

MPs' guide to the Auditor-General

September 2017

ISBN 978-0-478-44274-8

Contents

Introduction	3
The Auditor-General at a glance	4
The Auditor-General's relationship with Parliament	8
Reporting to Parliament	8
Briefing ministers about our reports	9
Helping members of Parliament and select committees	10
Main point of contact	10
Support for members of Parliament	10
Support for select committees	11
What the Auditor-General can and cannot do	14
Who audits the Auditor-General?	16
About the Auditor-General's work	17
The Controller function	17
The audit function	18
How is the Auditor-General funded?	22
Appointing auditors and monitoring audit fees	22
Who works for the Auditor-General?	23

Introduction

This booklet is for members of Parliament (MPs) and for new MPs in particular. It gives an overview of the Auditor-General's role and outlines the kind of interaction, advice, and support that MPs can expect from the Office of the Auditor-General (the Office).

Put simply, it's the Auditor-General's job as an officer of Parliament to help you, as Parliament's elected representatives, to hold public entities to account for their use of public money.

We are fortunate to live in a society that expects and supports fair and transparent government, and we have good systems and processes in place to meet that expectation.

Our public sector is among the best in the world on many counts. That said, there's always room for improvement. It's the Auditor-General's vision to have a high-performing and trusted public sector.

We will help you to scrutinise the effectiveness, efficiency, and accountability of public entities to make sure that they are operating as Parliament intends them to.

We look forward to working alongside you to serve Parliament and the people of New Zealand.

A handwritten signature consisting of a stylized 'G' followed by a horizontal line with a small flourish at the end.

Greg Schollum
Deputy Controller and Auditor-General

26 September 2017

The Auditor-General at a glance

The Controller and Auditor-General – more commonly known as the Auditor-General – is an officer of Parliament who audits all of New Zealand's public entities.

The Auditor-General has a Deputy who is also an officer of Parliament. The Deputy can perform all the functions and exercise all the powers of the Auditor-General.

The role and functions of the Auditor-General have been in place in New Zealand since the 1840s. The current role and functions are set out in the Public Audit Act 2001.

The Governor-General appoints the Auditor-General on the recommendation of the House of Representatives for a non-renewable seven-year term. The Auditor-General is accountable to Parliament for how the Office uses public money to do its job.

As an officer of Parliament, the Auditor-General is independent of the Executive Government and cannot be directed by them in how to do the job or what to do.

This approach, as set out in the Public Audit Act, ensures that the Auditor-General's investigations and views about the use of public money are objective and free from political influence. Having an impartial and independent “public watchdog” to provide a check on government spending is important.

By law, the Auditor-General is responsible for auditing about 3600:

- government departments;
- Crown entities;

As an officer of Parliament, the Auditor-General is independent of the Executive Government and cannot be directed by them in how to do the job or what to do.

- schools and universities;
- district health boards;
- ports and airports;
- State-owned enterprises;
- Crown Research Institutes;
- statutory bodies;
- licensing trusts; and
- local councils and council-controlled organisations.

Collectively, we call these "public entities".

Almost every public entity is required to have its annual financial statements audited. This means that the Auditor-General's staff and contracted auditors have ongoing contact with all of the public sector every year.

No other organisation – public or private – has the overview of the whole public sector that the Auditor-General has.

The Auditor-General employs about 365 staff in two business units – the Office of the Auditor-General and Audit New Zealand – and contracts about 50 private sector auditing firms. The Auditor-General appoints auditors to carry out audits and is responsible for their performance.

The work of the Auditor-General is designed to give assurance to Parliament, public entities, and the public that public entities are fairly reflecting the results of their activities in their annual reports.

Additionally, the Auditor-General keeps an eye on whether public entities are carrying out their activities effectively and efficiently, and on matters of waste, probity,

No other organisation – public or private – has the overview of the whole public sector that the Auditor-General has.

legislative compliance, and financial prudence in the public sector. Sometimes, this involves matters that directly affect MPs, such as the administration of travel allowances.

The Auditor-General reports findings and makes recommendations so that those with responsibility for making improvements can take action. This includes highlighting examples of good practice that can help improve public sector management and performance.

The Auditor-General and their staff carry out inquiries into issues that may arise from their audit work, a written concern, or a request for an inquiry. The Auditor-General is not obliged to act on a request. The final decision on whether to carry out an investigation into any particular issue rests with the Auditor-General.

