	<ul style="list-style-type: none"> Material misstatement of asset values and depreciation expense in the annual report. Depreciation not sufficient to cover the replacement cost of assets. 	<p>We will review management’s assessment 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.</p>
<p>The Council intends revaluing its operational land and buildings.</p>	<ul style="list-style-type: none"> Property, plant and equipment 	<ul style="list-style-type: none"> Accounting for the revaluation in accordance with GAAP. 	<p>We will review the valuation and consider whether:</p> <ul style="list-style-type: none"> the underlying assumptions and data are consistent with the Council’s management and knowledge of the asset; <i>and</i> relevant valuation and accounting standards have been complied with (in

			<p>particular NZ IAS 16: <i>Property, Plant and Equipment</i> and VS 3: <i>Valuations for Financial Statements</i>.</p> <p>We will review the valuation prior to the final audit in order to ensure any issues are resolved in a timely manner.</p>
Performance framework			
<p>Following the review of the 2006/16 LTCCP, the Council made significant improvements in terms of relevance, accountability and effectiveness of its performance measures. There is an expectation that there will continue to be ongoing improvements in this area, particularly as part of the 2009/19 LTCCP</p>	<ul style="list-style-type: none"> • Reporting of delivery of levels of service against those outlined in the LTCCP • Quality and integrity of Information within the 	<ul style="list-style-type: none"> • Misstatement of performance information within the annual report • Not communicating clearly whether the Council has delivered on the service levels set out in the LTCCP. • Not reporting fully against the performance measures set out in the LTCCP. • Not fully explaining 	<p>Our focus is on the Council's reporting against the level of service as set out in the 2006/16 LTCCP [Schedule 10 clause 15(e)(i)] and Annual Plan.</p> <p>We will document systems and processes in place to ensure accurate gathering of reporting of results against all performance measures.</p>

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<p>process.</p>	<p>annual report</p> <ul style="list-style-type: none"> • Compliance with reporting requirements of the LGA 2002 	<p>variances in actual performance to that anticipated in the LTCCP.</p>	
<p>Information systems</p>			
<p>We have assessed the Council as dependant upon Information Technology and Information Systems (IT/IS).</p>	<ul style="list-style-type: none"> • Service delivery. • Annual report. 	<ul style="list-style-type: none"> • Technology unable to support the delivery of Council services capability. • Poor IS controls impacting on the integrity of information. • Poorly governed and managed IT Projects. • IT Solutions not meeting the needs of the business. 	<p>Our overall audit approach is to rely on controls, whether IS dependent or other controls, where we can, and to support this reliance with appropriate testing.</p> <p>Transactions are predominantly reliant on IS. The work we will do is focused on:</p> <ul style="list-style-type: none"> • Technology systems/processes (General IT environment). • Review and discussion of IT

			<p>Governance and management processes.</p> <ul style="list-style-type: none"> • Testing or verification of general IT controls. • Evaluating steps to be taken by Council to address issues pertaining to IS raised in prior year management letters. <p>We will maintain a watching brief on developments in the Council’s IS environment and perform additional procedures if necessary.</p>
			<p>Where significant or material IT/IS projects, or projects of high risk exist we will review key elements and aspects of the project.</p> <p>We will use Computer-Assisted Auditing Techniques (CAATs) for routine testing of journals. We will co-ordinate this work with the Council’s Risk Assurance team (refer</p>

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			section 11 below).
Performance, waste and probity			
Each year the Office of the Auditor-General requires auditors to review sensitive areas of expenditure to ensure the Council is adequately addressing its performance, waste and probity risk.	<ul style="list-style-type: none"> • Performance waste and probity • Legislative compliance 	<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 Council’s policies and procedures against best practice; and • test a sample of transactions to ensure Council is complying with its own policies and procedures. <p>We will liaise with Council’s Risk Assurance team to avoid any duplication of effort.</p> <p>Sensitive areas of expenditure focused on in 2008/09 include:</p> <ul style="list-style-type: none"> • Senior management remuneration and expenditure. • Payments to/from related parties. • Severance and redundancy

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			payments (refer to the expanded point on this below) And associated disclosures.
Key issues	Impacts on	Risks	Audit response
Employee severance payments			
<p>Employee settlements in the public sector continue to draw attention.</p> <p>The Auditor-General’s report <i>Severance Payments in the Public Sector</i> discusses the risks facing public sector employers when they make voluntary payments to employees (especially at the end of the employment relationship) and suggests a principled approach to employment settlements, aimed at</p>	<ul style="list-style-type: none"> • Performance waste and probity • Legislative compliance 	<ul style="list-style-type: none"> • Inefficient acquisition or use of resources • Inappropriate behaviour of Council staff • Non-compliance with laws and regulations 	<p>We will:</p> <ul style="list-style-type: none"> • examine a sample of 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.

