



9 August 2017

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Mr Andy Watson  
Mayor  
Rangitikei District Council  
Private Bag 1102  
Marton 4741

Dear Andy Watson

### **2018-28 LONG-TERM PLAN AUDIT FEES**

As we are approaching the next round of long-term plan (LTP) audits, our Office has considered how the 2018-28 long-term plan (LTP) audit fees will be set. I have outlined our decision below, as well as the approach our appointed auditors will take to seek recoveries in the event of incurring audit costs above expected levels, due to poor delivery by a local authority.

#### **Audit fees**

Consistent with the approach taken for the 2015-25 LTP audits, I have advised each of our audit service providers of the total combined audit fees that they may charge for the group of LTP audits that they carry out on my behalf (the "fee envelope"). The fee envelope reflects a significant constraining of audit fees relative to the costs actually incurred to complete LTP audits in the past. The fee envelope is based on the total fees established for the 2015-25 LTP audits, plus an increase of 5%, reflecting inflation over the three year period to 2018. In my view this total fee level is fair and reasonable to both the local authority sector, and my audit service providers.

I have given each audit service provider discretion as to how it splits its fee envelope across each of its local authority clients. In applying their discretion I expect each audit service provider to be fair and reasonable to all local authorities in using their fee envelope.

Your auditor will soon commence discussions on your proposed fee for the 2018-28 LTP audit.

#### **Our approach to cost recoveries and managing non-delivery**

The fee envelope is based on the premise that local authorities perform to expectations. If not, auditors will be able to seek reasonable additional cost recoveries for the impact of poor delivery by a local authority, and auditors have been provided with clear expectations about that.

To ensure consistency from auditors, our Office has developed guidance on what we consider to be "good delivery" by a local authority for an LTP audit engagement. We have also developed guidance,

based on that provided by the New Zealand Society of Local Government Managers (SOLGM), as to the minimum information a local authority will need to support their consultation document.

I have included these expectations in Attachments One and Two to this letter.

**General**

If you want to discuss the content of this letter, please contact Tony Appleyard (your sector manager) or Murray Powell (Director, Auditor Appointments) on (04) 917 1500.

Yours sincerely



Greg Schollum  
Deputy Controller and Auditor-General

CC Ross McNeil, Chief Executive  
Debbie Perera, Appointed Auditor

## **Attachment One: LTP audit cost recovery guidance provided to auditors**

### **Proposed fees: 2018-28 LTPs**

The audit engagement letter outlines that the fee for the audit of the consultation document and LTP is based on the following:

- That the information required to conduct the audit is complete and provided in accordance with the agreed timelines. This includes the draft consultation document and the full draft financial strategy, draft infrastructure strategy and key underlying assumptions and information that supports the draft consultation document (refer Attachment Two).
- That all documentation (consultation document, LTP and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.
- That the consultation document and LTP will include all relevant disclosures.
- That there is an appropriate level of assistance from local authority staff.
- That two drafts of each of the consultation document and LTP will be reviewed during the audit.
- That one printer's proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website) will be reviewed.
- That there are no significant changes in structure or level of operations at the local authority impacting on the audit, such as the establishment of a CCO to deliver core functions or a major restructuring of groups of activities.

### **Implications of non-delivery and additional cost recoveries: 2018-28 LTPs**

Auditing of consultation documents and LTPs in a constrained timeframe creates significant resource and cost pressures on our audit service providers. I expect our audit service providers to plan appropriately and treat all local authorities fairly when allocating audit resources. This works well when all local authorities deliver good quality material in the agreed timeframe.

Auditors may seek OAG approval to recover additional costs when the local authority fails to meet the agreed deadlines and/or produce a consultation document, reliable underlying information or an LTP of readily auditable quality, and that failure has directly resulted in unavoidable increases in the expected hours for the audit engagement. Auditors will not be able to recover additional costs simply because the quoted fee is too low, relative to the actual time taken to complete the engagement.

Auditors will be able to seek OAG approval to recover additional costs (1) once the consultation document audit report is issued, and/or (2) at the end of the engagement after the LTP audit report is issued.

I expect that the auditor will notify the local authority as soon as practicable if it becomes apparent that the local authority is failing to deliver to engagement expectations. Ideally, the local authority would then take the opportunity to improve its delivery, in the knowledge that the auditor has already begun to incur unnecessary additional costs and might seek the approval of our Office to recover them.

I also consider it reasonable for auditors to seek cost recoveries if there were a change in direction (such as a change in the financial strategy of the local authority) during the development of the consultation document, or between the development of the consultation document and the LTP, which results in additional hours for the audit engagement.

Auditors should also be familiar with the expectations developed by the sector and included in the SOLGM guidance, and we have outlined that in Attachment Two.

## **Attachment Two: Expected documentation to support the consultation document**

SOLGM guidance sets out the documentation that the sector believes is required to support the consultation document. The guidance highlights that the required content of a consultation document is sufficiently wide that local authorities should prepare and adopt much of the information required by Schedule 10 of the Local Government Act 2002 before release of the consultation document.

SOLGM's view is that local authorities should have the following ready for adoption before adopting the consultation document:

- community outcome information;
- groups of activities information – including the disclosures required under clause two of Schedule 10, capital expenditure for the group, the group level Funding Impact Statements, and performance information;
- the full financial strategy and infrastructure strategy – this may also necessitate a statement on the balanced budget (particularly if the prudence of a local authority's financial strategy is at issue);
- the forecast financial statements and other financial disclosures; and
- the full revenue and financing policy and local board funding policy (if needed). If the local authority is proposing significant changes to its development contributions, the full draft policy.

In addition to the documentation reflected above and recommended by SOLGM, we think it is essential that the significant forecasting assumptions are also made available to the public and our auditors to facilitate effective evaluation of the content of the consultation document, as they are a fundamental building block for the LTP. We also think it is important that the documentation reflected above has been developed using consistent assumptions, and is clear how it is integrated with other documentation such as asset or activity management plans.

Our Office's expectation is that the above information is complete, including significant forecasting assumptions, and has been subject to an appropriate level of quality review before being submitted for audit. This quality review would include providing assurance that the information has been compiled based on consistent assumptions, is internally consistent, and clearly linked to the consultation document.