The Auditor-General does not have the power to enforce recommendations or to change or overturn decisions made by others. However, the independent and objective nature of the Auditor-General's work, the scrutiny by Parliament that it supports, and the ongoing contact between public entities and the Auditor-General's staff sees most recommendations acted on.

It is important to note that the Auditor-General is not a "complaints" agency. Most of the Office's work involves carrying out the role's statutory functions.

The Auditor-General and their staff carry out inquiries into issues that may arise from their audit work, a written concern, or a request for an inquiry. The Auditor-General is not obliged to act on



Our reports are available on the Auditor-General's website at oag.govt.nz/reports.

a request. The final decision on whether to carry out an investigation into any particular issue rests with the Auditor-General.

Sometimes, this will result in a major inquiry and public report, such as *Inquiry into the Saudi Arabia Food Security Partnership* reported in November 2016.

The Auditor-General's relationship with Parliament

As an officer of Parliament,¹ the Auditor-General must be seen to act impartially to retain the integrity and confidence of the whole House of Representatives. To underpin the independence of the role, the Auditor-General:

- is not a government department;
- reports to the Officers of Parliament Committee, which is chaired by the Speaker of the House;
- is appointed by the Governor-General on the recommendation of the House of Representatives for a non-renewable seven-year term;
- has a Deputy who is also a statutory office-holder and officer of Parliament and who can perform all the functions and exercise all the powers of the Auditor-General;
- can report directly to Parliament and anyone else; and
- makes requests for funding directly to the House of Representatives (rather than through the Executive Government). The House recommends the sum required to the Governor-General for inclusion in an Appropriation Bill.

Reporting to Parliament

The Auditor-General must present an annual report to the House of Representatives and can also report to the House at any time on matters arising out of the performance and exercise of the Auditor-General's functions, duties, and powers.

Before the start of each financial year, the Auditor-General consults the House and other stakeholders to ensure that the proposed annual work programme of performance audits and other studies will be relevant and useful to Parliament, public entities, and the public.

¹ For more detail about officers of Parliament, go to parliament.nz.

The Auditor-General publishes its reports to Parliament and others in hard copy and/or on its website. Hard copies of reports are supplied to the Bills Office for distribution to MPs as required. Additional hard copies can be requested from the OAG office in Wellington, phone 04 917 1500, or by emailing reports@oag.govt.nz.

Sometimes, the Auditor-General publishes a report without presenting it to Parliament. MPs can join the Auditor-General's subscriber service through the website to receive an alert when any new reports are published.

Briefing ministers about our reports

Please note that it is the job of staff in the public entity we have audited to keep the responsible minister informed.

Helping members of Parliament and select committees

The Auditor-General, at their discretion, helps MPs and select committees to hold public entities to account, either individually or as a group where they have collective responsibilities.

The Officers of Parliament Committee has approved the *Code of Practice for the provision of assistance by the Auditor-General to the House, select committees and members of Parliament*. This code of practice provides guidance on the main ways in which the Auditor-General may help Parliament, its select committees, and MPs.

The code of practice includes further information about the types of help outlined in this section. It also explains the circumstances that determine when the Auditor-General acts as a **witness** or as an **advisor** to a select committee.

Main point of contact

Advice and assistance for MPs and select committees is usually provided by the Auditor-General's sector managers – specialised senior staff who each have a portfolio of responsibilities that align with one or more of Parliament's subject select committees.

Support for members of Parliament

The Auditor-General's sector managers are available to answer routine enquiries and requests from MPs.

MPs can also ask the Auditor-General to conduct an inquiry into a specific matter. In deciding how to respond to such a request, the



A list of sector managers, the select committees they advise, and their contact details is kept up to date at oag.govt.nz/our-people.

Auditor-General assesses the issues raised in the request, the merits of an inquiry against other potential inquiries and programmed work, and considers whether carrying out an inquiry would be in the wider public interest.

Support for select committees

Finance and Expenditure Committee

The Auditor-General has regular interaction with the Finance and Expenditure Committee (FEC). The Auditor-General may consult with the FEC about the general nature and extent of the help that the Office gives to the FEC and other select committees in their examining of Estimates and departmental performance.

