

## 11.1 URGENT BUSINESS – 2024 AUDIT FEE

SENIOR OFFICER:	Chief Executive Officer
PREVIOUS REPORT(S):	Nil
DISCLOSURE OF INTEREST:	Nil
FILE REFERENCE:	FM.AD.2 & FM.BU.1
STRATEGIC DOCUMENT REFERENCE:	Nil
ATTACHMENTS:	Correspondence from the Office of the Auditor General 24 June 2024

### OFFICER RECOMMENDATION

**That Council REQUESTS that the Shire President write to the Office of the Auditor General, Minister for Local Government and President of the Western Australian Local Government Association to relay its concern about the fee increase for the 2023-24 financial year and audit timeframe.**

### COMMENT

On the evening of 24 June 2024, the Shire received correspondence from the Office of the Auditor General regarding the cost of the audit for the 2023-24 financial year. The correspondence informs the Shire that the expected audit fee will be \$35,000.

This represents a 49 per cent increase on the previous year being \$23,340.

The correspondence cites two primary factors:

- increase in audit effort; and
- increase in professional salaries and contract audit firm fees.

Officers believe that the increase in audit effort is related to the increase in audit scope beyond financial audits and that the OAG is using financial audits to obtain data for performance audits which are to be funded solely by the OAG.

The correspondence also notes that the average fee increase across the Shire is 21 per cent and those with contract audits have increased on average by 38 per cent.

Evidently, these sector-wide increases are large, but not as large as that is being imposed on the Shire of Wagin. Officers have learned today that neighbouring Shires are also experiencing significant increases in audit costs.

Amendments to the *Local Government Act 1995* made in 2017 removed the power for local governments to appoint their own audit and transitioned all audits under the auspice of the OAG. This means that local governments must use the OAG. The OAG either performs the audit directly or contracts to a third-party auditor.

Officers have contacted the OAG to express their concern. The OAG has advised that it is unable to amend its decision.

The OAG reports directly to Parliament rather than a Minister. The OAG was unable to advise at the time of preparation of the report whether they were required to abide by the Treasurer's Instructions in respect to fee setting.

Officers are now in the process of reconfiguring the draft budget to accommodate this increase of which the Shire has no discretion.

#### *Timing of completion of audit*

A secondary issue is the timing of the audit. This correspondence states that the OAG aims to have financial audit opinions provided by 6 December 2024.

Contrary to the letter this does not guarantee sufficient time for the Shire to meet its reporting obligations. The Auditor's Report under the *Local Government (Audit) Regulations 1996* must be presented to the Audit Committee prior to being adopted by Council. Ideally, this should occur with both the Audit Committee, the Council and the public having sufficient time to consider the report. This does not allow a lot of time. Officers remain concerned that even with the full cooperation of Officers, the OAG's timetable will not enable the Shire's audited financial statements to be presented within the calendar year.

In May 2024, the Chief Executive Officer wrote to the Auditor General expressing concern that the Auditor General did not intend to meet with the Council as required by section 7.12A of the Act. No reply was received to this correspondence.

## **VOTING REQUIREMENTS**

Simple Majority



Ref: 8385

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Dear Mr Hook

#### **AUDIT FEE 2024**

Our indicative fee for the audit of your 2023-24 financial report is \$35,000 (excl. GST). The indicative fee represents an increase compared to the prior year invoiced audit fee (2022-23: \$23,340).

This fee has been calculated to cost-recover the OAG's expenses to deliver the audit work program, plus any directly related costs such as contract fees and travel expenses, as applicable.

In addition to giving assurance on your entity's annual financial report, the audit will also provide transparency surrounding relevant legislative compliance, financial controls, probity, and governance matters, and enables our whole-of-sector parliamentary reporting and stakeholder liaison across the sector.

To uphold our auditor obligations, we are aiming to issue all financial audit opinions for the 2024 reporting period by no later than 6 December 2024. This will enable you to discharge your statutory financial reporting responsibility to ratepayers in a timely manner (i.e. by no later than 31 December 2024).

#### **Increase in audit effort**

In recent years there has been an increase in audit effort due to:

- changing systems or processes at entities
- staff shortages at entities resulting in poorer financial management, reporting and audit preparedness
- complexities and prior year issues which have resulted in an increase in management letter findings (financial audit and information systems audit), with some entities receiving modified opinions (qualifications and disclaimers)
- implementation of revised or new auditing/accounting standards.

As a result, our audit teams and senior staff are required to apply additional scrutiny to maintain audit quality and consistently report issues across the sector.

### **Increase in professional salaries and contract audit firm fees**

Public sector salary adjustments are one factor affecting fee increases, but salaries paid by our approved contract audit firms to retain professional staff also play a significant role in increasing costs. Our approved contract audit firms have significantly increased their audit fees (average of 38% for local government entities). This is consistent with the prior year and reflective of the market, specifically for the auditing profession who, as with the OAG, are experiencing significant labour constraints and wage inflation. It also reflects the firms allowing enough hours to properly address the issues being encountered in many public sector finance functions.

The average fee increase across our audit portfolio of local government sector is 21%.

The specific reason(s) for the fee increase for your entity are:

- we have not been fully recovering our contract audit firm fee in recent years – in such instances we have adjusted to fully recover such and a reasonable proportion of our own time and costs,
- we have recently contracted out, retendered, or exercised the option to extend the audit with the contract audit firm and now more fully recover both the contract audit firm's fee and our time and costs.

### **How we can work together to minimise audit fees**

We request that you submit certified financial report to our audit team at the commencement of the final visit. You will also need to provide key information and have staff available during the audit process. Being better prepared and audit ready should mean fewer queries from the audit team, which contributes to timely completion of the audit and potentially reduced costs.

We encourage your finance team to use the [Audit Readiness - Better Practice Guide](#). This will help you maintain a sound control environment and provide timely and well-prepared financial report, working papers etc to our audit team. By being better prepared and audit-ready, our audit team is likely to have fewer queries, which contributes to timely completion and potentially reduced costs.

We will re-assess the costs for your audit closer to audit completion and inform you if a fee revision is necessary. A fee revision will only occur after we consult with you.

We look forward to working with you to promote accountability and transparency in the local government sector for the benefit of the community we jointly serve.

Please contact your Engagement Leader Vignesh Raj on 6557 7605 if you require further information.

Yours sincerely

Vignesh Raj  
Acting Director  
Financial Audit  
24 June 2024