

Audit and Risk Management Committee
AGENDA

Notice of Meeting:

An ordinary meeting of the Audit and Risk Management Committee will be held on:

Date: Friday 12 May 2017
Time: 1pm
Venue: Committee Room 1, Level 2, Civic Offices,
53 Hereford Street, Christchurch

Membership

Chairperson	Chair Sue Sheldon
Deputy Chairperson	Deputy Chair Raf Manji
Members	Councillor Vicki Buck
	Councillor Phil Clearwater
	Councillor Pauline Cotter
	Mayor Lianne Dalziel
	Councillor David East
	Deputy Mayor Andrew Turner
	Mr Mark Russell
	Mr Michael Rondel

5 May 2017

Principal Advisor

Carol Bellette
General Manager Finance and
Commercial

Margaret Henderson
Committee Advisor
941 8185

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Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. If you require further information relating to any reports, please contact the person named on the report.

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AUDIT AND RISK MANAGEMENT COMMITTEE - TERMS OF REFERENCE

Chair	Sue Sheldon (Independent)
Deputy Chair	Councillor Manji as the Chair of the Finance and Performance Committee
Membership	Mayor Dalziel and Deputy Mayor Turner The Chair of the following committees: <ul style="list-style-type: none">▪ Innovation and Sustainable Development Committee▪ Social and Community Development Committee▪ Infrastructure, Transport and Environment Committee▪ Regulatory Performance Committee 2 External Members
Quorum	Half of the members if the number of members (including vacancies) is even, or a majority of members if the number of members (including vacancies) is odd.
Meeting Cycle	To be separately considered
Reports To	Council

Purpose

To assist the Council to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting policy and practice;
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The foundations on which this Committee operates, and as reflected in this Terms of Reference, includes: independence; clarity of purpose; competence; open and effective relationships and no surprises approach.

Procedure

In order to give effect to its advice the Committee should make recommendations to the Council and to Management.

The Committee should meet the internal and the external auditors without Management present as a standing agenda item at each meeting where external reporting is approved, and at other meetings if requested by any of the parties.

The external auditors, the internal audit manager and the co-sourced internal audit firm should meet outside of formal meetings as appropriate with the Committee Chair.

The Committee Chair will meet with relevant members of Management before each Committee meeting and at other times as required.

Responsibilities

Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation should it be required.
- Seek confirmation annually and as necessary from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

Risk Management

- Review and consider Management's risk management framework in line with Council's risk appetite, which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework.
- Consider emerging significant risks and report these to Council where appropriate.

Internal Audit

- Review and approve the annual internal audit plan, such plan to be based on the Council's risk framework. Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of management's response to internal audit recommendations.
- Review six monthly fraud reporting and confirm fraud issues are disclosed to the external auditor.
- Provide a functional reporting line for internal audit and ensure objectivity of internal audit.
- Oversee and monitor the performance and independence of internal auditors, both internal and co-sourced. Review the range of services provided by the co-sourced partner and make recommendations to Council regarding the conduct of the internal audit function.
- Monitor compliance with the delegations policy.

External Reporting and Accountability

- Consider the appropriateness of the Council's existing accounting policies and practices and approve any changes as appropriate.
- Contribute to improve the quality, credibility and objectivity of the accounting processes, including financial reporting.
- Consider and review the draft annual financial statements and any other financial reports that are to be publicly released, make recommendations to Management.
- Consider the underlying quality of the external financial reporting, changes in accounting policy and practice, any significant accounting estimates and judgements, accounting implications of new and significant transactions, management practices and any significant disagreements between Management and the external auditors, the propriety of any related party transactions and compliance with applicable New Zealand and international accounting standards and legislative requirements.
- Consider whether the external reporting is consistent with Committee members' information and knowledge and whether it is adequate for stakeholder needs.
- Recommend to Council the adoption of the Financial Statements and Reports and the Statement of Service Performance and the signing of the Letter of Representation to the Auditors by the Mayor and the Chief Executive.
- Enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements, and assess whether appropriate action has been taken by management.
- Request visibility of appropriate management signoff on the financial reporting and on the adequacy of the systems of internal control; including certification from the Chief Executive, the Chief Financial Officer and the General Manager Corporate Services that risk management and internal control systems are operating effectively;
- Consider and review the Long Term and Annual Plans before adoption by the Council. Apply similar levels of enquiry, consideration, review and management sign off as are required above for external financial reporting.
- Review and consider the Summary Financial Statements for consistency with the Annual Report.

