

Draft: 1 March 2017

Ref.: EN/LCA/04-0014
A106

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

Stephen Town
Chief Executive
Auckland Council
Private Bag 92300
Victoria Street West
Auckland 1142

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

Dear Hon Phil Goff and Stephen

Proposal to conduct the audit of the Auckland Council Group for the 2017, 2018 and 2019 financial years

1 Introduction

I am the auditor of the Auckland Council Group. I have appointed Audit New Zealand's Audit Director, Jo Smaill, to carry out the audit for the Auckland Council parent and group accounts, including the Debenture Trust Deeds, for the next three years. I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. 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;
- key members of the audit team;
- the hours we plan to spend on the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change in hours;
- our proposed fee for the audit for the financial years ending 30 June 2017, 2018 and 2019 and the reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the Office of the Auditor-General (OAG) overhead charge provides; and
- our commitment to conduct 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”.

I set the fees for audits of public entities under section 42 of the Public Audit Act 2001. Our proposed audit fee for the financial years ending 30 June 2017, 2018 and 2019 are set out in this letter and includes an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of:

- the Auckland Council parent;
- the consolidated group accounts; and
- the Debenture Trust Deeds.

Separate audit proposals will be agreed for each of the Council Controlled Organisations, Trusts and any other entities that make up the group where an audit is required. Any additional reviews or agreed upon procedures we are requested to complete will also be covered by a separate proposal or arrangements letter.

4 Key members of the audit team

Deputy Auditor-General	Greg Schollum
Audit Director	Jo Smaill
Second Director	Athol Graham
Quality Control Reviewer (EQCR)	Andy Burns
Audit Manager	Robert Sutherland
Second Audit Manager	Jade Schiebler
Tax Director	John Mackey
Information Systems Director	Alan Clifford
Specialist Audit and Assurance Director	Martin Richardson

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audit for the years ending 30 June 2017, 2018 and 2019 (compared to budgeted and actual data from the previous two financial years):

Audit team member	2015 actual	2016 budget	2016 actual	2017 proposed hours	2018 proposed hours	2019 proposed hours
Audit Director	490	524	570	550	550	550
Second Director	99	80	133	100	100	100
EQCR Director	55	70	56	70	70	70
Audit Manager	680	940	776	825	825	825
Other staff	3501	3052	4311	3151	3151	3151
Hedging*	0	40	0	0	0	0
Tax	35	44	30	34	34	34
Information Systems	252	280	219	260	260	260
Specialist Audit and Assurance	175	180	163	180	180	180
Sector specialists	120	80	80	120	120	120
Total audit hours	5407	5290	6338	5290	5290	5290

*hours for specialist technical assistance for hedging have not been separately split out as this is no longer considered necessary.

5.1 Reasons for changes in audit hours

The proposed total hours have not moved. However, we have refined some of the hours at the different levels based on our knowledge of the audit work required and who should be completing this work. The prior year actual hours have also been considered when completing the proposal.

The actual hours shown as a comparison for 2015 are lower than budgeted at audit manager and director level due to the large number of hours used on the LTP audit during that year. There was a cross over in knowledge gained during this audit but the hours recorded on the annual audit were a bit lower than expected.

At a staff level the actual hours used in 2015 and 2016 are higher than the hours proposed. The hours in the Audit Proposal Letter are an estimate only and we base them on an ideal staff mix which is not always reflected when we resource the audit. In 2015 we had a smaller team with more senior audit staff involved so fewer hours were recorded. In 2016 we had fewer senior audit staff but a much larger team overall with a number of junior staff. As a result a much higher number of hours were required to complete the audit. This is something that Audit NZ have to manage and when it results in higher costs than we have agreed this is a cost we have to absorb. Over the last three years (2014 – 2016) we have absorbed total cost overruns of \$268,000.

6 Proposed audit fees

Our proposed audit fees for the financial years ending 30 June 2017, 2018 and 2019 (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2016 budget	2016 actual cost	2017 proposed	2018 proposal	2019 proposal
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	1,047,370	1,158,269	1,078,791	1,109,853	1,132,050
OAG overhead charge	77,230	77,230	78,201	79,788	81,384
Total audit fee (excluding disbursements)	1,124,600	1,235,499	1,156,992	1,189,641	1,213,434
Estimated disbursements	10,000	28,300	16,000	16,000	16,000
Total billable audit fees and charges	1,134,600	1,263,799	1,172,992	1,205,641	1,229,434
GST	170,190		175,948	180,846	184,415
Total (including GST)	1,304,790		1,348,940	1,386,487	1,413,849

We have estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for the change in audit fee

The proposed movement in fees for each of the next three years is 2.9%, 2.8% and 2%. This movement is higher than the current CPI as it reflects the change in the mix of the estimated hours proposed as a result of the changing areas of focus within the audit.

In 2017 we expect the biggest impacts to come from:

- ongoing out of cycle asset revaluations as a result of continued movements in Auckland's property values;
- ongoing changes to financial statement reporting requirements with further moves towards integrated reporting expected;
- the start of the City Rail Link project and the Housing Infrastructure fund;
- the final phase of NewCore;
- the attendance at additional meetings to ensure we are well placed to complete the LTP audit which we are expecting to start later in the year; and

- this is the first year we will be reporting in your audit opinion on the key audit matters. While the matters themselves are not new there will be additional reporting requirements as a result of having to reassess and report on these throughout the year.

At this stage 2018 and 2019 are expected to be impacted by the CRL, ongoing changes to accounting standards and the consequential impact of growth across Auckland on asset valuations, consent requirements and other new transport and housing initiatives.

7 Audit of the Debenture Trust Deeds – hours and fee for the year ending 30 June 2017

The hours and fee information included in paragraphs 5 and 6 above for 2017 include the audit of the Council's Debenture Trust Deeds. For transparency purposes we have estimated the fee for this audit as \$4,000 and the estimated hours required are as follows:

Audit team member	2017 proposed hours
Audit Director	2.5
Audit Manager	4.5
Other Staff	8
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Total audit hours	15

This is the first year we have estimated separately the hours and fee for the audit of the Debenture Trust Deeds at the Council. We will track the actual hours and costs for the 2017 audit and propose to negotiate these with you separately going forward.

8 Assumptions relating to our audit fee

Our proposed audit fee is based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- 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/or 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 standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- 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 at the time.

9 What the OAG overhead charge provides

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

The OAG overhead charge partially funds 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
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Audit New Zealand are required to return the OAG overhead charge portion of the audit fee, to the OAG.

10 Conclusion

As the Deputy Auditor-General I am committed to providing you and with the highest level of professional service. I intend to work with you and Audit New Zealand, 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 of the audit fee set. The schedules of audit hours and fee will also be incorporated into my audit engagement agreement with Audit New Zealand to carry out the audit of your organisation.

Yours sincerely

Greg Schollum
Deputy Auditor-General

I accept the audit fee for the audit of the 2017 financial year as stated above.

Full name: Hon Phil Goff Position: Mayor of Auckland

Authorised signature: _____ Date: _____

Entity name: Auckland Council

Full name: Stephen Town Position: Chief Executive

Authorised signature: _____ Date: _____

Entity name: Auckland Council

Actions to take when agreement has been reached:

- 1 Keep a copy of this signed proposal for your file.
- 2 Send the original to: Jo Smaill
Audit Director
Audit New Zealand
PO Box 1165
Auckland 1142