

7 July 2023

Ref.: EN/LCA/3-0009

Janice Smith
General Manager – Corporate Services
Far North District Council
Private Bag 752
Kaikohe, 0440

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

Dear Janice

Proposal to conduct the audit of Far North District Council and subsidiaries on behalf of the Auditor-General for the 2023, 2024 and 2025 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 2023, 2024 and 2025. The proposed fees for 30 June 2024 and 2025 will be revised annually. 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 year ending 30 June 2023 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG Audit Standards and Quality Support 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, your Council 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 audits of the following entities:

Far North District Council

4 Key members of the audit team

Appointed Auditor	Bennie Greyling
Quality Control Reviewer	Bryce Henderson
Audit Manager	Shrav Chandra

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	2022 Budget*	2022 Actual	2023 Budget**
Appointed Auditor	75	131	90
Quality control review partner	15	35	20
Audit Manager	131	189	150
Other staff – CA Qualified	800	220	200
Other staff – non-CA Qualified	***	802	625
Specialists	13	15	15
Total audit hours	1,034	1,392	1,100

*: Note that this budget is based on the budgeted hours provided by Audit NZ in the 2021 – 2022 audit proposal letter issued in June 2021 and does not include the additional hours associated with on-boarding in the first year following the change in appointed auditor in 2022.

** : Note that this assumes that revaluations will occur in the current year of your core infrastructure assets.

*** Allocation between CA qualified and non-CA qualified staff not provided in the previous Audit Proposal letter.

5.1 Reasons for changes in audit hours (From budgeted 2022 hours)

The budgeted hours for the 2022 audit are from the Audit Free Proposal submitted by the previous auditors Audit NZ in June 2021. We were appointed auditors in 2022 and agreed to honour the agreed fee for 2022. The actual audit hours for 2022 exceeded the budgeted 2022 hours mainly due to:

- Additional hours associated with onboarding and the change of auditor
- Inherent inefficiencies associated with performing an audit in the first year of appointment
- Additional audit effort required to meet increased audit requirements and additional complexities associated with the engagement (see table below)

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:	2023
Over time the complexity of the audit of the Council has increased. Additional audit work is required to be undertaken due to changes in auditing standards, regulatory requirements and changes in Council’s activities, systems and risks. There has also been increased annual revaluations undertaken which have increased audit effort year on year. These changes have not necessarily been reflected the historical budgeted hours have been under the requisite hours required to complete the audit, most recently the 2022 audit.	66
Total increase (decrease) in audit hours	66

The 2023 budgeted hours represent our best estimate of the hours (excluding the hours associated with onboarding and performing a first-year audit) based on our experience following the completion of the 2022 audit.

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	2022 budget fees*	2022 actual fees charged (excluding cost overruns)	2023
	\$	\$	\$
Net audit fee (excluding OAG Audit Standards and Quality Support charge and disbursements)	187,823	187,823	220,000
OAG Audit Standards and Quality Support charge	16,654	16,654	20,922
Total audit fee (excluding disbursements)	204,477	204,477	240,922
Estimated Disbursements, including technology charge (2%)	24,000	16,000	29,000
Total billable audit fees and charges	227,854	219,854	269,922
GST	34,178	32,978	40,488
Total (including GST)	262,032	252,832	310,410

*: The 2022 budget fees were set based on Audit New Zealand's Fee Proposal signed on 30 June 2021 which we agreed to honour and is reflected in our actual fees charged.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support 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

In table 5.1 we showed the factors that have resulted in a change of audit hours. The cost impacts of those changes are shown in the table below. In addition, inflationary pressures over the past three years have significantly exceeded historical salary rate adjustments.

Reasons for increased or decreased audit fees compared to previous period budgeted fees.	2023
Predicted staff salary cost movements – inflation and additional cost incurred to perform the audit which have not kept pace with historical salary rate adjustments applied over the past three years.	20,297
Increased hours due to increased requirements and complexity in the audit process,	11,880
Total increase (decrease) in audit fees	32,177

7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- You will provide to us, in accordance with the agreed timetable, 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 by you 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 (other than as specified in tables 5.1 and 6.1).
- 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, timing of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues and any implications for our audit costs and your audit fees with you and the OAG at the time.

8 What the OAG Audit Standards and Quality Support charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support charge) to be funded by public entities.

The OAG Audit Standards and Quality Support 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 Audit Standards and Quality Support 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

Deloitte Limited

Bennie Greyling
Partner
For Deloitte Limited

I accept the audit fees for the audit of the financial year as stated above.

Full name: _____ Position: _____

Authorised signature: _____ Date: _____

Entity name: _____

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to:

Bennie Greyling
Deloitte Limited
Private Bag 115033
Auckland, 1010