External Audit

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. Including the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.
- The external audit reporting should describe: Council's internal control procedures relating to external financial reporting, findings from the most recent external audit and any steps taken to deal with such findings, all relationships between the Council and the external auditor, Critical accounting policies used by Council, alternative treatments of financial information within Generally Accepted Accounting Practice that have been discussed with Management, the ramifications of these treatments and the treatment preferred by the external auditor.
- Ensure that the lead audit engagement and concurring audit directors are rotated in accordance with best practice and NZ Auditing Standards.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Appointment of Independent Members

- Identify skills required for Independent Members of the Audit and Risk Management Committee. Appointment panels will include the Mayor or Deputy Mayor, Chair of Finance & Performance Committee and Chair of Audit & Risk Management Committee. Council approval is required for all Independent Member appointments.
- The term of the Independent members should be for three years. (It is recommended that the term for independent members begins on 1 April following the Triennial elections and ends 31 March three years later. Note the term being from April to March provides continuity for the committee over the initial months of a new Council.)
- Independent members are eligible for re-appointment to a maximum of two terms. By exception the Council may approve a third term to ensure continuity of knowledge.

Long Term Plan Activities

Consider and review the Long Term and Annual Plans before adoption by the Council. Apply similar levels of enquiry, consideration, review and management sign off as are required above for external financial reporting.

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- Part A Matters Requiring a Council Decision
Part B Reports for Information
Part C Decisions Under Delegation
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1. Apologies

2. Declarations of Interest

Members are reminded of the need to be vigilant and to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

3. Confirmation of Previous Minutes

That the minutes of the Audit and Risk Management Committee meeting held on [Monday, 20 February 2017](#) be confirmed (refer page 8).

4. Deputations by Appointment

There were no deputations by appointment at the time the agenda was prepared.

5. Presentation of Petitions

There were no petitions received at the time the agenda was prepared.

Audit and Risk Management Committee OPEN MINUTES

Date: Monday 20 February 2017
Time: 8.34am
Venue: Committee Room 1, Civic Offices
Hereford Street

Present

Chair	Ms Sue Sheldon
Deputy Chair	Councillor Raf Manji
Members	Mayor Lianne Dalziel
	Deputy Mayor Andrew Turner
	Councillor Vicki Buck
	Councillor Phil Clearwater
	Councillor Pauline Cotter
	Councillor David East
	Mr Mark Russell
	Mr Michael Rondel

20 February 2017

Principal Advisor

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- Part A Matters Requiring a Council Decision
Part B Reports for Information
Part C Decisions Under Delegation
-

The agenda was dealt with in the following order.

1. Apologies

Part C

Apologies

Committee Resolved ARCM/2017/00001

It was resolved on the motion of Deputy Chair Manji, seconded by Councillor Cotter that:

1. Apologies for absence from the Mayor, Cr East and Mr Rondel be accepted.
2. An apology for lateness from Councillor Clearwater be accepted.

Deputy Chair Manji/Councillor Cotter

Carried

2. Declarations of Interest

Part B

There were no declarations of interest recorded.

3. Confirmation of Previous Minutes

Part C

Committee Resolved ARCM/2017/00002

Committee Decision

That the minutes of the Audit and Risk Management Committee meeting held on Wednesday, 7 December 2016, be confirmed.

Note: Councillor Cotter abstained from voting on this item as she was not a member of the Committee at that time.

Deputy Chair Manji/Mr Russell

Carried

4. Deputations by Appointment

Part B

There were no deputations by appointment.

5. Presentation of Petitions

Part B

There was no presentation of petitions.

6. Audit and Risk Management Committee - Terms of Reference

Staff Recommendations

That the Audit and Risk Management Committee:

- 2.1 Receive for information the updated Terms of Reference.

Committee Resolved ARCM/2017/00003

Part C

That the Audit and Risk Management Committee:

- 2.1 Received for information the updated Terms of Reference.

