

Chairperson and Committee Members
AUDIT AND RISK COMMITTEE

27 APRIL 2017

Meeting Status: **Public**

Purpose of Report: For Information

PROPOSAL TO CONDUCT THE AUDIT OF THE COUNCIL ON BEHALF OF THE AUDITOR-GENERAL FOR THE 2017, 2018 AND 2019 FINANCIAL YEARS

PURPOSE OF REPORT

- 1 This report informs the Audit and Risk Committee of the proposal from Council's auditors, Ernst & Young, to carry out the annual audits of Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years.

DELEGATION

- 2 The Audit and Risk Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.
 - *Confirming the terms of engagement for each audit with a recommendation to the Council; and receiving the external audit reports for recommendation to the Council.*

BACKGROUND

- 3 The Auditor-General is the auditor of all 'public entities', including Kāpiti Coast District Council.
- 4 Under section 32 and 33 of the Public Audit Act 2001, the Auditor General has appointed Ernst & Young to carry out the annual audit of the Council's financial statements and performance information for the three years ending 30 June 2017 to 30 June 2019.
- 5 Fees for the audit of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. Ernst & Young has provided Council the opportunity to consider the proposed fees before being recommended for approval by the Auditor General. The Auditor-General will only set audit fees directly if both parties fail to reach an agreement.

CONSIDERATIONS

- 6 Ernst & Young sets out their proposal to conduct the statutory audit of the Council on behalf of the Auditor-General for the 2017, 2018 and 2019 Financial years (Refer to Appendix 1)

- 7 Ernst & Young's proposed audit fees for the 2017, 2018 and 2019 Financial years are as follows:

Structure of audit fees	2016 budget	2016 actual	2017	2018	2019
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	157,800	157,800	160,170	162,580	165,000
OAG overhead charge	11,500	11,500	11,800	12,200	12,500
Total audit fee (excluding disbursements)	169,300	169,300	171,970	174,780	177,500
Estimated Disbursements	3,000	3,000	3,400	3,400	3,400
Total billable audit fees and charges	172,300	172,300	175,370	178,180	180,900
GST	25,845	25,845	26,306	26,727	27,135
Total (including GST)	198,145	198,145	201,676	204,907	208,035

- 8 Compared to the actual audit fees for the 2016 financial year, the proposed fee increase is due to the following:
- 20 additional audit hours are now required due to increased legislative reporting requirements (mainly driven by the introduction of the Local Government (Financial Reporting and Prudence) Regulations 2014), and
 - Ernst and Young predict an annual staff salary cost movement of 1.5% per year for the three year period.
- 9 Council Officers have considered this proposal and have determined that the proposed fee increases are fair and reasonable.

Policy Implications

- 10 There are no policy considerations arising from this report.

Legal Considerations

- 11 Any legal issues have been considered as part of this report.

Financial Considerations

- 12 The total audit fees payable to Ernst & Young for the year ended 30 June 2017 are \$175,350 plus GST. This fee includes the audit of the 2016/17 Annual Report, assessing Council's compliance with its Debenture Trust Deed for the year ended 30 June 2017 and estimated disbursements. This has been included in the 2016/17 Annual Plan and no new money is required.
- 13 In addition to the above, the Debenture Trust Deed requires a full audit of the register. Ernst & Young, as auditors of Council, has the responsibility of confirming to the Trustee whether Council has met this requirement. Council has engaged PricewaterhouseCoopers (PwC), the auditors of Computershare (the registrar), to complete an audit of the Council's register. The fee for this service is \$750 (inclusive of GST). This has been included in the 2016/17 Annual Plan and no new money is required.

Tāngata Whenua Considerations

14 There are no tāngata whenua considerations arising from this report.

Publicity Considerations

15 There are no publicity considerations at this stage.

SIGNIFICANCE AND ENGAGEMENT

16 This matter has a low level of significance under the Council Policy.

RECOMMENDATIONS

17 That the Audit and Risk Committee notes Ernst & Young's proposal to conduct the audit of Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financials years.

