

1 Deputy Auditor-General Introduction

Lyn Provost's term as Auditor-General has finished and Martin Matthews, previously the Secretary of Transport, commenced his term as Auditor-General on 1 February 2017.

As Martin has been very involved in transport decisions that impact on Auckland Council he will not be involved in the Auckland Council audit for a minimum of two years. Greg Schollum, the Deputy Auditor-General, will be responsible for the Auckland Council audit for the next 2 years. Greg will have ongoing support from Sarah Lineham, the Local Government Sector Manager for Auckland, and Jo Smaill, the Appointed Auditor responsible for the day to day management of the audit.

2 31 December 2016 Review Engagement

The Review, by the date of this meeting, will have been finalised and we expect to have issued an unmodified review report on 27 February 2017.

A Draft Management Report arising from this review will be available for the Committee at their next meeting.

Overall this engagement ran very smoothly and the quality of the information the Council provided to us was good.

3 Thresholds for communicating misstatements to governance.

The International Auditing Standard 450: Evaluation of Misstatements Identified During the Audit (ISA (NZ) 450), requires the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial. Our threshold for clearly trivial is 5% of our assessed audit materiality level. However, the determination of what is clearly trivial also takes into consideration both quantitative and qualitative factors so there is no exact number.

To ensure better communication with the Council, we have clarified our practices around thresholds for the communication of audit misstatements. In the past we generally only reported uncorrected misstatements over a threshold of 10% of what we had assessed as our materiality level. From 1 July 2017 we will be reporting all misstatements over the clearly trivial threshold of 5%.

This change means that there is likely to be an increase in the number of uncorrected misstatements reported, many of which will be significantly smaller than we would have reported in the past. There are many reasons why the Council would not correct a misstatement and this will be included in our report. We will continue to discuss all misstatements with management and would expect that, as is the Council's usual practice, adjustments to the financial statements will be made where considered necessary for an unmodified opinion to be issued.

The misstatements will be included in relevant management letters to the Council (post both the review engagement and the 30 June 2017 annual audit) and in the management representation letters.

4 30 June 2017 annual audit update

We have completed our initial assessment of the Council's control environment and updated our understanding of the Council's financial systems. At this time nothing has come to our attention to change our view that the control environment for audit purposes is effective. Our first full interim visit is scheduled for March/April 2017 and an interim management report will be issued following completion of this visit.

4.1 Audit arrangements letter

The letter has been provided to Council management as a draft and is included in the papers provided to the Committee by the Council for consideration at this meeting,

The following outlines a new reporting requirement that will impact on the content of the 30 June 2017 audit opinion and highlights for the Committee our other main areas of audit emphasis.

4.1.1 The inclusion of Key Audit Matters in our 30 June 2017 audit opinion

In October 2015 the New Zealand Auditing and Assurance Standards Board finalised new auditing standards, which includes a requirement for auditors of listed issuers, and Financial Markets Conduct (FMC) reporting entities considered to have a higher level of public accountability (as referred to in the Financial Markets Conduct Act 2013), to communicate details of key audit matters in the auditor's report. Auckland Council falls within the requirements of this new standard.

We will report on key audit matters as part of the audit report on the Council and group's financial and service performance statements for the year ending 30 June 2017.

Key audit matters are defined as those matters that, in the auditor's professional judgement, are of the most significance in the audit of the financial and service performance statements of the current period. Based on our work to date and assessment of risks, it is likely that the following matters will form part of our Key Audit Matters reporting in the 2016/17 audit report.

- valuation of operational and infrastructure assets;
- valuation of derivatives;
- valuation of the weathertightness provision; and
- significant performance reporting issues – housing and transport.

The Audit Arrangements letter includes further detail about each matter and why we consider it to be key at this time.

As with previous years, other matters may arise during our audit, some of which may be of such significance as to become a key audit matter. We will discuss the status of the above matters and any such new matters with the Council, the Audit and Risk Committee and senior management throughout the year.

4.1.2 Other areas of audit emphasis

Based on the planning work and discussions that we have completed to date, we have identified as areas for audit emphasis the following business risks and issues facing the Council and group.

- City Rail Link - We will review the funding/cost sharing agreement between the Council and the Government once finalised, and the role of respective parties (including the new entity to be established) to consider the appropriate accounting treatment for the Council. We will also continue to focus on project governance and management and procurement and contract management practices.
- Newcore – We will continue to maintain an understanding of how the Council is managing the risks associated with the NewCore project, including those risks inherent in the remaining go-live phases. We will maintain an understanding of the Council's processes to ensure effective data migration from legacy regulatory and financial systems. We will also look at the process for capitalising stages of the project completed in the 2016/17 financial year with a particular focus on work in progress and impairment balances at 30 June.
- Contract and project management and procurement – We will continue to focus on the Council's contract management, procurement and project management practices. We will focus in particular on compliance with the Council's policies and processes for a small sample and the progress that has been made implementing our prior year recommendations.

4.2 Audit proposal letter

The letter has been provided to Council management as a draft and is included in the papers provided to the Committee by the Council for consideration at this meeting.

This letter forms the basis of the contract between the Council and the Auditor-General for the completion of the annual audit and sets out the statutory basis for the audit and the proposed hours and fees. The letter currently before the Committee is for the three financial years ending 30 June 2017, 2018 and 2019.

5 Review of service performance

Following discussions with the Committee and Council Officers at the end of 2016 the terms of reference for the next Review of Service Performance, as required by s104 of the Auckland Council legislation, was agreed. The review of Council's Customer Centric Transformation Initiatives has now commenced and is scheduled to be completed and tabled in Parliament by mid-October.

We have begun discussions with Council Officers on future review of service performance projects and seek input from the Committee as well. We note that in 2017/18 the OAG will be conducting a programme of work related to the theme of Water. We would like the Committee to consider whether there is a water related topic that would be relevant for Auckland that could meet the requirements of s104, be valuable for Auckland and also complement the Water work programme.