

[3 March 2011 - DRAFT]

Ref: WCC060

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

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

Your worship,

Proposal to conduct the audit of Wellington City Council and subsidiaries on behalf of the Auditor-General for the 2011, 2012 and 2013 financial years

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2011, 2012 and 2013. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal and covered by separate proposals;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any increase or decrease in hours;
- our proposed fees for the audit for the financial years ending 30 June 2011, 2012 and 2013;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conducting the audit in accordance with the Auditor-General's Auditing Standards.

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

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

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

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

3 Entities covered by this proposal

Wellington City Council

4 Key members of the audit team

Appointed Auditor	Andy Burns
Review Director	Scott Tobin
Audit Manager	David Kidman
Tax Specialist	Jason Biggins
Information Systems Specialist	Alan Clifford
Martin Richardson	Associate Director (Specialist Assurance)

5 Estimated audit hours

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

Audit team member	2010 budget	2010 actual	2011	2012	2013
Appointed Auditor	140	180	140	140	140
Review Director	20	12	20	20	20
Audit Manager	220	207	220	220	220
Other staff	790	1,133	940	940	940
Other specialists:					
Sector specialist support	20	20	21	21	21
Information Systems	60	132	120	120	120
Specialist Assurance Services	60	20	40	40	40
Tax	10	4	10	10	10
Total audit hours	1,320	1,708	1,511	1,511	1,511

6 Proposed audit fees

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

Structure of audit fees	2010 budget/ billed \$	2010 actual audit cost \$	2011 \$	2012 \$	2013 \$
Net audit fee (excluding OAG overhead and disbursements)	215,293	242,264	220,800	226,786	237,383
OAG overhead charge	18,707	18,707	20,036	20,444	20,852
Total audit fee (excluding disbursements)	234,000	260,971	240,860 (2.9%)	247,230 (2.6%)	258,235 (4.5%)
Disbursements	2,000	1,767	2,000	2,000	2,000
Total billable audit fees and charges	236,000	262,738	242,860	249,230	260,235
GST	29,500		36,429	37,384	39,035
Total (including GST)	265,500		279,289	286,614	299,270

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

6.1 Reasons for increased audit fees

The fee increase for 2011 of 2.9% reflects a reassessment of the hours necessary to complete the audit, as shown in section 5 above. Our actual hours in the past have exceeded the previous estimate due to:

- The increased documentation requirements of New Zealand equivalents to international auditing standards now applicable; and
- Additional work performed over the Council's non-financial performance information required by the Office of the Auditor-General.

The increases for the 2012 and 2013 years are the estimated impact of inflation on audit costs.

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions that:

- your staff will provide us with an appropriate level of assistance;
- your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit;
- your organisation's financial statements will include all relevant disclosures;
- we will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website);
- there are no significant changes to the structure and scale of operations of the entities covered by this proposal (other than as already advised to us);
- there are no significant changes to mandatory accounting and/or auditing standards that require additional work; and
- there are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

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

8 What the OAG overhead charge provides

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

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

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

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in Chapter Four of the OAG Manual for Audit Service Providers.

10 Conclusion

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

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

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

Yours sincerely

Andy Burns
Director
Audit New Zealand

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

Full name: _____ Position: _____

Authorised signature: _____ Date: _____

Entity name: _____

