

DRAFT 3 April 2014

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

Dear Celia

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of all “public entities”, including the Wellington City Council (the City Council) under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Act, to carry out the annual audits of the City Council’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf, for the years ending 30 June 2014 to 30 June 2016.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me as the Appointed Auditor for the financial statements and performance information.

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 that come to our attention and are significant (for example, non-compliance with statutory obligations or a lack of probity).

We will carry out the audit in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand). They require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the City Council’s financial statements and performance information are free from material misstatements.

The Council’s responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with legal requirements and financial reporting standards;

- having such internal control as the Council determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information of which the City Council is aware that is relevant to preparing the financial statements and performance information such as records, documentation, and other matters;
 - additional information that we may request from the City Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the Council is responsible:

- for the preparation of the summary financial statements and summary performance information in accordance with the applied criteria;
- to make the audited financial statements and summary performance information available to the intended users of that information without undue difficulty; and
- to include our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on them.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the City Council with delegated authority to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council should have documented policies and procedures to support its general responsibilities. It should also regularly monitor performance against its objectives.

The Council has certain 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 Appendix 1. We assume that members of the Council are familiar with those responsibilities and, where necessary, have obtained advice about them.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements and performance information of the City Council:

- comply with generally accepted accounting practice; and
- fairly reflect its position and performance.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we consider internal control relevant to the Council's preparation of the financial statements and performance information, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls.

Please note that the audit does not relieve the Council of its responsibilities. The Auditor-General expects members of the Council to be familiar with those responsibilities and, where necessary, to have obtained advice about them.

However, we will communicate to the Council in writing any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we have identified during the audit.

The audit team is required to be alert for issues of:

- effectiveness and efficiency – in particular, how the Council and the City Council have carried out their activities;
- non-compliance with laws, regulations, and contractual requirements;

- waste – in particular, whether the Council obtained and applied the resources of the City Council in an economical manner and whether any resources are being wasted;
- a lack of probity – in particular, whether the Council and the City Council have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the City Council (including management and 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 may 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 me or Audit New Zealand.

Reporting

We will issue an audit report that will be attached to the financial statements and performance information. This report contains an opinion that provides readers with reasonable assurance on whether the financial statements and performance information have been prepared in accordance with legal requirements, are free from material misstatements, and comply with financial reporting standards. It may also contain comment on matters such as compliance with statutory obligations and other matters that we consider may be of interest to the readers of the audit report. In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the financial statements and performance information.

We will also issue a management letter that will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council (for example, internal control weaknesses, probity matters, or compliance with statutory obligations). We may also provide other management letters to the City Council from time to time. We will inform the Council of any other management letters we have issued.

Please note that the Auditor-General may refer to matters that are identified in the annual audit in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Next steps

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 me. The terms will remain effective until a new Audit Engagement Letter is issued.

Appendix 2 contains some additional "other" responsibilities for the audit.

If the Council has any questions about the audit generally, or have any concerns about the quality of the audit, it should contact me as soon as possible. If after contacting me it still has concerns, it should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

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

Bede Kearney
Director
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Signed

Celia-Wade Brown
Mayor

Date

Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<p>The Council is required by legislation to prepare financial statements and, where appropriate, other accountability statements that comply with generally accepted accounting practice in New Zealand and that fairly reflect or give a true and fair view of the activities of the City Council.</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 legislation to prepare the financial statements and performance information and provide that information to the appointed auditor before the statutory reporting deadline. It is normal practice for the Council to set its own timetable to comply with statutory reporting deadlines.</p>	<p>We are responsible carrying out an annual audit, on behalf of the Auditor-General, and to form an opinion on whether the City Council's financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice in New Zealand, and fairly reflect or give a true and fair view of the position and performance of the City Council.</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>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either 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.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for the Council to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any non-financial accountability statements;