Chair Sheldon/Deputy Mayor Turner

Carried

7 Resolution to Exclude the Public

Committee Resolved ARCM/2017/00004

Part C

1. That at 8.37am the resolution to exclude the public set out on pages 17 to 19 of the agenda be adopted.
2. That Julian Tan and Andrew Timlin of Audit and New Zealand and Steve Wakefield, Crispin Deans and David Seath of Deloitte, remain after the public have been excluded for Items 9 and 10 and 13 respectively of the public excluded agenda as they have knowledge that is relevant to that item and will assist the Committee.

Councillor Buck/Deputy Mayor Turner

Carried

The public were re-admitted to the meeting at 10.55am.

Meeting concluded at 10.55am.

CONFIRMED THIS 12TH DAY OF MAY 2017.

SUE SHELDON
CHAIR

6. Audit New Zealand - Audit Engagement and Arrangement Letters 2017

Reference: 17/400132

Contact: Patricia Christie Patricia.christie@ccc.govt.nz 941 8113

1. Purpose and Origin of Report

Purpose of Report

1.1 The purpose of this report is for the Audit and Risk Management Committee to confirm with Audit New Zealand on:

- the terms of the audit engagement for the audit of the financial statements for the years ending 30 June 2017, 2018 and 2019, and
- the specific audit arrangements for the financial statements for the year ending 30 June 2017.

Origin of Report

1.2 This report is staff generated in response to the receipt of the draft audit engagement letter (**Attachment A**) and audit arrangements letter (**Attachment B**) from Audit New Zealand and to fulfil the Audit and Risk Management Committee terms of reference.

2. Significance

2.1 The decision(s) in this report is of low significance in relation to the Christchurch City Council's Significance and Engagement Policy.

2.1.1 The level of significance was determined by the impact of the decision on the community.

2.1.2 The community engagement and consultation outlined in this report reflect the assessment.

3. Staff Recommendations

That the Audit and Risk Management Committee consider the audit engagement and arrangement letters provided by Audit New Zealand.

That after consideration of the audit engagement and arrangement letters the Audit and Risk Management Committee recommend to Council that it:

1. Approve the content of the draft audit engagement letter received from Audit New Zealand.
2. Approve the content of the draft audit arrangements letter received from Audit New Zealand with the exception of the audit fee as that is yet to be advised.
3. Recommend that the Mayor sign the final audit engagement letter once received from Audit New Zealand.
4. Note that as the Council is yet to be advised of the final audit fee, the signing the final audit arrangements letter is deferred until the audit fee is received and considered.

4. Key Points

- 4.1 The draft audit engagement letter for the audit of the Council's financial statements for the years ending 30 June 2017, 2018 and 2019 and the audit arrangements letter for the audit of the Council's financial statements for the year ending 30 June 2017 have been received by management from Audit New Zealand.
- 4.2 The audit engagement letter is issued once every three years setting out the terms of the audit engagement, the nature and limitations of the annual audit, and Council and the auditors' respective responsibilities for the financial statements and the performance information for the next three year period. The audit arrangement letter is issued each year outlining audit issues, timetable and fees for that financial year.
- 4.3 In accordance with the terms of reference of the Audit and Risk Management Committee, it is the role of the Audit and Risk Management Committee to confirm the terms of engagement with the external auditor and to consider the adequacy of the nature and scope of the audit, the timetable and fees.
- 4.4 Management have reviewed the content of the draft letters and discussed the content with Audit New Zealand. The following points are noted:

Audit Engagement Letter

- 4.4.1 The terms and engagement and both parties' responsibilities are similar to the previous audit engagement received in 2014.

