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VAGO Audit costs to registered community health services

Background

The Victorian Auditor General's Office (VAGO) audits the performance of public sector agencies, to identify opportunities for them to improve how they work. VAGO then makes recommendations to help them address the risks and the root causes of any poor performance.

In 2019, the *Audit Act 1994* was amended, resulting in a requirement for VAGO oversight of additional public organisation accounts, including those of the 29 registered Victorian community health services. This oversight became effective on 1 July 2019.

In July 2021, six registered community health services (CHSs) contacted the Victorian Healthcare Association (VHA), with concerns regarding increased audit costs quoted to them for 2020-21. In response to a request for further information from the sector, five further registered CHSs advised the VHA their quotes reflected a nil to negligible increase on previous years.

Purpose

This paper summarises information that may assist CHSs noting an increase in their audit costs to identify ways of understanding and (possibly) reducing these costs.

Information provided has been drawn from a conversation with VAGO on 11 August 2021.

Amendments to the *Audit Act 1994* impacting community health services

The 2019 amendments to the *Audit Act 1994* have resulted in registered community health services:

1. being required to have their accounts audited by a company appointed to VAGO's audit panel

VAGO report there is some notable variation in how the audit companies on their panel charge, including that:

- some have increased their fees following the 2019 amendment, possibly having reflected on the existing or new 'true cost' of auditing CHS accounts
- in contrast, others are quoting low fees, with or without an intention to increase fees later
- some may be perceiving additional risk in the current COVID-19 environment, and charging accordingly

2. paying an added fee that goes to VAGO, which varies in size according to the size and risk profile of each CHS
3. not being able to continue to utilise the same company to prepare their accounts as audit them, as had reportedly been the prior practice of some.

What these changes mean in practice

This means that while in the past some CHSs used a single company to prepare and audit their accounts, they must now use one company to prepare their accounts, and then utilise a 'single- or two-company model' to audit them.

In the single-audit model, CHSs engage VAGO as their Australian Charities and Not-for-profits Commission (ACNC) audit company. In the two-audit model, CHSs engage their usual auditor and then a VAGO panel auditor to review.

If an individual CHS has moved from a single company preparing and auditing their accounts, to a two- or three-company process, a CHS might consider if this is contributing to increased overall costs.

Organisational size and perceived risk may impact fees

VAGO has advised that its own fees, and those charged by its panel of auditors, vary according to an individual CHS's size and perceived risk.

Example situations where risk (for a financial year) might be perceived as heightened by both VAGO and its approved panel of auditors, include where CHSs have merged that year.

VAGO has advised that its fees vary by a few thousand dollars, depending on the size and risk of the individual CHS.

Timing of increased audit costs

VAGO has advised that it treated 2019-20 as a transition year for CHSs, and hence did not charge a fee for the auditing of last year's accounts.

Community health service reports of previous assurances their costs would not increase

VAGO has advised it was only able to waive its fees for the transition year, and notes that many CHSs have experienced a reduction in their audit fees under the amended Audit Act.

Recommendations / next steps

An opportunity may exist for CHSs to explore reducing their auditing costs by:

- seeking a new VAGO panel auditor whose fees are more moderate; noting that at the time of this briefing the panel is currently under review
- collaborating with other CHSs to appoint a joint VAGO-panel auditor who is willing to negotiate a lower charge for the volume of work
- using a single rather than two-auditor model.

The VHA continues to liaise with:

- VAGO, to request increased transparency around VAGO fees and improve the clarity of costs
- VAGO, to request greater visibility of rates charged by the various VAGO panel auditors, to assist CHSs in making an informed choice
- the Victorian Government and its departments, to request another year of waived VAGO costs.



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