Responsibilities of the Council	Responsibilities of the Appointed Auditor
	<ul style="list-style-type: none"> • the adequacy of all disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask the Council for written confirmation of representations made to us about 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 material transactions have been recorded and are reflected in the financial statements and performance information; • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p>
Responsibilities for the accounting records	
<p>The Council is responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of the City Council; • enable the Council to monitor the resources, activities, and entities under its control; • enable the City Council's financial position to be determined with reasonable accuracy at any time; • enable the Council to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for accounting and internal control systems	
<p>The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the City Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and, where applicable, non-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 will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information. We will report to the Council separately any weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to the Council. Any such report will provide constructive recommendations to assist the Council to address those weaknesses.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for preventing and detecting fraud and error	
<p>The responsibility for the prevention and detection of fraud and error rests with the Council through the implementation and continued operation of adequate internal control systems (appropriate to the size of the City Council) supported by written policies and procedures.</p> <p>We expect the Council to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect the Council to consider reporting all instances of actual, suspected or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect the Council to immediately inform us of any suspected fraud, regardless of the amount involved.</p>	<p>We 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. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • assess the effectiveness of internal control systems and procedures for preventing and detecting fraud and error; and • report to the Council significant weaknesses in internal control systems and procedures for monitoring the prevention and detection of fraud and error that come to our notice and that we consider could be relevant to the Council. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected or alleged fraud.</p> <p>As part of the audit, the Council will be asked for written confirmation that the Council has disclosed all known instances of actual, suspected or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from the Council or management, or by any other means, we will communicate this to the Council with the expectation that the Council will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that the Council does not report fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so if it is appropriate for the purposes of protecting the interests of the public.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for compliance with laws and regulations	
<p>The Council is responsible for ensuring that the City Council has systems, policies, and procedures (appropriate to the size of the City Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the City Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will assess whether the Council has systems, policies, and procedures to ensure compliance with those legislative, regulatory, and contractual requirements that are relevant to the audit. We will either perform specific audit tests to assess whether the Council has complied with statutory requirements that are relevant to the audit or will maintain an awareness for possible non-compliance that may be relevant to the audit.</p> <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to the Council and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to the Council any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws, regulations, and contractual requirements that we consider may be relevant.</p>
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<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 should document its expected standards of conduct and personal integrity in a “Code of Conduct” and, where applicable, support the “Code of Conduct” with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted “Codes of Conduct” that apply to the public sector.</p>	<p>We will have regard to whether the Council maintains high standards of conduct and personal integrity. Specifically, we will be alert for significant instances where members and employees of the City Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to the Council and to the Auditor-General all significant instances of departure from expected standards of conduct and personal integrity.</p> <p>The Auditor-General, on receiving a report from us, may, at their 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. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>

Responsibilities of the Council	Responsibilities of the Appointed Auditor
Responsibilities for conflicts of interest and related parties	
<p>The Council should have policies and procedures to ensure that its members and employees carry out their duties free from bias.</p> <p>The Council should maintain a full and complete record of related parties and their interests. It is the Council's responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether the Council's members and employees have carried out their duties free from bias, we will review information that identifies related parties and will be alert for other material related-party transactions. We will check that the Council has complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>
Responsibilities for publishing the audited financial statements on a website	
<p>The Council is responsible for the electronic presentation of the financial statements and performance information on the City Council's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the Council intends to publish or reproduce the financial statements and performance information, together with the audit report, on a website, the Council must, before publication, provide us with a draft version of the documents to read and must obtain our approval to include the audit report with the information the Council intends publishing on the website.</p> <p>If the audit report is reproduced in any medium, the Council should present the complete financial statements, including notes and accounting policies as well as any other accountability statements.</p> <p>If the Council intends to post any new material not previously read by us, the Council must advise us before posting the new material.</p>	<p>We will perform procedures to satisfy ourselves that the information the Council intends including on its website is consistent with the audited financial statements and performance information and that the audit report will not be inappropriately associated with any information that has not been audited.</p> <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on the Council's website is beyond the scope of the annual audit.</p> <p>We will review the material on initial posting and on notification from the Council that new material has been posted on the website. We do not carry out ongoing monitoring of the material on the Council's website.</p>

Appendix 2: Other responsibilities

To meet the reporting deadlines, we are dependent on receiving the City Council's financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice and fairly reflect or give a true and fair view of the activities and position of the City Council and are supported by proper accounting records and complete evidential documentation.

We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.

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

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. The Council is, therefore, asked to clearly inform audit staff visiting its premises what the Council requires of them to ensure health and safety requirements are satisfied, particularly of emergency evacuation procedures and any requirement to wear safety equipment, and to report accidents and hazards.