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<p>reducing those risks. The Local Government Act 2002 requires local authorities to disclose information about “severance payments” made to the chief executive or other staff in the annual report.</p>			
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Key issues	Impacts on	Risks	Audit response
Accounting for leaky home claims			
<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 <i>Dicks v Hobson Swan Construction Limited (in liquidation)</i> case.</p>	<ul style="list-style-type: none"> • Provisions • Contingencies 	<ul style="list-style-type: none"> • Leaky home liabilities not accounted for in accordance with Generally Accepted Accounting Practice. 	<p>As part of the audit we will review the adequacy of the Council's accounting treatment for any leaky home claims. We will follow up issues raised in last year's management report.</p> <p>Under NZ IAS 37, a provision is required to be presented at the total amount of the obligation when the reporting entity is liable for the full amount if a third party (for example, an insurance company) fails to pay for any reason i.e. a gross liability.</p> <p>Our understanding is that Councils have not transferred any part of the weather tightness claim obligations to their insurers, therefore, Councils</p>

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			<p>are subject to the risk of the insurers accepting claim payouts. Consequently, weather tightness provisions are required to be reported at the total amount of the expected claim measured in accordance with NZ IAS 37, with no deduction for amounts expected to be met by insurance.</p>
			<p>Amounts expected to be met by insurance receipts are recognised as an asset (a receivable) when it is virtually certain the insurance payment will be made. We expect Councils will be in a position to assess whether the insurer will meet claims associated with weather tightness claims based on their (and other Councils) past experience with the insurer. The asset will be measured on the basis of the best estimate of the amount of claims</p>

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			that will be met by the insurer.
Development contributions			
<p>Development contribution (and financial contributions, which are levied under the Resource Management Act) are an important tool for local government. However, developments requiring development contributions have a high profile amongst a vocal developer community. This was heightened by the North Shore City Council case in which the Council was judged as having incorrectly assessed the balance of benefits of infrastructure development</p>	<ul style="list-style-type: none"> • Revenue • Legislative compliance 	<ul style="list-style-type: none"> • Non-compliance with laws and regulations • Legal challenges against Council 	<p>We will assess the fairness of revenue collected by way of development contributions through a review of unpaid development contributions for collectability and enquiry as to claims or potential claims, threats of legal actions or other matter which may indicate that requiring and collection of development contributions is, or could be, challenged.</p>

between the existing community and new developments.			
Audit Committees			
<p>In March 2008 the OAG published a Good Practice Guide: <i>Audit Committees in the public sector</i>. The Audit Committee Guide identifies the four main principles as:</p> <ul style="list-style-type: none"> • independence – most of the members of an audit committee need to be independent of the management team to provide objective and impartial advice; • competence – audit committee members need to have relevant experience and 	Management control environment.	That there are not appropriate systems and processes to support the Governing Body.	We will check that the Audit Committee operates in accordance with the four main principles in the Auditor-General’s Audit Committee Guide (independence, competence, clarity of purpose, open and effective relationships). The assessment of competence will be based on whether audit committee members have relevant experience and expertise.

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<p>expertise to bring valuable insights and perspectives to the areas of interest;</p>			
<ul style="list-style-type: none"> • clarity of purpose – an audit committee needs to be clear about its mandate, purpose, and role in the organisation and within the governance structure as a whole; and • open and effective relationships – the audit committee needs to encourage open and transparent communication and effective ways of working with 			

stakeholders.			
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 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 OAG's view of what constitutes good practice in the public</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 a public entity.</p>	<p>We will remain generally alert for conflicts of interest.</p>

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<p>sector. It considers both the legal and ethical dimensions of conflicts of interest, and includes a series of case studies.</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>We recommend management compare the Council’s policies and procedures in these areas against the published reports and make any appropriate changes. There is likely to be an increased focus in these areas in the future.</p>

6 Reporting of misstatement

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

During the course of our audit we will provide timely communication to an appropriate level of management on details of any misstatements we identify. This communication will ask for each misstatement to be corrected in the Council's financial statements. Where management does not wish to correct a misstatement we will seek 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 communicate to the CEO details of each uncorrected misstatement, management's representation in respect of that misstatement, and the effect of both that misstatement, and the accumulated uncorrected misstatements, on our audit opinion.

