

[Date]

Phil Goff
Mayor
Auckland Council
Private Bag 92300
Victoria Street West
Auckland 1142

Dear Phil

Audit engagement letter

I am the auditor of all “public entities”, including Auckland Council (the Council) and Group under section 14 of the Public Audit Act 2001 (the Act). I will be 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 Council’s separate and consolidated group financial statements and performance information on my behalf.

This letter outlines, for the years ending 30 June 2017, 2018 and 2019:

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

The objectives of the annual audit are:

- to provide an independent opinion on the Council and consolidated group’s financial statements and performance information; and
- to report on other matters relevant to the Council and group’s financial and other management systems that come to my attention, need improvement or are significant (for example, non-compliance with statutory obligations or a lack of probity).

My audit will be carried out in accordance with the Auditing Standards I have issued, which incorporate the International Standards on Auditing (New Zealand). They require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the Council and group’s financial statements and performance information are free from material misstatements.

Your responsibilities

My 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, including the Financial Markets Conduct Act 2013, and financial reporting standards;
- the establishment and maintenance of adequate accounting records and having such internal control as you determine is necessary, and as required by the Financial Markets Conduct Act 2013, to enable you to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error;
- Ensuring that registers are kept, and audited by a qualified auditor, for all regulated products as required by the Financial Markets Conduct Act 2013;
- Filing the audited financial statements in the manner and within the timeframe specified by the Financial Markets Conduct Act 2013; and
- providing me with:
 - access to all information of which the Council is aware that is relevant to preparing the financial statements and performance information such as records, documentation, and other matters;
 - additional information that I may request from the Council for the purpose of the audit;
 - unrestricted access to Council members and employees that I consider necessary; and
 - written confirmation concerning representations made to me 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 summary financial statements and summary performance information available to the intended users of that information without undue difficulty; and
- to include my audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that I have reported on them.

The Council's responsibilities extend to all resources, activities, and entities under its control.

I 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.

I expect the Council and/or the individuals within the Council with delegated authority to immediately inform me 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. I assume that members of the Council are familiar with those responsibilities and, where necessary, have obtained advice about them.

My responsibilities

Carrying out the audit

I am responsible for forming an independent opinion on whether the financial statements and performance information of the Council and consolidated group:

- comply with generally accepted accounting practice; and
- presents fairly, in all material aspects its position and performance.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How I obtain this information depends on my, and my auditors, judgement, including my 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.

I do not examine every transaction, nor do I 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, I 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. I expect members of the Council to be familiar with those responsibilities and, where necessary, to have obtained advice about them.

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

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

- effectiveness and efficiency – in particular, how the Council and group has carried out its activities;
- non-compliance with laws, regulations, and contractual requirements;
- waste – in particular, whether the Council and group obtained and applied the resources of the Council and group in an economical manner and whether any resources are being wasted;
- a lack of probity – in particular, whether the Council and group has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- a lack of financial prudence.

In addition to our other duties set out in this letter, there are circumstances where I may be required under the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014 to report certain matters to the Financial Markets Authority, the supervisor (if applicable), the External Reporting Board and others.

In particular, if my independent opinion on the financial statements indicates that the requirements of Part 7 of the Financial Markets Conduct Act 2013, which deals with financial reporting, have not been complied with, I am required to send, within seven working days after signing my audit report, a copy of the report, and a copy of the financial statements to which it relates, to the Financial Markets Authority and the External Reporting Board. Where debt securities have been issued I am also required to send my audit report to the supervisor.

Under the Financial Markets Conduct Regulations 2014, if specifically requested by the supervisor, I am required to meet with the supervisor at the beginning and completion of the audit without any representative of the Council being present.

Any further work to be completed as a result of the above meetings or in terms of any other requests I receive from Councillors or employees of the Group and/or the supervisor will be addressed in a separate letter of engagement.

It is expressly agreed that fulfilling any of the reporting or meeting requirements under the Financial Markets Conduct Act 2013 and the Financial Markets Conduct Regulations 2014 will not result in a breach of my duty of confidentiality or any other ethical duty I may have towards the Council.

Significant components

I have identified six substantive council controlled entities (CCOs) as material to the group, due to their financial significance, the nature of their services and activities, or both. These are:

- Auckland Transport (AT);
- Watercare Service Limited (Watercare);

- Regional Facilities Auckland (RFA);
- Auckland Council Investments (ACIL);
- Auckland Tourism, Events, and Economic Development (ATEED); and
- Development Auckland Limited (Panuku).

On my behalf, and in line with my instructions to them, component auditors shall perform an audit of the financial and service performance information of the Council's substantive CCOs which will be consolidated into the Auckland Council and Group's annual report.

During the audit I will evaluate whether sufficient appropriate evidence has been obtained and communicated to me by component auditors to allow me to form a group audit opinion.

My independence

It is essential that I and my audit team and Audit New Zealand remain both economically and attitudinally independent of the Council (including management and the Governing Body of the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

To protect my independence, specific limitations are placed on me accepting engagements with the Council other than the annual audit. I 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

I 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:

- Key Audit matters which are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and are selected from matters communicated to the Council Audit Committee; and
- compliance with statutory obligations and other matters that I consider may be of interest to the readers of the audit report.