Audit Arrangements Letter

- 4.4.2 The audit issues raised in the draft audit arrangement letter were as expected based on the issues raised in previous audits and management letters.
- 4.4.3 The audit issues for 2017 include:
 - The valuation of property plant and equipment, in particular the valuation of Rooding and Stormwater assets as these asset classes are the only two remaining that are still subject to modified audit opinions.
 - The work in progress balance.
 - Accounting for the Council's involvement in Regenerate Christchurch, Otautahi Community Housing Trust and the Crossing Car Park.
 - Ongoing accounting issues recognising aspects of the cost sharing agreement with the Crown.
 - A high level review of the Council's project management and project governance structures and processes that support the large rebuild projects. In particular whether the recommendations in the Office of the Auditor General's report on the new Central Library have been acted upon.
- 4.4.4 The timetable in the letter was agreed with Council staff.
- 4.5 There is a third letter yet to be received from Audit New Zealand; the Audit Proposal letter is issued every three years and sets out the proposed fees for the 2017, 2018 and 2019 audits and the budgeted audit hours expected to complete the audit. At present Audit New Zealand is waiting for the Office of the Auditor General to confirm the fee for negotiation.
- 4.6 The 2016 audit fee was \$320,200 plus disbursements (GST exclusive). This amount included \$5,000 for the audit of infrastructure valuations. Audit New Zealand have estimated an additional fee of \$25,000 for the additional infrastructure valuation audits for 2017. It is unlikely that the audit proposal for the 2017, 2018 and 2019 audits will be lower than the 2016 fee of \$315,200 (excluding audit valuations and GST).

Attachments

No.	Title	Page
A ↓	2017 Audit Engagement Letter	16
B ↓	2017 Audit Arrangements Letter	27

Confirmation of Statutory Compliance

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).

(a) This report contains:

- (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
- (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories

Author	Patricia Christie - Manager External Reporting and Governance
Approved By	Carol Bellette - General Manager Finance and Commercial (CFO)

24 April 2017

Level 3, 335 Lincoln Road
PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Fax: 03 961 3059

Lianne Dalziel
Mayor
Christchurch City Council
PO Box 73015
Christchurch 8154

Dear Lianne

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 Christchurch City Council (the City Council) under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, under sections 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 2017 to 30 June 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (“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, need improvement or 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.

Your 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 it 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 you and the City Council are 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
- 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 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 you 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 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 letter in the space provided and returning a copy 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 after contacting me you still have concerns, you 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



Andy Burns
Director
On behalf of the Auditor-General

24 April 2017

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

Signed _____ Date _____
Lianne Dalziel
Mayor
Christchurch City Council

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>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 City Council during the year, and its financial position at the end of the year.</p> <p>You 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>You are 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 you to set your own timetable to comply with statutory reporting deadlines.</p>	<p>We are responsible for 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 presents fairly, in all material respects 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, in our judgement, are likely to influence 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;

Responsibilities of the Council	Responsibilities of the Appointed 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>We will ask you 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>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 City Council; • enable you 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 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>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>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. 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 you separately any weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to it. 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 City Council) supported by written policies and procedures. We 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>We 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. We expect you to immediately inform us of any suspected fraud, where you, and/or any individuals within the City Council with delegated authority have a reasonable basis that suspected fraud has occurred, 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 us 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 you 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 it. <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, you will be asked for written confirmation that you have 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 you or management, or by any other means, we 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, 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>You are responsible for ensuring that the City Council has systems, policies, and procedures (appropriate to its size) 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 you have 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 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 we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you 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>You should at all times take all practicable steps to ensure that its 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>We will have regard to whether you maintain 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 you 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 you. 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>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, we will review information provided by you that identifies related parties and will be alert for other material related-party transactions. We 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 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 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 us, it must advise us before posting the new material.</p>	<p>We will perform procedures to satisfy ourselves 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>We will review the material on initial posting and on notification from you that new material has been posted on the website. We do not carry out ongoing monitoring of the material on your 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 present fairly, in all material respects, the activities and position of the City Council and are supported by proper accounting records and complete 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. 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 its premises. We expect the Council 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. 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 its premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

24 April 2017

Level 3, 335 Lincoln Road
PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Fax: 03 961 3059

Lianne Dalziel
Mayor
Christchurch City Council
PO Box 73015
Christchurch 8154

Dear Lianne

Audit arrangements for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of Christchurch City 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 to us, 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:

- business risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

We have also attached additional information about the audit in the appendix.

