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[Draft – 11 May 2017]

Chris Laidlaw
Chair
Greater Wellington Regional Council
PO Box 11646
Wellington 6142

Dear Chris

Audit for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of the Greater Wellington Regional Council for the year ending 30 June 2017. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement that you need to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return a copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- significant audit risks/issues and our audit response; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached in Appendix 1 additional information about the audit.

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Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Andy Burns
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ *Date* _____
Chris Laidlaw
Chair

1 Significant audit risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the significant audit risks and issues facing the Regional Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements and performance information. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter).

Significant audit risks /issues	Our audit response
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Significant audit risks /issues	Our audit response
Impact of the November 2016 earthquakes	

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Significant audit risks /issues	Our audit response
<p>The November 2016 earthquakes caused damage to several Regional Council owned property and assets, particularly buildings and investment properties owned by the CentrePort Group.</p> <p>When preparing the 2016/17 financial statements, the Council should assess the carrying values of these assets (both operational and infrastructure) to include the impact of any impairment caused by the earthquake damages.</p> <p>We expect key elements of the Regional Council's service performance reporting in 2016/17 will cover the extent and effectiveness of its response to the earthquake and the earthquake's effect on the Regional Council's overall service delivery.</p> <p>We expect Council and management to keep us updated on the impact of the earthquake on the wider operations of the Regional Council, its progress with insurance recoveries and specifically how CentrePort Limited is dealing with these issues.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the Council's assessment of potential building and infrastructure asset impairments as a result of the earthquake. <p>This will include an assessment of the impact on the Regional Council's consolidated financial statements of any impairment provision in the books of CentrePort Limited.</p> <ul style="list-style-type: none"> • review the consideration of the above in the revaluation of the Regional Council's flood protection assets in the current year. • review the accounting treatment of any insurance recoveries recorded in the financial statements and ensure disclosures are accurate. • liaise with the auditors of CentrePort Limited to understand the impact of the earthquake on the financial statements and the subsidiary's audit opinion. This may require further consultation with the OAG to consider any impact on the Council's audit opinion. • review the Council's performance reporting for information on the impact of the earthquake on its service delivery and its response to this.

Significant audit risks /issues	Our audit response
Risk of management override of controls and fraudulent financial reporting	
<p>Professional auditing standards require us to consider fraud risks in all audits we perform, including the risk of management override of control. Management is in a powerful position to perpetrate fraud due to its ability to override controls that appear to be operating effectively.</p>	<p>We will:</p> <ul style="list-style-type: none"> • assess the control environment including the Regional Council’s review and approval functions to ensure that there are appropriate segregation of duties in controls; • perform testing of journal entries to assess whether journals are authorised and valid; • update our understanding of the system for preparing, entering and reviewing journals into the FMIS; and • review any significant transactions that are outside the normal course of business that otherwise appear to be unusual or have a higher degree of management judgement.

We will also follow up on progress made by the Regional Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

2 Areas of audit focus

Apart from the significant audit risks outlined in section 1 above, we have identified the following areas of audit focus for the 2016/17 audit.

Area of focus	Our audit response
Revaluation of flood protection assets	
<p>As part of its revaluation cycle for infrastructure assets, we note that the Regional Council's flood protection assets are planned to be revalued in the current year with the last revaluation being undertaken in 2012.</p>	<p>We will:</p> <ul style="list-style-type: none"> • assess the reasonableness of the assumptions underlying the revaluation through liaising with any external valuers used and obtaining independent confirmations from them where relevant; and • review the assessment of impairment for these assets as part of the revaluation exercise.

