

**OFFICIAL: SENSITIVE**

**ACT AUDIT OFFICE**  
**APPROACH TO SETTING AUDIT FEES**  
**July 2021**

## ACT Audit Office

### Approach to Setting Audit Fees

#### Introduction

The *Auditor-General Act 1996* (A-G Act) governs the functions and powers of the Auditor-General. It also establishes that the Auditor-General is an independent Officer of the ACT Legislative Assembly.

The Auditor-General conducts independent audits of ACT Government agencies financial statements including the Territory's financial statements and limited assurance engagements for statements of performance. The results of these are reported to the ACT Legislative Assembly and ACT community.

The cost of financial audits and limited assurance engagements are recovered from audit fees charged to agencies.

Subsection 11A(5) of the A-G Act requires the Audit Office to disclose the basis on which the Auditor-General decided fees for audits conducted during the reporting period. This disclosure is made in the appendices to the Office's annual report each year.

This document is fundamental to achieving transparency in the way we set our audit fees. It explains how we set our audit fees and how we promote accountability for our use of public resources.

#### Financial audit fee setting

Estimates of financial audit fees are mainly based on information on the time taken and costs incurred in completing audits in recent years while taking into account known factors that would cause significant changes to the cost of audits. The more significant factors that affect our resourcing decisions are listed in the section below.

An estimate of the time and cost of completing each audit is prepared before the audit is performed. The estimated cost to be recovered through audit fees is then communicated to agencies through audit strategies or letter issued by the Office. The key components to setting audit fees are the optimal team mix, charge out rates and the estimate of total hours.

- **Optimal team mix** - Different audits require different levels of senior team member involvement compared to other engagements. We tailor audit teams to have members with a mix of levels and experience depending on entity-specific factors. For example, if the entity has a complex business model or significant complex transactions then more experienced staff (or contractors, where used) are allocated to that audit.
- **Hourly charge out rates** - We calculate hourly charge out rates for each role in the team. The rates are based on the average 'direct' costs (such as salaries and wages) of the role, and 'indirect and support' costs (such as IT equipment, quality control, office rent and utilities, and professional services staff salaries). The Office uses an overall average charge out rate to calculate recommended fees as the team mix for individual audits can change during the audit process based on resourcing needs to deliver the whole program of audits in accordance with the reporting timetable.

- **Estimate of total hours** - The estimate of total hours reflects our expectations of completing a standard audit based on the significant factors outlined in the section below and having regard to the time taken to complete the audit in recent years. Auditee-specific significant factors noted below may mean we deviate from the recommended estimate.

Direct expenses (such as external specialists engaged for conducting IT, actuarial or tax reviews) will be added to the estimated audit fees.

Where an audit is being undertaken primarily by contractors, audit fees are based on the expected contract cost plus an estimate of the time and cost of work by Office staff and an appropriate contribution to the Office's indirect and support costs.

## Significant factors and their impact on audit effort and audit fees

### 1. Overall engagement risk

Engagement risk is, broadly speaking, the risk of our exposure to damage to our professional reputation from conducting the audit. Engagements with higher engagement risk generally require more time by senior team members, and more time overall responding to the higher risk.

The audits assessed as having a high engagement risk are also subject to engagement quality control review by a reviewer independent of the audit team.

### 2. Strong governance and internal control environment

Entities with strong governance and internal control environments allow us to place more reliance on these elements as part of our engagement approach. Placing more reliance on these elements generally reduces the time we have to spend on testing transactions and balances in the financial statements.

### 3. Entity's history of misstatements

If an entity has a history of misstatements, unless we can assess otherwise, we have to assume a similar level of misstatements will occur in the future. The more misstatements we expect overall will generally increase the amount of work we have to do. A greater number of misstatements also generally requires more time to assess the impact of the misstatements in the financial statements, discuss them with management and report them to those charged with governance.

### 4. Strong focus on reliable financial and performance reporting and responds quickly (and accurately) to our requests for information

If an entity has a strong focus on reliable financial and performance reporting and responsiveness to our requests for information, this will generally reduce the time spent on the engagement. Management providing timely and accurate information in response to our requests reduces the time spent following up information that was previously requested, or requesting more accurate information where the information originally provided was incomplete or not accurate.

The preparation of comprehensive accounting workpapers supporting the financial statements and workpapers supporting the statement of performance will also generally reduce the time spent on an engagement. Providing centrally located workpapers that are well referenced, easy to understand and have been properly reviewed can reduce the amount of time needed to complete the engagement.

## **5. Entity experiencing significant change in its operations**

An entity experiencing significant changes in its operations generally requires more involvement of senior team members, and more time overall reviewing the financial reporting impact. This involves assessing the appropriateness of the accounting treatments and disclosures through our engagement procedures.

## **6. Complex computer processing environments that impact the engagement**

Complex computer processing (IT) environments generally require involvement by IT audit specialists. They specialise in reviewing complex IT environments to ensure we can rely on the systems as part of our engagement approach. Less complex IT environments will generally require less time spent by our audit specialists in reviewing the structure of the environments and the controls implemented to support reliable processing of information.

## **7. Entity has a large number of revenue, expense, asset, and liability streams**

The larger number of revenue, expense, asset, and liability streams an entity has will generally increase the time spent on the engagement. This time is required to understand and assess the controls within each of the significant streams, perform engagement procedures to test the streams, and evaluate any issues identified through our procedures.