Misstatements that we consider material and that are not corrected will be referred to in our 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.

As previously mentioned in our Audit Engagement Letter we will include details of all uncorrected misstatements in our Management Report.

7 Fraud

The auditing standard *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report (AS-206)* places emphasis on

the auditor making enquiries of management and those charged with governance on matters such as their assessment of the risk of fraud and the accounting and internal control systems designed to prevent and detect frauds.

As such, we will be undertaking formal discussions with the Chief Executive, senior managers and the Audit and Risk Management Subcommittee in this regard. You are reminded that the responsibility for the prevention and detection of fraud rests with management through the implementation and continued operation of adequate accounting and internal control systems. In addition we would like to

advise that we would expect to be notified without delay on any **suspected** or discovered serious fraud perpetrated upon the Council.

The Council's fraud policy includes a requirement for undertaking regular reviews of transactions, activities or locations that may be susceptible to fraud. As part of the audit, we will be checking to see that a sufficiently robust review has been undertaken recently.

8 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 entities.

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.

8.1 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 Local Government Act 2002 (the Act). Under section 7 of the Act, a local authority may exempt a "small" CCO from the accountability regime that applies to CCOs under that Act.

8.2 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.

9 Communication plan – liaison arrangements

9.1 Liaison 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.

9.2 Communication

Our communication objectives are designed to achieve an effective and efficient audit process, provide value to the Council through assisting the organisation to meet its desired outcomes

and enable the Auditor-General to fulfil his legislative audit and sector improver roles. Our communication is based upon a “no surprises” policy, which involves the discussion and resolution of issues as they arise to minimise disruption to the Council’s operations.

The communication plan below outlines the contacts we intend to have with the Council and the timing and purpose of key meetings.

Level of Communication	Purpose	Timing
<p>CEO</p> <p>Will be conducted by:</p> <ul style="list-style-type: none"> • Andy Burns • Karen Young • Bede Kearney (as required) 	<ul style="list-style-type: none"> • To confirm major areas of audit focus and to discuss audit arrangements. • Discuss major findings from the audit process and add value to the Council through discussion of current and emerging sector issues. • Discuss emerging issues that may impact on the Council's operations, as they arise. 	<ul style="list-style-type: none"> • Six monthly and as required.
<p>Audit and Risk Management Subcommittee</p> <p>Will be conducted by:</p> <ul style="list-style-type: none"> • Andy Burns • Karen Young • Bede Kearney (as required) 	<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 Wellington City Council audit process including summary of issues material to the Wellington City 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.

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Level of Communication	Purpose	Timing
Chief Financial Officer and/ or Financial Controller Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Karen Young 	<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 Second Tier Management Will be conducted by: <ul style="list-style-type: none"> • Andy Burns • Karen Young 	<ul style="list-style-type: none"> • Discuss key and emerging issues and developments affecting 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 • Karen Young 	<ul style="list-style-type: none"> • Discuss audit arrangements. • Discuss emerging issues that may impact on 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.

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Level of Communication	Purpose	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 Council's operations, and service delivery.To discuss Information Systems Strategic Planning.Discuss major findings from the audit process and add value to Council.	<ul style="list-style-type: none">During planning discussions.After completion of work but prior to reporting finalisation.

10 Integration with risk and assurance

In order to deliver the most effective audit approach and to avoid duplication of effort, we will take into account work scheduled for coverage by the Risk Assurance plan.

We will liaise with Risk Assurance to ensure our audit programmes complement each other and that there is no unnecessary duplication of audit effort.

We will formally review Risk Assurance in compliance with Auditing Standard AS604 – *Reliance on Internal Audit* to enable us to rely on their work. The extent of Audit New Zealand's planned reliance will be subject to the quality and independence of the work performed as well as 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 Internal Audit, we remain required by the Auditing Standards to evaluate and test the work of Internal Audit in order to confirm its adequacy for reliance.

