



17 June 2021

Mayor Tim Shadbolt  
Invercargill City Council  
Private Bag 90104  
Invercargill 9840

Dear Tim

### **Proposed audit fees for the 30 June 2021 and 30 June 2022 financial years**

Our audit proposal letter dated 12 May 2020 for the three financial years ending 30 June 2022 only included audit fees for the 30 June 2020 financial year and said we would agree the fees for the 30 June 2021 and 30 June 2022 audits at a future date.

The purpose of this letter is to provide information on:

- the hours we plan to spend on the audits and the reasons for any change in hours; and
- our proposed audit fee for each financial year, and the reasons for the proposed change in fee.

Please read this letter in conjunction with our audit proposal letter dated 12 May 2020.

#### **1 Background to the fee increases**

In our audit proposal letter dated 12 May 2020, we set out the statutory basis for our audit and how fees are set.

We also referred to a letter that the Auditor-General had sent to councils in April 2020 setting out his thoughts on the matter of council audit fees. He reflected that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. He advised that audit fees will, in the future, need to be increased to reflect the real costs. We have included this letter in Appendix 1.

The Auditor-General has now agreed to allow us to discuss with you an approach to increasing audit fees to better reflect those real costs. The estimated cost of an efficient audit on a full recovery basis for your council in 2021 is in the range of \$185 000 to \$208,000, that is, about \$54,000 or 37% more than the 2021 proposed fee. We acknowledge that the likely increase is significant and will need to be phased in over time. Also, circumstances may change in the long-term (for example three waters reform) that would alter the proposed fee.

## 2 Team mix and hours for the year ending 30 June 2021 and 30 June 2022

Audit team member	2020 budget	2020 actual	2021 proposed	2022 proposed
Directors	89	109	89	89
EQR Director	15	15	15	15
Audit Manager	136	193	136	136
Other CA qualified staff	394	1,149	394	394
Non CA qualified staff	352	543	352	352
Sector specialists	8	0	8	8
Information and tax specialists	21	46	21	21
<b>Total audit hours</b>	<b>1,015</b>	<b>2,055</b>	<b>1,015</b>	<b>1,015</b>

\*Note – actual hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to auditor inefficiencies.

\*\* The above doesn't include the work over the TechOne upgrade. This has been provided to yourself within a separate engagement.

### *Reasons for changes in audit hours*

We are not proposing any change in audit hours.

## 3 Proposed audit fee for the year ending 30 June 2021 and 30 June 2022

Our proposed fee for your audit (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2020 budget fees \$	2020 actual fees \$	2021 proposed \$	2022 proposed \$
Net audit fee (excluding Office of the Auditor-General (OAG) overhead and disbursements)	123,450	123,450	134,561	143,671
OAG Audit Standards and Quality Support fee	11,413	11,413	12,440	13,559
Additional audit fees	-	48,849**	-	-

Structure of audit fees	2020 budget fees \$	2020 actual fees \$	2021 proposed \$	2022 proposed \$
<b>Total audit fee (excluding disbursements)</b>	<b>134,863</b>	<b>183,712</b>	<b>147,001</b>	<b>157,230</b>
Estimated disbursements	17,900	29,070	17,900	17,900
<b>Total billable audit fees and charges (excluding GST)</b>	<b>152,763</b>	<b>212,782</b>	<b>164,901</b>	<b>175,130</b>

\*Note – 2020 actual audit fees charged were \$183,712 compared to our 2020 audit costs of \$342,646. These costs have not been adjusted to eliminate any matters arising from auditor or client inefficiencies.

\*\* The additional audit fees arose from the need to perform additional work resulting from the Covid-19 pandemic and its impact on Invercargill City Council (the Council). This included consideration of the impacts on the Council’s valuations, performance information and disclosure. There were also delays to the audit caused by a significant level of change in client personnel. The result of these matters meant the preparation for the audit was compromised, and a significant level of corrections were required to the annual report.

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 fee.

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.

#### ***Reasons for increase in audit fee***

The main changes in cost components for future audits are:

Reasons for increased audit fee compared to previous period budgeted fees:	2021	2022
Other changes*	11,111	9,110
OAG overhead increase	1,027	1,119
<b>Total increase (decrease) in audit fees</b>	<b>12,138</b>	<b>10,229</b>

\*We are reflecting the full budget hours but not the resulting costs.

#### **4 Assumptions relating to our audit fee**

Our proposed audit fee is based on the assumptions included in our audit proposal letter dated 12 May 2020. Specific exclusions to the fee are noted in section 7.1 of the audit proposal letter dated 12 May 2020.

Our hours and fees are based on one revaluation for each class of asset in the three-year period and are incorporated into our overall hours and spread evenly across the three years.

#### **5 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 contact me.


Please counter-sign this letter (below) to confirm that you, and the governing body of the Council, 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 contract with the Auditor-General to carry out the audit of the Council as the agent of the Auditor-General.

Yours sincerely



Dereck Ollsson  
Appointed Auditor  
Audit New Zealand

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

Full name: Tim Shadbolt Position: Mayor  
Authorised signature:  Date: 29/6/2021  
Entity name: Invercargill City Council

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send an electronic copy of the original to:  
Dereck Ollsson [Dereck.Ollsson@auditnz.parliament.nz](mailto:Dereck.Ollsson@auditnz.parliament.nz)