The FEC may also invite the Auditor-General to advise on drawing up any standard questionnaire for select committees to use in their examination of the Estimates.

Each year, the Auditor-General consults the House through the FEC on the proposed content of the Auditor-General's annual work programme.

Estimates of Appropriations

During the Budget process, the Auditor-General's sector managers provide briefings to select committees on the Estimates of Appropriations. Estimates briefings include information summarised from documents such as:

- the Estimates and the information supporting the Estimates;
- public entities' Statements of Intent;
- public entities' annual reports; and
- Ministers' responses to the Standard Estimates Questionnaire.

The briefings also draw from other sources, including information received during statutory audit work. Sector managers will suggest

lines of enquiry that the committee may wish to ask the relevant Vote Minister.

Annual reviews

Sector managers provide written and oral briefings to help select committees with their annual reviews of public entities. These briefings include further details on the results of the annual audit and a grading based on the Auditor-General's assessment of the public entity's management control environment and financial information (and service performance where required) systems and controls.

The briefings can also include suggestions for lines of enquiry and questions relevant to the performance and current operations of the public entity, or groups of public entities, under review.

To identify lines of enquiry, sector managers will:

- analyse the results of the annual audit and the accountability documents;
- refer to any relevant performance audit or inquiry work; and
- use specific knowledge of the public entity or group of public entities gained during the audit and ongoing contact with the public entity or group of public entities.

These lines of enquiry will usually relate to performance, authority, waste, probity, and accountability in public entities.

Select committee inquiries

A select committee that wants to initiate its own inquiry into the financial administration, spending, activities, and other aspects of the performance of public entities can ask the Auditor-General to advise on options and/or terms of reference for the inquiry and the methods to be used.

The Auditor-General can also act as an advisor to the committee or agree to take up the matter themselves, as either an inquiry or a performance audit.

Select committee consideration of the Auditor-General's reports to Parliament

Since October 2008, Standing Orders provide that all reports by the Auditor-General that are presented to Parliament are referred to the FEC. The FEC may examine the report itself or refer the report to another select committee if it considers that the subject area is primarily within the other committee's terms of reference.

We encourage the FEC and other committees to accept our offers to brief them on our reports and, importantly, to use these reports to examine the relevant entity or entities involved, in order to hold them to account for their performance.

What the Auditor-General can and cannot do

No private entities

The Auditor-General can only inquire into the actions of public entities. The Auditor-General cannot inquire into private organisations, including organisations that may have received funding from a public entity. However, the Auditor-General can look at the activities of a public entity that is contracting with or directly funding a private entity, and how the public entity has monitored the private entity's use of public funds.

No policy decisions

The Auditor-General does not have any authority to question matters of government policy or local authority policy. Making policy decisions is a job for elected representatives. For example, where a government or a local authority has decided to acquire or dispose of a particular asset, the Auditor-General could consider how well the public entity had implemented that decision in keeping with the applicable policy, or whether the decision-making process met relevant standards (rather than whether it should or should not have acquired or disposed of the asset).

No judicial function

The Auditor-General does not have a judicial function, so cannot make findings on whether a public entity has acted lawfully or whether someone is culpable for a particular action. The Auditor-General can express an opinion, but cannot overturn a public entity's decisions or actions; that is for the courts to decide through the judicial review process. The Auditor-General cannot provide any redress or remedies for particular concerns.

No executive function

The Auditor-General cannot direct a public entity to act on findings or recommendations.

Exemption from the Official Information Act

Although the Auditor-General is not subject to the Official Information Act 1982, the Office provides information about how the organisation is run in the same way as other public sector organisations do. The Public Audit Act protects the confidentiality of the Auditor-General's investigative and assurance work.

Who audits the Auditor-General?

The Auditor-General is held to account by the Officers of Parliament Committee, which is chaired by the Speaker, and by the Finance and Expenditure Committee, which reviews Vote Audit.

The Officers of Parliament Committee appoints a private sector auditing firm to do an annual audit of the Auditor-General's financial and service performance.

The Auditor-General also has an independent Audit and Risk Committee and is subject to many professional standards and periodic international peer review by their counterparts from overseas audit offices.

About the Auditor-General's work

The Auditor-General's work fulfils two statutory functions:

- the Controller function; and
- the audit function.