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 _____
Lianne Dalziel
Mayor
Christchurch City Council

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Christchurch City Council (the Council) for the year ending 30 June 2017. These include:

- business risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

2 Your business 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 main business risks and issues facing the 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. 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 dated 24 April 2017).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business issues	Our audit response
Property, plant and equipment (PPE) valuations	
<p>Council has been making progress in recent years in determining accurate carrying values of its Property, Plant and Equipment (PPE) assets.</p> <p>In 2016 the valuation of Council's wastewater assets was suitably robust to provide a reliable carrying value for these assets. The remaining asset classes that have been subject to modified audit opinions in recent years, are the Roothing and Stormwater asset classes.</p> <p>In 2017, Council has indicated it will undertake asset revaluations of six asset classes, being:</p> <ul style="list-style-type: none"> • Roothing; • Stormwater; • Wastewater; • Water supply; • Marine structures; and • Public artworks. 	<p>The number of asset valuations proposed by Council in 2017 will require detailed planning by both Council and us to ensure sufficient time for the preparation and audit of these.</p> <p>We have requested from management the proposed methodology and a detailed timetable of when the work is due to be performed and draft reports available. We intend to complete as much work as possible prior to balance date. We comment on the following specific matters:</p> <ul style="list-style-type: none"> • We will use an internal specialist to assist us in reviewing any technical methodology and engineering information, particularly in respect to the rooding and stormwater valuations. • We will review Council's processes around the cut-off of the asset information provided to the valuer

Your business issues	Our audit response
<p>The Rooding and Stormwater asset valuations are of particular focus due to these previously being subject to modified audit opinions. Specific areas Council will need to be aware of for this year's valuations include:</p> <ul style="list-style-type: none"> the appropriateness of any new or revised valuation methodology for its rooding assets; the quality of the data in relation to Stormwater assets as this asset class has not been revalued since the Canterbury earthquakes; and how WIP assets are identified and appropriately factored into the valuation process to avoid omission or double-counting, for example completed wastewater assets that are yet to be transferred from WIP. 	<p>and how WIP assets have been incorporated in the valuation.</p> <ul style="list-style-type: none"> for the rooding and stormwater revaluations, we will assess whether the valuation has been performed in accordance with PBE IPSAS 17, <i>Property, Plant and Equipment</i>.
<p>Stronger Christchurch Infrastructure Repair Team (SCIRT) and capital work-in-progress (WIP)</p>	
<p>The SCIRT alliance responsible for rebuilding the earthquake damaged horizontal infrastructure is in the final stages of completing its earthquake repair work programme.</p> <p>In recent years, Council has had a significant work in progress balance relating to projects completed by SCIRT which had not been capitalised by Council due to the lack of detailed information.</p> <p>The process to capitalise these projects has commenced as SCIRT is progressively providing Council with the detailed information relating to completed projects, allowing Council to transfer these assets out of WIP.</p> <p>Council's year end WIP balance is expected to be several hundred million dollars lower than the previous balance at 30 June 2016.</p>	<p>We will discuss with Council staff the procedures in place to manage the disestablishment of SCIRT and the transition of SCIRT completed work to Council.</p> <p>In regards to the WIP balance, we will:</p> <ul style="list-style-type: none"> meet with management to understand the progress made to capitalise completed capital WIP during 2017; perform testing of new capital WIP and transfers to completed PPE for 2017; confirm that transferred WIP to PPE has been performed correctly including the commencement of the depreciation of the completed assets; and review management's assessment as to whether the remaining capital WIP balance recognised at balance date is accurate and complete.
<p>Specific accounting issues</p>	
<p>As part of our planning for the 2017 audit, including discussions with Council management, we have identified the following specific accounting issues that will impact on the 2017 financial statements.</p>	<p>We will liaise with Council's finance team early to understand Council's proposed accounting treatment for the identified issues, and others that arise in preparing the annual report.</p>

