

28 May 2020

Louise Miller  
Chief Executive  
Kaipara District Council  
Private Bag 1001  
Dargaville

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

Dear Ms Miller

**Proposal to conduct the audit of Kaipara District Council and subsidiaries on behalf of the Auditor-General for the 2020, 2021 and 2022 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 2020, 2021 and 2022*. 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 2020, 2021 and 2022* 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".

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Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, 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 audit of Kaipara District Council.

A separate proposal will be provided for Northland Inc, even though they are part of the group, due to their separate governing body.

### 4 Key members of the audit team

Appointed Auditor  
Quality Control Reviewer  
Audit Manager

*Bryce Henderson*  
*Brett Tomkins*  
*Vera Chian*

### 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	2019 budget	2019 actual (*)	2020	2021	2022
Appointed Auditor	60	89	75	75	75
Review Partner	15	10	15	15	15
Audit Manager	115	188	160	160	160
Other CA qualified staff	220	261	240	240	240
Non CA qualified staff	560	655	600	600	600
IT and valuation specialists	10	10	10	10	10
<b>Total audit hours</b>	<b>980</b>	<b>1,213</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>

(\*) NOTE - actual hours have been adjusted to eliminate any hours that were due to auditor inefficiencies. The actual hours that remain are the reasonable hours that were attributable to the audit in that year.

#### 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:	2020	2021	2022
Material increases in the fair value of assets each year has resulted in an increase in the frequency of revaluations performed for each class of asset. For example, a full revaluation of roading has been done each year for the last three years vs. 3 year cycle.	70		

<b>Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Given the level of detail that the annual reports are presented at, the history of the number of versions of annual reports and number of different KDC staff involved in preparing the financials, more time is required to review the annual report.	30		
An increase in the amount of time spent on contributions revenue, biological assets and landfill provision due to the complexity in these areas.	20		
<b>Total increase (decrease) in audit hours</b>	<b>120</b>	-	-

## 6 Proposed audit fees

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

<b>Structure of audit fees</b>	<b>2019 budget fees</b>	<b>2019 actual fees charged (A)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	155,000	200,000	157,325	To be agreed in FY21 (C)	To be agreed in FY21 (C)
OAG overhead charge	10,990	10,990	11,150		
<b>Total audit fee (excluding disbursements)</b>	<b>165,990</b>	<b>210,990</b>	<b>168,475</b>		
Estimated Disbursements	16,600	20,208	18,500		
<b>Total billable audit fees and charges</b>	<b>182,590</b>	<b>231,198</b>	<b>186,975</b>		
GST	27,389	34,680	28,046		
<b>Total (including GST)</b>	<b>209,979</b>	<b>265,878</b>	<b>215,021</b>		

### 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.

<b>Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Approximate 1.5% inflationary movement (Reflecting wage inflation)	2,325	To be agreed in FY21	To be agreed in FY21 (C.)
Material increases in the fair value of assets each year has resulted in an increase in the frequency of revaluations performed for each class of asset. For example, a full revaluation of roading has been done each year for the last three years vs. 3 year cycle.	B.		



Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.	2020	2021	2022
Given the level of detail that the annual reports are presented at, the history of the number of versions of annual reports and number of different KDC staff involved in preparing the financials, more time is required to review the annual report.	B.	(C.)	
An increase in the amount of time spent on contributions revenue, biological assets and landfill provision due to the complexity in these areas.	To be agreed in FY21 (C.)		
<b>Total increase (decrease) in audit fees</b>	<b>2,325</b>		

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.

- A. Actual fees charged were approved by OAG in Sept 2019. The additional audit fee relates to additional time spent on the revaluation process, increased substantive testing due to errors and additional review of the annual report.
- B. These are areas that we spend additional time in previous years. We may seek additional fees in these areas when the audit for 2020 has been completed should the reason for the circumstances for overruns arise again.
- C. As a result of Covid-19, audit fees for the 2020 audit are to be held at 1.5% increase of the 2019 audit. Fees for 2021 and 2022 will be renegotiated after the completion of the 2020 audit.

## 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. In particular, data and information relating to non-financial performance measures will be subject to Council's internal quality review processes before it is audited by us, and the process managed so as to facilitate the timely delivery of relevant information for audit testing.
- Your organisation's financial statements will include all relevant disclosures.
- 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.
- The revaluation of infrastructure assets occurs once every three years.

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 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



*Bryce Henderson*  
**Partner**  
**for Deloitte Limited**  
**On behalf of the Auditor-General**

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I accept the audit fees for the audit of the 3 financial years 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: Bryce Henderson  
Deloitte Limited  
Private Bag 115033  
Shortland Street  
Auckland 1140