

Public Excluded

Report PE99.267

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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Future Audit Arrangements

1. Purpose

To consider the Auditor-General's offer that the Council be involved in the contestable tendering of audit services.

2. Exclusion of the Public

Grounds for the exclusion of the public under Section 48(i) of the Local Government Official Information Act 1987 are:

That the public conduct of the whole or relevant part of the meeting would be likely to result in a disclosure of information for which good reasons for withholding exists, ie to carry on commercial negotiations.

3. Background

The Council's current audit service provider is Audit New Zealand, which together with the Office of the Controller and Auditor-General, form what used to be known as the "Audit Office". Audit New Zealand is a stand alone business unit which competes with chartered accounting firms for public sector audits. The Office of the Controller and Auditor-General is ultimately responsible for the quality of all audits performed, and as a result, sets audit policy, conducts quality control checks and carries out the contestable audit tender process.

Each 3 years audit entities, such as the Council, are given the opportunity to go to tender, or indeed to stay with their current audit service provider. In

1996 the Council, when given the opportunity to go to tender, chose to negotiate a three year contract with Audit New Zealand.

The attached letter to the General Manager from the Office of the Controller and Auditor-General outlines the background to the audit tender process, should the Council wish to pursue the tender option, together with the option of staying with Audit New Zealand (see Attachment 1).

4. Comment

Audits in the local authority sector remain dominated by Audit New Zealand with only 4 local authorities currently audited by chartered accounting firms:

Central Hawkes Bay District Council	BDO Hogg Young Cathie
Buller District Council	BDO Hogg Young Cathie
Otago Regional Council	Deloitte Touche Tohmatsu
Southland Regional Council	BDO Hogg Young Cathie

The Council is now being asked whether or not it wishes to participate in a contestable tender round (whereby Audit New Zealand and 2 other firms would be asked to submit audit proposals), or whether it prefers to roll over the existing audit arrangements with Audit New Zealand for a further 3 years.

5. The Contestable Process

The Office of the Controller and Auditor-General manages the tender process and the ultimate decision as to which auditor is selected rests with the Controller and Auditor-General. A 3 person panel, established for the purposes of making a recommendation to the Controller and Auditor-General is comprised of:

- A representative of the Office of the Controller and Auditor-General
- A Council Officer or Elected Member
- An independent person (eg a Barrister)

If the Council decided that it wished to participate in the contestable tender process, it is important to appreciate that it involves a degree of work for both the WRC panellist, but also for others in the Council involved in due diligence process with the shortlisted audit service providers. (Due diligence is a process whereby the shortlisted providers ascertain from the audit entities such as the Council, the information necessary for the preparation of their proposal).

Also, as the Controller and Auditor-General makes the ultimate decision of auditor, the contestable tender route does not guarantee that the Council will end up with its preferred auditor (ie while Council will have a degree of say by virtue of being 1 voice on a 3 person panel, this in no way guarantees Council's preference for auditor will be appointed).

6. The Nature of the Current Audit Arrangements

Audit New Zealand has been the Council's statutory auditor since Audit New Zealand was established as a separate business unit in December 1992. Prior to that the audit was conducted by what was then the Audit Office.

The current audit fees paid to Audit New Zealand are as follows:

Council	\$85,000
Council LATEs	\$10,000
	—————
	\$95,000
	—————

Audit New Zealand recently changed the mix of their fee to recognise the increased workload now in the Council LATEs as a result of the restructuring of Council's ownership in Port Wellington (overall, the fee was held at the previous level of \$95,000, meaning the fee for the Council audit reduced from \$90,500 to \$85,000).

Audit New Zealand has indicated that it is prepared to cap the audit fees at their current level if Council decides not to go to tender, and rather, chooses to negotiate directly with Audit New Zealand. This is a reasonable commercial response given the costs Audit New Zealand would save by not having to complete an audit proposal.

In addition, Audit New Zealand carries out "extended scope" assignments for the Council as directed by the Chief Financial Officer (in consultation with the Executive Management Team). The purpose of these additional assignments, which are entirely discretionary from Council's point of view, are to add assurance to specific areas which cannot be achieved through the normal statutory audit process.

The extended scope audit fees are agreed on a project by project basis and typically are in the range of \$3,000 - \$5,000 per project (eg review of the Annual Plan which we have had performed each year).

The current audit arrangements work well from an officers' perspective and I believe a good relationship exists with our auditors, Audit New Zealand. In addition, both the General Manager and myself have direct contact with key staff in the Office of the Controller and Auditor-General wherever appropriate.

7. Why Change Auditors?

On the basis that the current audit arrangements work well and that the vast majority of the local authority sector (83 out of 87) are currently audited by Audit New Zealand, I do not believe there is a strong case for change.

Audit New Zealand staff have a good knowledge of the local authority sector and more importantly, a good knowledge of the Wellington Regional Council's systems and procedures. The corollary of this is that any new auditor would be on a steep learning curve. While it would be a reasonable option to elect to go to tender to "see what the process might turn up", this approach runs the risk that we may not end up with the auditor of our choice.

Also, I believe there is a high degree of public comfort with the Council being audited by what is still seen as the "Audit Office".

8. Communications

I don't believe there is anything in this report requiring communication with stakeholders.

9. Recommendations

- (1) *That the report be received and the contents noted.*
- (2) *That the Committee recommend to Council that:*
 - (a) *It decline the offer of the Controller and Auditor-General to enter into a contestable audit process.*
 - (b) *Authorise the Chief Financial Officer to enter into formal arrangements with Audit New Zealand for the audits of the financial years ending 30 June 2000, 2001 and 2002.*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Letter dated 14 May 1999 from the Office of the Controller and Auditor-General