## **8. Entity operates financially significant components that require a decentralised audit approach**

Having centralised financial reporting responsibilities generally reduces the time spent on the audit. With decentralised responsibilities, time is required to understand the extent of decentralisation, assess the controls in place at the significant components (sites), perform audit procedures to test the sites, and evaluate any issues identified through our procedures.

## **9. Entity has service provider (shared services or external outsourcing) arrangements**

Service provider (shared services or external outsourcing) arrangements can have a range of impact depending on the nature and extent of the arrangements. Key factors include:

- the complexity of arrangements with the service provider;
- the pervasiveness of outsourced functions affecting the entity's financial reporting;
- whether the service provider receives an independent auditor's report over the design, implementation and operating effectiveness of its internal controls;
- the nature and extent of issues identified in the service provider's controls; and
- the nature, extent, and significance of procedures and controls the entity is required to implement to support the service provider's controls.

## **10. Entity uses significant accounting estimates or judgements**

Significant accounting estimates and judgements generally require involvement by senior team members to review the financial reporting impact. Estimates and judgements are, by their nature, at greater risk of fraud and error. Senior team members use their experience to assess the appropriateness of management's estimates and judgements against accounting standards, relevant laws and regulations, and other authoritative pronouncements (such as those issued by the Financial Reporting and Framework Branch within the Chief Minister, Treasury and Economic Development Directorate). The impact on audit effort can vary significantly from one year to the next.

### **11. Entity has complex accounting transactions**

Complex accounting transactions generally require more involvement of senior team members, and more time overall reviewing the financial reporting impact. More senior team members use their experience to understand and assess the appropriateness of the accounting transactions, design engagement procedures to validate key aspects of the transactions, and evaluate any issues arising from our procedures. The complex nature of these accounting transactions may also require involvement of technical experts (as discussed in point 12).

### **12. Entity has balances subject to technical expert involvement (tax, estimates made by actuary, financial instruments)**

Significant balances that are subject to technical expert involvement will generally require involvement of senior team members to review the financial reporting impact. We may use our own technical experts (or engage external experts) to review the appropriateness or reasonableness of any methodologies, inputs, assumptions, or judgements used.

### **13. Entity has many accountability indicators, complex accountability indicators or changes to accountability indicators reported in the statement of performance**

If an entity has many accountability indicators, indicators that are complex, are unclear and subject to judgement, or collated using results from various business units then it will require more time and more involvement of senior team members, and more time overall reviewing the results and disclosures made in the statement of performance.

If an entity makes changes to its accountability indicators then more time and more involvement of senior team members may be required to understand the systems used to support results, and more time overall reviewing the reporting impact.

### **14. Unexpected circumstances**

There will be times when circumstances arise during our audit that weren't expected or factored into the estimated audit fees. These can include new transactions or events, or a higher than expected number of issues, complications, or misstatements. Where these result in additional work, we will discuss the impact on our audit fee with the agency's management team.

## **Internal benchmarking and external benchmarking**

Internal benchmarking involves the analysis of engagement prices for comparable audits. This analysis aims to look at trends in engagement prices and identifies prices that appear outside a reasonable range.

In addition to the macro analysis, a representative sample of audits is selected for quality review each year. Amongst other things, the review considers whether the audits were conducted effectively and efficiently.

External benchmarking involves comparing our charge out rates and costs against our peers. We participate in annual macro benchmarking surveys with other audit offices in Australia. We compare our costs against these offices on a range of measures.

We also benchmark our prices with external accounting firms which perform audits on our behalf. Contracting out audits provides important data for benchmarking the fees we charge against those of private sector accounting firms.

## Accountability

In order to demonstrate we are using public resources as efficiently and effectively as possible, we must be transparent and allow ourselves to be held to account. The ACT Audit Office is held accountable through several mechanisms.

- **Strategic Review** - Under the *Auditor-General Act 1996* a strategic review of the ACT Auditor-General must be carried out once in each term of the ACT Legislative Assembly (every four years). The Speaker of the Legislative Assembly will appoint a strategic reviewer to assess the ACT Audit Office's functions and performance.

In the last review completed in February 2020, the strategic reviewer concluded:

The ACT Auditor-General and the staff of the ACT Audit Office are generally held in high regard by stakeholders and all indications are that they are operating effectively and efficiently in accordance with the provisions of the *Auditor-General Act 1996*.<sup>1</sup>

- **External Audit** - The Audit Office's financial statements and statement of performance are subject to audit each year by an independent auditor appointed by the Speaker of the Legislative Assembly.
- **Audit and Review Committee** - The Audit Office has established an Audit and Review Committee to provide independent assurance to the ACT Auditor-General by overseeing and monitoring the Office's governance, risk and control frameworks, and its external accountability responsibilities.
- **ACAG Benchmarking** - The Audit Office participates in the Australasian Council of Auditors-General (ACAG). ACAG is a forum for all Auditors-General in Australia, New Zealand and some from the Pacific region, to share information. The Audit Office takes part in the annual ACAG Macro Benchmarking project which provides comparable information to audit offices across Australasia on quantitative and qualitative benchmarks of the operations of audit offices.

---

<sup>1</sup> A copy of the 2020 Strategic Review of the ACT Auditor-General can be found on our website at [www.audit.act.gov.au](http://www.audit.act.gov.au).