Your business issues	Our audit response
<ul style="list-style-type: none"> • Accounting and disclosure of the Crossing Carpark transaction: Council entered into an agreement to provide funding for the construction of the Crossing carpark in central Christchurch. The carpark was completed and Council made payment during the 2016/17 financial year. Council has obtained accounting advice for this transaction that suggests the amount paid should be expensed in Council's financial statements. Given its significance, Council may wish to consider additional disclosure around the nature of the transaction. • Accounting for Regenerate Christchurch: Council appoints three members to the Board of Regenerate Christchurch and jointly, with the Crown, provides funding of \$4 million annually to fund its operations. Council will need to determine the accounting for its interest and the funding of Regenerate Christchurch, for the inclusion in its 2017 annual report. • Accounting for the Otautahi Community Housing Trust: The Trust was established in 2016 to manage Council's social housing portfolio. The Trust is not controlled by Council as it has been set up as an independent charitable Trust. Council will need to determine the accounting treatment for this entity including any asset transfers and lease transactions between Council and the Trust. 	<p>Where there has been external accounting advice sought on particular issues, we ask that this is shared with us as soon as available so that we can consider this and discuss with management as necessary.</p>
Accounting for the cost sharing agreement with the Crown	
<p>The cost sharing agreement signed with the Crown sets out each party's contribution to the earthquake related response, repair and rebuild costs, as well as the respective contributions to the city's anchor projects.</p> <p>Management will need to assess during the year and at year end, Council's obligations under the agreement. In some areas, Council may need to recognise assets that have</p>	<p>We will review management's assessment and the supporting information behind any recognition of obligations and asset transfers within the annual report.</p> <p>We will also:</p> <ul style="list-style-type: none"> • update our understanding of who will be the owner of each anchor project where ownership was uncertain; and • review the Council's assessment of whether there are any other

Your business issues	Our audit response
<p>transferred to Council or revenue where funding to Council is able to be recognised.</p> <p>Particular areas to consider include:</p> <ul style="list-style-type: none"> • Council's share of the Port Hills red zone liabilities. • Metro Sports facility – actual and committed costs under the proposed development agreement. • Transfer of Public Realm land to Council, for example the Margaret Mahy playground and Avon River Precinct. <p>There is also uncertainty over which party will own many of the anchor projects once they have been built.</p>	<p>accounting implications arising from the Cost Sharing Agreement.</p>
Project management and project governance	
<p>Council continues to manage large rebuild projects, such as the Town Hall, the Central Library, cycle-ways and Accessible City projects.</p> <p>We expect the Council to have sound project management and project governance structures and supporting processes in place to manage its projects from start to finish, including project initiation and closeout, scope, schedule and resource planning, project execution and control.</p> <p>We also expect the Council to have applied the recommendations contained in the OAG's performance audit report on the new Central Library. The OAG's report can be accessed via this URL: http://www.oag.govt.nz/2015/christchurch-projects</p>	<p>We will again perform a high-level review of Council's project management and project governance structures and processes that support these large rebuild projects.</p> <p>We will check how the Council has applied the OAG's recommendations on project management and project governance contained in its performance audit report for the New Central Library.</p>
Audit of Council's debenture trust deed	
<p>As Council's appointed auditor, we will also issue a report to the trustees of its debenture trust deed. This requirement is included in Council's trust deed dated 21 September 2015.</p> <p>We are required to issue our report to the trustees within 30 days of signing the annual report.</p>	<p>We will agree separate terms for this limited assurance engagement of the debenture trust deed.</p> <p>We will arrange with Council to allow us adequate time to issue our audit report to the trustees within 30 days of adopting its annual report.</p> <p>As part of our audit, we will enquire into the maintenance of Council's register of securities and the audit of the register itself by the register's external auditor.</p>

Your business issues	Our audit response
Group matters	
<p>Council will need to remain aware of any potential group issues for its 2017 annual report. In the prior year there were several actual or proposed transactions within the Christchurch City Holdings Limited group, such as the Enable Services share purchase, proposed sale of City Care and establishment of Development Christchurch Limited, that were considered for accounting or disclosure related issues.</p> <p>One ongoing group issue is the consolidation of Vbase Limited, a 'for-profit' designated entity, into Council's group financial statements. Consolidation adjustments will continue to be required in relation to VBase's asset valuation of Horncastle Arena and the repairs to the Town Hall.</p>	<p>We will maintain a watching brief over possible transactions for any potential accounting or financial implications that may flow up into the Council's group accounts.</p>

We will also follow up on progress made by the Council in 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.

3 Areas of interest for all local authorities

As well as the risks and issues noted above, there are also a number of other areas of interest common to the Local Government sector. The table below outlines our areas of interest for this year's audit. The left-hand column describes each matter and why we are interested in it. In the right-hand column, we describe how we plan to address each matter during the audit.