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Area of focus	Our audit response
Collection of rates revenue	
<p>In our 2016 Management Report we highlighted a matter regarding an interim high court decision on the rating practices of the Northland Regional Council. This judgement has potential implications for rating-collection arrangements between regional councils and territorial authorities across the country. Potential implications for the Greater Wellington Regional Council could arise in the following areas:</p> <ul style="list-style-type: none"> • delegation of the assessment of rates or recovery of unpaid rates to territorial authorities; and • delegation of the authority to impose and recover penalties on unpaid rates. 	<p>We will:</p> <ul style="list-style-type: none"> • review the Council’s assessment of the impact of this judgement on its current rating-collection arrangements; • review the Regional Council’s arrangement with territorial authorities for the assessment of rates and recovery of unpaid rates and penalties; and • update our understanding on any pre-emptive actions the Council may have taken in response to this decision, to head off any potential issues that may arise.
Assessment of the carrying values of intangible assets	
<p>The carrying value of all Regional Council assets should be assessed for impairment against their fair value during the preparation of its annual financial statements in line with the PBE IPSAS accounting standards.</p> <p>The material intangible assets at the Regional Council are carbon credits and capitalised software costs.</p>	<p>We will:</p> <ul style="list-style-type: none"> • assess the Council’s valuation of intangible assets in the current year; and • review the impairment assessment performed on intangible assets in the current year, including any arising from the Regional Council’s deferred tax assets carried from its subsidiaries.
Procurement and contract management	
<p>The Council has been to the market as part of its PTOM approach to the procurement of bus services. It has</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding on the next stages of the bus

Area of focus	Our audit response
<p>recently announced the successful tenderer. The new bus contracts are planned to commence in mid-2018. We have also made recommendations in prior years surrounding the implementation of a centralised contract management system at the Regional Council.</p>	<p>process and arrangements for contract management;</p> <ul style="list-style-type: none"> • continue the review of potential accounting implications arising from the procurement of the bus fleet and further the discussions we have had in this area from the previous years; and • assess the progress made on the implementation of a contract management system through discussions with management.

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Area of focus	Our audit response
Revenue derived from rail operations	
<p>We note that the contract for provision of rail services was entered into with Transdev effective July 2016.</p> <p>As per the terms of this contract the Regional Council derives revenue from ticketing sales made in its rail network. From a review of the Council's 2016/17 annual plan we note that this revenue stream with its related operator payments are material to the Regional Council's financial statements.</p>	<p>We will</p> <ul style="list-style-type: none"> • review the systems and controls surrounding the monitoring and collection of fare revenue from the rail operations contract with Transdev; and • assess the accounting treatment and disclosure of the fare revenue earned from this contract and related operator payments made

3 Logistics

3.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Andy Burns	Director
Jacques Coetzee	Associate Director
Stephen Lucy	Engagement Quality Control Director
Zirus Zuber and Matthew Geddes	Audit Managers
AP Srinivasan	Audit Supervisor
Bruce Edwards	Information Systems Auditor
Martin Richardson	Specialist Assurance Services Director

3.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit	
First interim audit begins (one week)	18 April 2017
Second interim audit (one week)	8 May 2017
Draft interim management report issued	6 June 2017

	Date
Management responses due from the Regional Council	16 June 2017
Draft full Council financial statements and non-financial information available for audit ¹	1 August 2017
Final audit begins (four weeks)	7 August 2017
Final annual report (including consolidated financial statements) available for audit (incorporating all the amendments agreed to between the Regional Council and Audit New Zealand)	11 September 2017
Annual report summary available for audit	11 September 2017
Audit clearance given (Audit, Risk and Assurance Committee meeting)	21 September 2017
Draft final management report issued	
Management responses due from the Regional Council	21 September 2017
	28 September 2017
Audit opinion issued (Regional Council meeting)	28 September 2017
Final management report issued	28 September 2017

3.3 Our interim audit visit

We will carry out the interim audit during in April and May which is expected to last two weeks in total. During this visit, we will focus on updating our understanding of the Regional Council’s internal control. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

3.4 Our final audit visit

Our final audit is scheduled to start on 7 August 2017 and is expected to last four weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

3.5 Professional fees

Our audit fee estimate for the year ended 30 June 2017 is **currently being moderated**.

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

To ensure we can complete the audit within the proposed time frame and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

4 Health and safety

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015, we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that minimise or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

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Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within five working days. Once management comments are received the report will be finalised and provided to the Council.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the Regional Council's financial statements and performance information.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the Regional Council's financial statements and performance information. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Regional Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;

- the financial statements and performance information will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than one set of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the Regional Council's website.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the Regional Council's financial statements or general accountability. Our audit does not cover all of the Regional Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.