11 Expectations

11.1 Council's expectations

Our aim is to deliver a public sector audit that provides value to Council and fulfils the Auditor-General's legislative responsibilities.

We plan to meet your expectations by our following actions:

Council's expectations	Our response
Maintain close working relationship with the Council senior management team, the CFO, and Financial Controller while retaining our independence, to ensure that emphasis is placed on significant issues.	Audit New Zealand will maintain communication with the team to ensure mutual understanding of each other's roles and responsibilities. This will be achieved through our communication plan. We will raise issues that may have a significant impact with management in a timely manner to allow controlled changes and corrections or management action if necessary.

Council's expectations	Our response
Have an engagement team that is knowledgeable about the Council's operations and who has experience with the current systems in use and who will develop knowledge on new systems introduced.	Continuity of our staff familiar with the operations and systems of the audit will be considered before any rotation of staff.
Attend Audit Committee and relevant Council meetings.	The Engagement Director and Audit Manager will attend and participate in meetings.
Maintain a close working relationship with Internal Audit, ensuring Audit New Zealand's approach is integrated with Internal Audit's audit programme, where appropriate.	The Risk Assurance Manager has been consulted during preparation of the audit strategy. We will work with Internal Audit to ensure duplication of effort is reduced to a minimum, where appropriate. Meetings will be held on a regular basis to discuss progress of the audits.

Council's expectations	Our response
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 and major projects or initiatives that have an accounting and auditing impact.

11.2 Audit New Zealand's expectations

Expectations	Response
Knowledge of the business	<p>Our audit approach requires us to have a thorough knowledge of the business to ensure that we add value to the Council. Therefore, it is imperative that we update ourselves on ongoing developments within the Council, including key strategies, projects and initiatives, operational and business processes beyond the core finance areas.</p> <p>It is our expectation that the interaction outlined in our communication plan will provide the basis for regular updates from senior management individually or as a group on key developments and strategies.</p>
Preparation of key information	<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, 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 Planning and Performance and the Chief Financial Officer or Financial Controller.</p>

Expectations	Response
Timetable	We will agree the timetable with the Council. Our audit will be planned to allow us to complete our audit fieldwork and provide the Council with a signed Audit Opinion in accordance with the agreed timeframe. Key milestones for the annual audit (as agreed) are:
Task	Date
First interim audit visit	11 March 2009
Second interim audit visit	2 June 2009

Expectations	Response
<p>Draft quality complete financial statements (incorporating performance framework) to Audit New Zealand</p> <p>Due to the early start of our final audit, we expect this to be provided in stages as Council completes its internal quality review of the various components of the financial statements</p>	3 August 2009
Final Audit visit commences	3 August 2009
Finalised draft Annual Report and financial statements incorporating agreed changes received	3 August 2009
Audit and Risk Management Subcommittee	19 August 2009

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Expectations	Response
Audit clearance required	22 August 2009
Letter of Representation to Audit New Zealand signed by Mayor and Chief Executive	To be agreed
Audit opinion signed	To be agreed
Council adoption of Annual Report	To be agreed
Draft Governing Body Report issued	To be agreed
Finalised CEO/Audit and Risk Management Subcommittee management letter, incorporating management responses	To be agreed
Summary Annual Report received	To be agreed

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Expectations	Response
Summary Audit opinion signed	To be agreed
Logistics and protocols	<p>In addition to the above, the arrangements for communications with the Council parties, building and information system access, confidentiality, accommodation and facilities are outlined in Appendix 2.</p> <p>We anticipate that through setting out these arrangements, we can maintain open communication and also meet the Council's expectations.</p>

12 Reporting

Reporting	Response
Issue an independent audit report on the financial statements for the years ending 30 June 2009–2010.	We will work principally with the Council to plan and progress the financial statement audit. Regular meetings will be held with the Chief Financial Officer/Financial Controller/Financial Accounting Manager to discuss financial statement accuracy and disclosure issues periodically during the year. An Independent Audit Report will be issued in accordance with the agreed reporting timeframe.

