

7 May 2025

Ref.: EN/LCA/03-0028

Max Baxter
Mayor
Ōtorohanga District Council
PO Box 11
OTOROHANGA

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

Dear Max

Proposal to conduct the audit of Ōtorohanga District Council on behalf of the Auditor-General for the 2025, 2026, 2027 and 2028 financial year

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next three financial years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the four next financial years ending 30 June 2025, 30 June 2026, 30 June 2027 and 30 June 2028. 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 fee for the audit for the financial year ending 30 June 2025, 30 June 2026, 30 June 2027 and 30 June 2028 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 Councillors 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.

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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**

The hours and fee included in this proposal relate solely to the audit of Ōtorohanga District Council.

4 **Key members of the audit team**

Appointed Auditor	Bruno Dente
Quality Control Reviewer	Mike Hoshek
Audit Manager	Ben McLeod

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	2024 budget	2024 actual (*)	2025 budget	2026 budget	2027 budget	2028 budget
Appointed Auditor	50	66	50	50	50	50
Review Partner	10	14	10	10	10	10
Audit Manager	95	160	95	95	95	95
Other CA qualified staff	240	230	240	240	240	240
Non-CA qualified staff	505	720	505	505	505	505
Total audit hours	900	1,190	900	900	900	900

(*) NOTE - actual hours (1,280 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.

Actual hours for the year ended 30 June 2024 were higher than budgeted due to:

- Additional hours were spent testing vested assets, which involved gaining an understanding of the assets and conducting appropriate sampling. Furthermore, extra time was dedicated to testing management override of controls and the statement of service performance, obtaining a deep understanding of the internal controls and processes related to the statement of service performance.
- Larger samples were needed for areas such as property, plant, and equipment, leading to increased testing time. Additionally, specific aspects of loan receivables required additional attention, prompting discussions with an internal expert to ensure accurate treatment.

We will continue to work together to create audit efficiencies to reduce audit hours to be more in line with the budgeted hours of 900.

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:	2025	2026	2027	2028
No change in budgeted hours have been proposed.	-		-	-
Total increase (decrease) in audit hours	-		-	-

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	2024 budget fees	2024 actual fees charged (**)	2025 budget fees	2026 budget fees	2027 budget fees	2028 budget fees
	\$	\$	\$	\$	\$	\$
Net audit fee (excluding OAG Audit Standards and Quality Support charge and disbursements)	190,671	190,671	197,344	203,264	209,362	215,642
OAG Audit Standards and Quality Support charge	17,883	17,883	18,688	19,529	19,530	19,530
Total audit fee (excluding disbursements)	208,554	208,554	216,032	222,793	228,892	235,172
Estimated Disbursements, including technology charge (3%) (***)	6,691	6,053	8,998	9,176	9,358	9,547
Total billable audit fees and charges	215,245	214,607	225,030	231,969	238,250	244,719
GST	32,287	32,191	33,755	34,795	35,738	36,708
Total (including GST)	247,532	246,798	258,785	266,764	273,988	281,427

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.

(**) NOTE - Net audit fee includes cost of undertaking the review of valuation roading bridges and culverts, land and buildings, and three waters assets on three yearly cycles. The valuation for roading, land and buildings, solid waste and three waters assets last occurred in 2023, 2024 and 2022 respectively and will next be conducted in 2026, 2027 and 2025 respectively (based on three-year cycle). Should an out of cycle valuation be required an additional fee of \$15,000 will be charged per valuation.

(***) The technology fee is a charge that is 3% of the net audit fee for the costs relating to delivering the audits in a virtual and digital environment. These costs pertain to the processes, controls and systems for the secure handling of data and other technology related items such as data changes, hardware and software costs and licensing fees.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

Reasons for increased or decreased audit fees compared to previous period <u>budgeted</u> fees.	2025	2026	2027	2028
3.5% inflationary increase including staff costs (2025: 3.5%, 2026: 3%, 2027: 3%, 2028: 3%)	6,673	5,920	6,098	6,280
Total increase (decrease) in audit fees	6,673	5,920	6,098	6,280

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 is no work to be performed in relation to climate disclosures or measures included within the annual report. Any work required over climate disclosures or measures will be considered a change in scope.
- 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



Bruno Dente
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:

Bruno Dente

Deloitte Limited

PO Box 17

Hamilton 3240