The Controller function

The Controller function supports the constitutional principle that the Government cannot spend without the consent of Parliament.

Under this function, the Auditor-General provides independent assurance to Parliament that the expenses and capital expenditure of government departments and officers of Parliament are lawful and within the scope, amount, and period of the appropriation or other statutory authority given by Parliament.

The main features of the Controller function are:

- The Treasury must supply monthly statements to the Auditor-General so they can examine whether expenses and capital expenditure have been incurred in keeping with appropriations or other authority.
- Appointed auditors check compliance with appropriations in conjunction with their annual audits of government departments.
- The Auditor-General can direct a Minister to report to the House of Representatives if they have reason to believe that any expenses or capital expenditure that have been incurred are unlawful or have been applied for a purpose that is not within the scope, amount, or period of an appropriation or other statutory authority.
- The Auditor-General can stop payments from a Crown or departmental bank account, to prevent money being paid out of the account that may be applied for a purpose that is unlawful or that is inconsistent with any appropriation or other statutory authority.

The audit function

The audit function involves:

- annual audits;
- performance audits;
- good practice guidance;
- inquiries; and
- other assurance services.

Annual audits

About 88% of the Auditor-General's work involves carrying out annual audits of the financial and service performance information of public entities.

Each year, the Auditor-General's appointed auditors and their teams audit each public entity's accountability statements. Parliament requires different information to be audited depending on the type of public entity.

In carrying out the audit function, the Auditor-General's staff and appointed auditors apply audit procedures set out in the Auditor-General's auditing standards. These standards are based on the ethical and professional standards issued by the External Reporting Board, with additional standards that are unique to the public sector audit environment in New Zealand.

During an annual audit, the auditor:

- examines a public entity's financial statements, service performance information, and other information that must be audited;
- assesses the results of that examination against a recognised framework (usually generally accepted accounting practice); and
- forms and reports an audit opinion.

An annual audit provides a high, but not absolute, level of assurance about whether a public entity's financial statements comply with generally accepted accounting practice and fairly reflect its financial

position and its financial performance for the period audited. The auditor evaluates the overall adequacy of all the accountability information.

An audit of the annual accountability statements of a public entity results in two kinds of report. One is the audit report (including the audit opinion) that is included in the public entity's published annual report. The other is a report to the public entity's governing body and/or managers on matters arising from the audit.

The published audit report gives readers assurance about the fairness of the public entity's annual accountability statements.

For some entities, the Auditor-General also attests to whether a public entity's service performance report "fairly reflects the entity's service performance for the year".

Performance audits

In carrying out performance audits, the Auditor-General gives Parliament independent assurance about the performance and accountability of public entities. Under section 16 of the Public Audit Act 2001, the Auditor-General may at any time examine:

- the extent to which public entities are carrying out their activities effectively and efficiently;
- public entities' compliance with their statutory obligations;
- any act or omission of public entities, to determine whether waste has resulted, may have resulted, or may result; and/or
- any act or omission showing or appearing to show a lack of probity or financial prudence by public entities or one or more of their members, office holders, and employees.

The aim of a performance audit is to assure Parliament, public entities, and the public that public entities are delivering what they have been asked to. The Auditor-General reports both good and poor performance, and often highlights aspects of performance that apply to the wider public sector.

Benefits for the public entities that are audited include:

- independent assurance of their operations; and
- recommendations to improve their effectiveness and efficiency.

Performance audits usually result in a report that is presented to Parliament. As soon as the report is tabled in the House, a copy is published on the Auditor-General's website and an email link to the document is sent to website subscribers. Under Standing Orders, a performance audit report will be referred to the FEC. If the FEC refers the report to another select committee, the Auditor-General will offer a briefing on the report to the relevant select committee(s).

Good practice guidance

The Auditor-General also publishes good practice guides to help public entities develop effective systems, policies, and procedures. Current good practice guides have covered a range of topics, including guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968, charging fees for public sector goods and services, and procurement.

Inquiries

The Auditor-General may carry out an inquiry into any matter concerning a public entity's use of its resources. An inquiry may involve looking into financial, accountability, governance, or conduct issues in a public entity. The concerns may have arisen in the course of the Auditor-General's work or have been raised by a member of the public, an MP, a select committee, or by another organisation. The final decision on whether to carry out an inquiry rests with the Auditor-General.