Reporting	Response
<p>Report results of the audit including any identified areas where improvements in business processes and internal controls would benefit Council.</p>	<p>Detail reporting as appropriate, eg: Our reporting on Council audit will be on two levels. Significant audit findings and conclusions will be reported to the Council. Other matters (less significant) will be reported separately to the Chief Executive Officer. We undertake to issue our draft management reports within two weeks of the completion of our fieldwork. The interim and final management reports will be issued after all matters have been discussed and management comments incorporated as appropriate. The focus of the management report will be on current audit issues, as well as identifying those issues already cleared. As agreed Audit New Zealand will include recommendations in all management reports.</p>
<p>Provide a summary of our audit activities to the Audit Committee.</p>	<p>We will prepare a summary of our audit activities for each meeting of the Audit and Risk Management Subcommittee. The summary will include an overview of our audit work since the last meeting and any significant findings from our work we consider should be brought to the notice of the Audit and Risk Management Subcommittee including a summary of issues material to the Wellington City Council and group audit resulting from the subsidiary audits.</p>

Reporting	Response
Advise management informally of matters which are not material but where opportunity for business improvement exists.	The audit team will liaise with Council staff through less formal means for less significant matters where opportunity for improvement exists.
Provide advance notice of new and developing accounting issues and the Auditor-General's approach to those matters.	The audit team and Council's representatives will meet regularly to discuss and resolve matters which potentially could have an impact on accounting procedures and/or affect the preparation of financial statements.

13 Resourcing the audit

13.1 Engagement team

We have structured our engagement team to ensure an appropriate level of skill, experience, sector knowledge and level of continuity on the audit and to provide the

necessary service to the Council. The team members on the audit are as follows

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Approved Auditor/Engagement Director	Andy Burns
Second Director	Bede Kearney
Professional Standards Review Director	Scott Tobin
Audit Manager	Karen Young
Audit Supervisor	Thor Gudjonsson and Jane Pocock
Tax Director	Jason Biggins
IS Director	Alan Clifford
Associate Director (Specialist Assurance)	Martin Richardson

Additional staff will be assigned to the audit as

required.

The key leadership team members are:

- Andy Burns – Appointed Auditor/Engagement Director

Andy will assume the role of Appointed Auditor for the Council's audit. He will be responsible for the management of the audit and sign the audit opinion.

- Bede Kearney – Second Director

Bede will assume the role of Second Director. Bede will attend key relationship meetings including the Risk and Assurance Committee as required as back-up for Andy.

- Karen Young – Audit Manager

Karen will support Andy in managing the audit.

- Support and use of the Local Government Sector Group

13.2 Audit fees

Our audit fee for the year ending 30 June 2009 is per Letter of Undertaking.

The fee assumed:

- information will be provided in a timely manner;
- there will be the appropriate level of assistance from staff;
- the annual report and financial statements (including the statement of

service performance) will be subjected to appropriate levels of quality review before submission thereof for audit. The financial statements will include all relevant disclosures.

- we will review 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 the Council's website.

It also covers the work we have been asked to complete on behalf of the Auditor-General.

We propose to invoice as follows:

	Amount \$
March 2009	50,000
April 2009	60,000
June 2009	60,000
August 2009	61,000
Total fee	231,000

Appendix 1: Logistics and protocols

Communications with the Council parties

All formal communications with the Council parties relating to the audit will be notified to the Council. The Council will be given advance notice of all meetings arranged by Audit New Zealand with these parties.

We will endeavour to maintain a high profile in respect of on-site supervision, with the particular aim of maintaining a line of communication with management.

Building access

Temporary passes will be obtained for audit staff for building access as required.

Requests for information

Items which are not initially identified as errors, but which require some clarification, will be issued as “Requests for Information”.

Confidentiality

Confidential information stored within the systems is intrinsically valuable. Access to this information would be keenly sought by some outside agencies or individual to the detriment of privacy.

Audit New Zealand staff are regularly reminded of their obligations in dealing with this information.

Accommodation and facilities

We envisage that during the peak period of our audit, we may have up to six audit staff (including the Manager and Supervisor) at the Council's Office. We will continue to use the room supplied, and require the use of the desks, chairs, lockable cabinet, and IT requirements provided for our use.

Systems access

To facilitate the audit, we require access to the computer finance and tax systems on an "enquiry only" basis and the Council's intranet. These will be required throughout the year. We will also require terminals for audit use.

We will also require access to the computer records throughout the year to facilitate our computer-based testing carried out throughout the year.