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19 August 2022

Mr Blair King
Chief Executive
Far North District Council

By email: blair.king@fndc.govt.nz

For the attention of the Chief Executive and/or the Chairperson of Far North District Council

Tēnā koe Blair

Change of auditor

I'm following up on a phone call that my colleague, Laura Cannon, had with your CFO - Janice Smith on 19 August about this matter. The purpose of Laura's call was just to advise you that this letter would follow.

You may be aware that an industry-wide auditor shortage and subsequent Covid-related lockdowns have been disruptive for many audit firms, resulting in delays to the completion of many audits. We expect that it will take time to restore capacity throughout the audit profession.

It is important that the Auditor-General takes all possible steps to ensure that the audits of public organisations are completed in a timely manner, to help maintain trust and confidence in the public sector.

We have been working with all audit service providers to ensure that they are well positioned to complete their public sector audits on time. Some firms are able to access additional staff from their overseas offices, and most are able to make commercial decisions about the audits they take on or relinquish. Audit New Zealand is unable to take these steps.

As a result, we have been carefully considering the short-term and longer-term options for a number of audits and propose to reallocate some from Audit New Zealand to other audit service providers. In doing that, we have continued to apply the principles that are important in appointing an auditor – independence, their knowledge about public organisations and public sector audits, the particular audit skills required, and the need for the Auditor-General to always have access to enough audit capacity and capability.

Your audit is one that we propose to reallocate, from Audit New Zealand to a partner from the firm of Deloitte Limited. This change will mean that your audit is completed as quickly as possible, this year and in subsequent years.

We recognise that reallocating your audit after your financial year has ended is not ideal and might cause you some disruption. We will expect your outgoing appointed auditor to work collaboratively with the incoming one, to ensure a smooth transition.

New Audit Proposal, and audit fees

Deloitte Limited will need to prepare a draft Audit Proposal for discussion with you. The proposal will cover the statutory basis for the audit, key staff assigned to the audit, and the audit hours and fees for each audit year. The new proposal will be for an initial term commencing with the 2022 audit.

If audit fees have already been agreed for your audit, those audit fees will be honoured.

If audit fees have not been agreed for your audit, the new auditor will need to work with you to agree them. Under the Public Audit Act 2001, audit fees must be reasonable, which means they should be fair to the entity, and provide a fair return (but not more than that) to the auditor for the work that is required.

We provide audit firms with guidance to follow when setting audit fees. You and Deloitte Limited need to agree a way to understand the real costs of the audit and agree future audit fees that are reasonable. We expect the Deloitte Limited to use the first year to understand and properly scope future audits, and to propose audit fees for future years based on that initial year's understanding (excluding, as always, any first-year investment in understanding your entity).

The first year might need to have an estimated fee with an agreed means of confirming that during and after the audit. For example, a helpful process we have used requires the auditor and key entity staff to have a short regular debrief (for example, at the end of each week) to understand that week's work and costs, and especially to understand any inefficiencies from either side.

The Audit Proposal will contain the appointed auditor's expectations of your organisation in relation to the audit. You'll need to work together with them and take the opportunity to discuss those factors that are within your control to make the audit less time-consuming and more efficient. As we always do, we will review the proposed audit fees to ensure that they are reasonable.

Auditor independence

The Auditor-General sets independence standards for auditors acting on his behalf, which include the standards set by the External Reporting Board. He limits the nature and amount of work that an auditor can carry out for an organisation to the audit itself and other assurance work. If you have any concerns that some work your organisation expects your auditor to carry out, or might ask your auditor to carry out, is not assurance work, you are welcome to seek our views.

If you wish to discuss any aspect of this letter, or, after discussion with your auditor, require our analysis of the proposed audit fee, please contact me at Murray.Powell@oag.parliament.nz

Nāku noa, nā



Murray Powell
Audit Projects Director