Report prepared by:

Approved for submission by:

**Anelise Horn
Manager, Financial Accounting**

**Wayne Maxwell
Group Manager Corporate Services**

Approved for submission by:

**Sarah Stevenson
Group Manager Strategy & Planning**

Appendix 1: Ernst & Young Proposal to conduct the audit of Kāpiti Coast District Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years.

10 January 2017

Ref: 60822158/18333968

Wayne Maxwell

Group Manager Corporate Services
Kapiti Coast District Council
Private Bag 60601
Paraparaumu 5254

Copy:

Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Dear Wayne

Proposal to conduct the audit of Kapiti Coast District Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), 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 and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; 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”.

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, you and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include 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 Kapiti Coast District Council and reporting to the Trustee pursuant to the Debenture Trust Deed dated 19 September 2012. The Trust Deed provides security for those who provide debt financing to the Council.

4 Key members of the audit team

Appointed Auditor	David Borrie
Quality Control Reviewer	Marcus Henry
Audit Manager	Ahmed Sofe
Technical Accounting Specialist	Charis Halliday
IT Assurance Specialist	Linden Vazey

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

Audit team member	2016 budget	2016 actual	2017	2018	2019
Appointed Auditor	55	54	55	55	55
Review Partner	10	12	11	11	11
Audit Manager	125	140	130	130	130
Other CA qualified staff	185	280	197	197	197
Non CA qualified staff	478	540	480	480	480
Other specialists (IT and Technical)	25	19	25	25	25
Total audit hours	878	1,045	898	898	898

Actual hours for the 2016 audit were higher than the budgeted hours set out in the 2014 to 2016 audit proposal letter due to:

- Unanticipated work in relation to the accounting implications of a recently established Trust. This was a one-off cost and is therefore excluded from our budget for 2017 to 2019.
- Unanticipated work in relation to considering legislative compliance regarding the assessment of water rates. This was a one-off cost and is therefore excluded from our budget for 2017 to 2019.
- A multi-stage audit timeframe was used for 2016 and this resulted in some inefficiencies. These inefficiencies are excluded from our budget for 2017 to 2019 audits as they are not expected to re-occur.
- Time spent auditing additional reporting requirements set out in new legislation and regulation as explained in point 5.1 below. This is expected to be an ongoing cost and is factored into our fees for the 2017 to 2019 period.

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:	2017	2018	2019
Changes to mandatory auditing procedures:	20	-	-
• Increased legislative reporting requirements			
Total increase (decrease) in audit hours	20	-	-

Increased legislative reporting requirements

Additional time required to audit the disclosures under the amendments to Part 3 of Schedule 10 of the Local Government Act 2002 and the introduction of Local Government (Financial Reporting and Prudence) Regulations 2014. These costs were anticipated in the 2014 to 2016 audit proposal letter, however more time was required to complete these procedures than anticipated in that proposal letter. Approximately an additional 20 hours is needed to cover these mandatory disclosures from an audit perspective. While we have included the increased hours in this letter we haven't increased the audit fee as a result of this extra work in an effort to keep fees as low as practically possible and to ensure the audit fee continues to represent value for money.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2016 budget \$	2016 actual \$	2017 \$	2018 \$	2019 \$
Net audit fee (excluding OAG overhead and disbursements)	157,800	157,800	160,170	162,580	165,000
OAG overhead charge	11,500	11,500	11,800	12,200	12,500
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The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also 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 changes in audit fees

The main changes in cost components for future audits are:

Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.	2017 \$	2018 \$	2019 \$
Predicted staff salary cost movements (1.5%)	2,370	2,410	2,420
Changes to mandatory auditing procedures · Increased legislative reporting requirements	-	-	-
Total increase (decrease) in audit fees	2,370	2,410	2,420

Predicted staff salary cost movements

Expected movement in staff costs is 1.5% per annum for the three year period.

Other movements

Other movements are dealt with in Section 5.1 above.

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions that:

- 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 and the OAG at the time.

8 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.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General 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 governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely



David Borrie
Partner
Ernst & Young