Areas of interest	Our audit response
Financial reporting disclosures	
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting) Regulations 2014 detail disclosures to be included within the Annual Report. The City Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>We will carry out our procedures to ensure all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting) Regulations 2014 have been appropriately included in the City Council's annual report.</p>
Rating processes	
<p>The basis on which local authorities fund their operating and capital expenditure through rates is set out in the Local Government Act 2002 and the Local Government (Rating) Act 2002 (LGRA).</p>	<p>For 2017 we will again consider the City Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the</p>

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Areas of interest	Our audit response
<p>Compliance with the LGRA in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.</p>	<p>consistency and completeness of the resolution and the Funding Impact Statement (FIS), and reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used consistent with the LGRA.</p> <p>The Council should note that our procedures will not be a full check of the Council's decisions and compliance with its legal obligations.</p>
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. The Office of the Auditor-General (OAG) published two sets of guidance for entities in this area:</p> <ul style="list-style-type: none"> • Managing conflicts of interest: guidance for public entities, explains how to understand conflicts of interest in the public sector, and how to identify, disclose and manage them. I also considers both the legal and ethical dimensions of conflicts of interest. • Guidance for members of local authorities about the law on conflicts of interest provides more specific guidance for councillors. <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between councillors and the City Council and prevents councillors from participating in City Council matters in which they have an interest.</p>	<p>While it is primarily the responsibility of the City Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>If we identify particular risks related to the management of conflicts of interest, we may carry out further work to review the City Council's systems and processes.</p>
Elected members – remuneration and allowances	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>The City Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period (Schedule 10, clause 18, Local Government Act</p>	<p>We will assess the City Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p> <p>We will also confirm the payments are within the Determination set by the Authority.</p>

Areas of interest	Our audit response
2002). A local authority must disclose remuneration paid or payable to each member from both the local authority and any council organisation of the local authority.	

4 Logistics

4.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Andy Burns	Director
Karen MacKenzie	Engagement Quality Control Review Director
Peter Davies	Specialist Audit and Assurance Services Director
Andrew Timlin	Audit Manager
Trevor Makanza	Audit Supervisor
Alan Clifford	Information Systems Auditor

4.2 Important dates in the audit process

Our proposed timetable is:

	Date
First Interim audit	Completed
Second interim audit begins	12 June 2017
Draft interim management report issued	Mid May 2017
Final audit begins	31 July 2017
Draft parent financial statements available for audit ¹	31 July 2017
Draft Council activities and services sections available for audit	7 August 2017
Draft group financial statements available for audit	14 August 2017
Full draft annual report ²	21 August 2017
Report to trustees of debenture trust deed available for audit	7 August 2017
Summary annual report available for audit	28 August 2017
Verbal audit clearance (pre-ORC) given – to be confirmed	15 September 2017
Final Annual report available for audit	19 September 2017
Audit and risk management committee meeting to approve the annual report – to be confirmed	27 September 2017
Draft detailed management report issued	28 September 2017
Council meeting to adopt annual report	5 October 2017
Audit opinion issued	5 October 2017

4.3 Our interim audit visits

We carried out the first interim audit visit during March 2017. During this visit, we focused on updating our understanding of the Council's internal control. This included

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

² Draft annual report, including Mayor and Chief Executive's message, and CCO section.

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. Given the tight timeframe for this year's annual report, we propose a second interim audit visit in June 2017 to complete our review of Council's financial systems, and bring forward some final audit work.

4.4 Our final audit visit

Our final audit is scheduled to start in the week 31 July 2017 and is expected to last nine weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

4.5 Professional fees

The audit fee for the 2017 audit is currently subject to a fee moderation exercise with the Office of the Auditor-General. The results of this moderation process will form the basis of our Audit Proposal Letter covering the proposed audit fees for the three financial years ending 30 June 2017, 2018, and 2019.

We will issue an Audit Proposal Letter on the completion of the fee moderation process. Until that time, we set out below a draft billing profile to reflect the progressive nature of our work.

The final bill in October 2017 has been left blank and will reflect the balance of the agreed 2017 audit fee.

We intend to continue our approach to exclude the costs of reviewing Council's asset revaluations from our base audit fee. These are excluded from the proposal letter on the grounds that it is very difficult to provide a reliable estimate on the amount of audit work required. In 2017, Council are proposing to revalue four infrastructure asset classes including Stormwater assets for the first time since the Canterbury earthquakes and Roading assets utilising a different methodology.

