

10 July 2024

Ref.: EN/LCA/03-0038

Sven Hanne
Chief Executive
Stratford District Council
PO Box 320
Stratford 4352

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

Dear Sven

Proposal to conduct the audit of Stratford District Council and subsidiary on behalf of the Auditor-General for the 2024 financial year

1 Introduction

Referring to the audit proposal dated 11 May 2022, the Auditor General proposes to appoint me to carry out the audit of your organisation for the 2022 to 2024 financial years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audits of Stratford District Council and Percy Thomson Trust for the financial year ended 30 June 2024.

The purpose of this proposal is to provide information on:

- the statutory basis for the audits 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 audits and reasons for any change in hours;
- our proposed fees for the audits for the financial year ended 30 June 2024;
- 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 audits 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. The Act requires the Auditor-General to make sure that audit fees are “reasonable” for both the auditors who complete the audits for Auditor-General, and for each of the entities audited.

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 financial statements of:

- Stratford District Council; and
- Percy Thompson Trust

4 Key members of the audit team

Appointed Auditor
Quality Control Reviewer
Audit Manager
Information Technology Partner

Pam Thompson
Bruno Dente
Luke van der Walt
Reenesh Bhana

5 Estimated audit hours

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

5.1 Stratford District Council ('SDC')

Audit team member	2023 budget	2023 actual	2024 budget
Appointed Auditor	65	54	76
EOCR Partner	11	14	15
Audit Manager	95	121	118
Other CA qualified staff	283	345	338
Non CA qualified staff	467	412	444
Other specialists	50	90	50
Total audit hours	971	1,036	1,041

5.2 Percy Thomson Trust ('PTT')

Audit team member	2023 budget	2023 actual	2024 budget
Appointed Auditor	10	7	7
EOCR Partner	3	3	3
Audit Manager	18	14	14
Other CA qualified staff	110	114	95
Total audit hours	141	138	119

5.3 Reasons for changes in audit hours

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

Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:	SDC	PTT
Valuation of roading assets due for valuation at 30 June 2024	50	-
Valuation of water assets due for valuation at 30 June 2024	50	-
Valuation of land and buildings at 30 June 2023	(30)	(22)
Total increase (decrease) in audit hours	70	(22)

6 Proposed audit fees

Our proposed fees for the next year audit (compared to budgeted and actual data from the previous financial year) is:

6.1 Stratford District Council

Structure of audit fees	2023 budget fees	2023 actual fees charged	2024 budget*
	\$	\$	\$
Net audit fee (excluding OAG Audit Standards and Quality Support charge and disbursements) *	183,500	183,500	212,000
Discount**	(20,000)	(20,000)	
Total Net audit fee	163,500	163,500	212,000
OAG Audit Standards and Quality Support charge	18,468	18,468	21,336
Total audit fee (excluding disbursements)	181,968	181,968	233,336
Estimated Disbursements, including 2% technology charge	21,058	22,199	22,785
Total billable audit fees and charges	203,026	204,167	256,121
GST	30,454	30,625	38,418
Total (including GST)	233,480	234,792	294,539

* Net audit fee includes cost of undertaking the audit of a valuation for roading, bridges and culverts, land and buildings, and three waters assets on three yearly cycles. The valuation for roading, land and buildings and three waters assets last occurred in 2021, 2023 and 2021 respectively and will next be conducted in 2024, 2026 and 2024 respectively (based on three-year cycle).

Should an out of cycle valuation be required an additional fee will be charged per valuation. This assumes that the revaluations will occur in the current year of your core infrastructure assets and these valuations will be performed at year end rather than the beginning of the financial year. The total estimated budgeted hours have been benchmarked against other council audits and the total budgeted hours above represents the average time it takes to complete the audit.

** Based on the various options provided to Council in terms of phasing the audit fee increase, Council opted to take the full discount of \$20,000 in the 2023 financial year.

6.2 Percy Thomson Trust

Structure of audit fees	2023 budget fees \$	2023 actual fees charged \$	2024 budget* \$
Net audit fee (excluding OAG Audit Standards and Quality Support charge and disbursements)	24,740	24,740	21,935
OAG Audit Standards and Quality Support charge	1,128	1,128	1,001
Total audit fee (excluding disbursements)	25,868	25,868	22,936
Estimated Disbursements, including technology charge (2%)	995	964	948
Total billable audit fees and charges	26,863	26,832	23,884
GST	4,029	4,024	3,582
Total (including GST)	30,892	30,856	27,466

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.

6.3 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.

Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.	SDC	PTT
Predicted staff salary cost movements - inflation	7,500	1,045
Valuation of roading assets due for valuation at 30 June 2024	15,000	-
Valuation of water assets due for valuation at 30 June 2024	15,000	-
Valuation of land and buildings at 30 June 2023	(9,000)	(3,850)
Full discount taken in 2023	20,000	-
Total increase (decrease) in audit fees	48,500	(2,805)

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. This includes appropriate add checks and check notes are internally consistent.
- 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 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 audit does not include any climate change scope of work.

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

Pam Thompson
Partner
For Deloitte Limited

Deloitte.

I accept the audit fees for the audit of 30 June 2024 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: Pam Thompson
Deloitte Limited
PO Box 1990
Wellington 6140