In addition, I 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.

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

Please note that as Auditor-General, I may publically refer to matters that are identified in the annual audit, in keeping with section 21 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 you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible.

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

Lyn Provost
Auditor-General

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

Signed _____ Date _____
Phil Goff
Mayor, Auckland Council

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

Responsibilities of the Council	Responsibilities of the Auditor
Responsibilities for the financial statements and performance information	
<p>You are 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 present fairly, in all material respects the activities of the Council during the year, and its financial position at the end of the year.</p> <p>Specifically Part 7 of the Financial Markets Conduct Act 2013 specifies the financial reporting requirements placed on the Council.</p> <p>You must ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to me before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines.</p>	<p>I and my auditors are responsible for carrying out an annual audit, and to form an opinion on whether the 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 presents fairly, in all material respects the position and performance of the Council.</p> <p>I 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 my 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, I 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, in my judgement, are likely to influence a reader’s overall understanding of the financial statements and performance information.</p> <p>If I find material misstatements that are not corrected, they will be referred to in the audit opinion. My preference is for you 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;

Responsibilities of the Council	Responsibilities of the Auditor
	<ul style="list-style-type: none"> • the appropriateness of the content and measures in any non-financial accountability statements; • the adequacy of all disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>I will ask you for written confirmation of representations made to me about the financial statements and performance information. In particular, I 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 my responsibility to perform appropriate audit procedures and enquiries.</p>
Responsibilities for the accounting records	
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of the Council; • enable you to monitor the resources, activities, and entities under its control; • enable the Council's financial position to be determined with reasonable accuracy at any time; • enable you 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>I 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 my 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, I will need to consider the effect on the audit opinion.</p>

Responsibilities of the Council	Responsibilities of the Auditor
Responsibilities for accounting and internal control systems	
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and, where applicable, non-financial reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. I will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>I will report to you separately any weaknesses in the accounting and internal control systems that come to our notice and that I consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p>
Responsibilities for preventing and detecting fraud and error	
<p>The responsibility for the prevention and detection of fraud and error rests with you through the implementation and continued operation of adequate internal control systems (appropriate to the size of the Council) supported by written policies and procedures.</p> <p>I expect you 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>I expect you 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. I expect you to immediately inform me of any suspected fraud, where you, and/or any individuals within the Council with delegated authority have a reasonable basis that suspected fraud has occurred, regardless of the amount involved.</p>	<p>I 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. I will review the accounting and internal control systems only to the extent required for us to express an opinion on the financial statements and performance information, but I 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 you significant weaknesses in internal control systems and procedures for monitoring the prevention and detection of fraud and error that come to my notice and that I consider could be relevant to you. <p>My auditors will immediately advise me of all instances of actual, suspected or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected or alleged fraud to me.</p> <p>If I become aware of the possible existence of fraud, whether through applying audit procedures, advice from you or management, or by any other means, I will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report fraud to the appropriate law enforcement agency, I 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 Auditor
Responsibilities for compliance with laws and regulations	
<p>You are responsible for ensuring that Council has systems, policies, and procedures (appropriate to the size of the Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>I will assess whether you have systems, policies, and procedures to ensure compliance with those legislative, regulatory, and contractual requirements that are relevant to the audit. I will either perform specific audit tests to assess whether you have 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 I will report instances of non-compliance that come to my attention will depend on considerations of materiality or significance. I will report to you all material and significant instances of non-compliance.</p> <p>I will also report to you any significant weaknesses that I observe in internal control systems, policies, and procedures for monitoring compliance with laws, regulations, and contractual requirements that I consider may be relevant.</p>
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your 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>I will have regard to whether you maintain high standards of conduct and personal integrity. Specifically, I will be alert for significant instances where members and employees of the Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which I will report instances that come to my attention will depend on significance. I will report to you all significant instances of departure from expected standards of conduct and personal integrity.</p> <p>At my discretion and with consideration of its significance, I may 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 you. Alternatively, I may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>

Responsibilities of the Council	Responsibilities of the Auditor
Responsibilities for conflicts of interest and related parties	
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your 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 your members and employees have carried out their duties free from bias, I will review information provided by you that identifies related parties and will be alert for other material related-party transactions. I will check that you have 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>You are responsible for the electronic presentation of the financial statements and performance information on 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 you intend to publish or reproduce the financial statements and performance information, together with the audit report, on a website, you 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 you intend publishing on the website.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes and accounting policies as well as any other accountability statements.</p> <p>If you intend to post any new material not previously read by me, you must advise me before posting the new material.</p>	<p>I will perform procedures to satisfy myself that the information you intend including on your 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 your website is beyond the scope of the annual audit.</p> <p>I will review the material on initial posting and on notification from you that new material has been posted on the website. I do not carry out ongoing monitoring of the material on your website.</p>

Appendix 2: Other responsibilities

To meet the reporting deadlines, I depend on receiving the 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 present fairly, in all material respects, the activities and position of the Council and are supported by proper accounting records and complete accounting records and complete evidential documentation.

I 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 are produced in carrying out the audit are mine. Workpapers are confidential to me and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.

I and Audit New Zealand take seriously our 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. I expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. I 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.