For the four infrastructure asset classes being revalued in 2017 we have estimated an additional fee of \$25,000 (GST exclusive). This includes the expected need to utilise our specialists to assist with reviewing the revaluations.

Allowing for this additional work, we propose a total 2017 audit fee of **\$XXX** plus disbursements (GST exclusive).

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.

We propose to bill as follows:

	Amount
April 2017	\$70,000
June 2017	\$60,000
August 2017	\$100,000
September 2017	\$60,000
October 2017	\$TBC
	<u>\$TBC</u>

To ensure we can complete the audit within the proposed time frame (see section 4.2) 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 have provided Council with a detailed list of the information we will need for the audit.

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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 10 working days. Once management comments are received the report will be finalised and provided to the audit and risk management committee.

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 Council's financial statements.

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 Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the 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 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 two sets 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 Council's website.

Using your internal auditors

Our approach will be to continue to liaise with your internal auditors to ensure appropriate co-ordination of effort. In keeping with the applicable auditing standard, ISA (NZ) 610, *Using the Work of Internal Auditors*, we will make a preliminary assessment of the internal audit function in terms of organisational status, scope, technical competence, and professional care.

If we determine from our preliminary assessment that the internal audit function could be relied on for external audit purposes then we will consider the internal audit work proposed or completed. We will then determine the extent to which we can use the internal audit work to supplement our audit work.

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 Council's financial statements or general accountability. Our audit does not cover all of the 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.

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7. Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987.

I move that the public be excluded from the following parts of the proceedings of this meeting, namely items listed overleaf.

Reason for passing this resolution: good reason to withhold exists under section 7.

Specific grounds under section 48(1) for the passing of this resolution: Section 48(1)(a)

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

- “(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):
- (a) Shall be available to any member of the public who is present; and
 - (b) Shall form part of the minutes of the local authority.”

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON UNDER THE ACT	PLAIN ENGLISH REASON	WHEN REPORTS CAN BE RELEASED
8	PUBLIC EXCLUDED AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES - 20 FEBRUARY 2017			REFER TO THE PREVIOUS PUBLIC EXCLUDED REASON IN THE AGENDAS FOR THESE MEETINGS.	
9	2017 ANNUAL REPORT - KEY ACCOUNTING AND AUDIT ISSUES	S7(2)(H)	COMMERCIAL ACTIVITIES	THE PAPER INCLUDES COMMERCIAL ISSUES WHERE COUNCIL DECISIONS ON THE JUDGEMENTS ARE STILL TO BE MADE.	After the Council has made its decisions on the judgements.
10	QUARTERLY PROCUREMENT REPORT - QUARTER 3 - 2016/17	S7(2)(B)(II), S7(2)(H), S7(2)(I)	PREJUDICE COMMERCIAL POSITION, COMMERCIAL ACTIVITIES, CONDUCT NEGOTIATIONS	THE FOLLOWING INFORMATION MAY PREJUDICE THE COUNCIL'S COMMERCIAL POSITION.	At the expiry of the Agreement.
11	RISK MANAGEMENT STATUS REPORT	S7(2)(C)(II), S7(2)(F)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST, PROTECTION FROM IMPROPER PRESSURE OR HARASSMENT	PREVENT THE IMPROPER USE OF INFORMATION.	Consideration of release pending status of risks and management activity.
12	INTERNAL AUDIT STATUS REPORT	S7(2)(E), S7(2)(F)(II), S7(2)(J)	PREVENTION OF MATERIAL LOSS, PROTECTION FROM IMPROPER PRESSURE OR HARASSMENT, PREVENTION OF IMPROPER ADVANTAGE	PREVENT THE USE OF INTERNAL AUDIT FINDINGS BEING UTILISED FOR IMPROPER ADVANTAGE.	Consideration of release when reported findings have been closed.

13	INTERNAL AUDIT DRAFT PLAN	S7(2)(C)(II)	PREVENT DAMAGE TO THE PUBLIC INTEREST	INFORMATION CONTAINED MAY JEOPARDISE EFFECTIVE DELIVERY OF INTERNAL AUDIT SERVICES IF RELEASED.	Upon finalisation of the Internal Audit Plan
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