An inquiry might cover questions such as whether the public entity:

- applied its resources effectively and efficiently;
- complied with its legal obligations;
- acted honestly and with integrity in its dealings; and
- managed its finances prudently.

When a matter is referred to the Auditor-General, they and their staff decide whether to carry out an inquiry and determine its scope. The Office may decide not to look into it (for example, because the Auditor-General is not the appropriate authority to do so), or might refer it to the appointed auditor to consider during the next annual audit of the public entity, or consider the matter when planning performance audits.

The Auditor-General decides what information to report, based on its relevance, and taking into account principles of fairness and natural justice.

Powers

The Auditor-General has broad powers when carrying out their work, including:

- requiring a public entity or any person to provide documents, information, or explanations;
- requiring any person to give evidence;
- examining a private bank account in some circumstances; and
- entering a public entity's premises to obtain evidence.

Other assurance services

The Auditor-General provides reports and help to the Department of the Prime Minister and Cabinet, the State Services Commission, and the Treasury on matters of financial management and accountability.

The Auditor-General's staff advise and provide assurance to public entities about a range of matters. They also advise public entities on matters of accountability information, in order to improve the quality of the information available to Parliament and the public.



For more information about our work, see oag.govt.nz/our-work.

At the request of a public entity, the Auditor-General can provide other auditing or assurance services, such as auditing financial information in a prospectus or providing assurance about buying or contract procedures.

The Auditor-General also helps other stakeholders, such as professional and sector organisations, and overseas audit offices, on matters of auditing, financial management, and accountability..

How is the Auditor-General funded?

The Auditor-General is funded:

- by the Crown through Vote Audit for outputs provided to Parliament; and
- from audit fees paid by public entities for annual audits, and other assurance work carried out by the Auditor-General's business arm, Audit New Zealand, at the request of public entities. Contracted audit service providers, including Audit New Zealand, invoice public entities and collect fees directly.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors to carry out the annual audits of public entities. These auditors are appointed from a group of about 50 audit service providers. The group includes Audit New Zealand and private sector auditing firms, which range from the four major firms to sole practitioners. Most audits are allocated directly to an auditor, but from time to time an audit is subject to a competitive tender, in particular for public entities with a strong commercial focus.

Although Audit New Zealand is organised and operates along the lines of a private sector professional services firm, it is not a profit-making business. It is expected to break even. Its audit fees are used as a benchmark for maintaining reasonable fees among all auditors who do work on the Auditor-General's behalf.

The Auditor-General monitors audit fees to ensure that fees are based on realistic hours (that is, hours that reflect the nature and extent of

work required), an appropriate audit team mix, and charge-out rates that are in line with market rates. The aim is for fees that are fair to the public entities and also provide a fair return to the auditors for the work they are required to do to meet the Auditor-General's auditing standards.

The allocation of audits and fee-setting and monitoring systems are independently reviewed annually to ensure that they are carried out with due probity and objectivity.

Who works for the Auditor-General?

The Auditor-General has about 365 employees. They are organised into two business units: the Office of the Auditor-General (the OAG) and Audit New Zealand, supported by a shared Corporate Services Team.

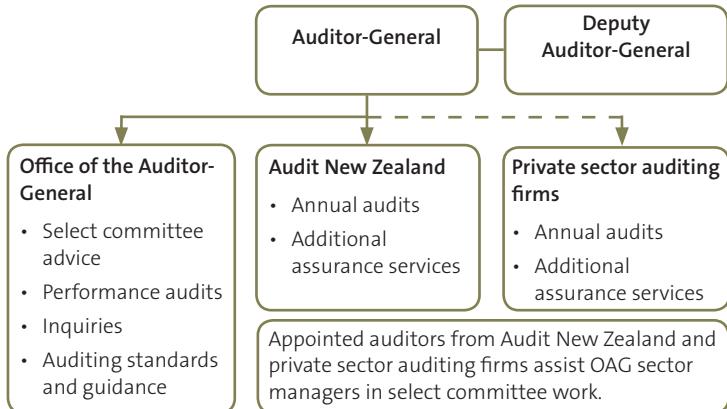
The OAG carries out strategic planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and carries out inquiries and other special studies.

Audit New Zealand is the larger of the two business units, and has seven offices around the country. It carries out annual audits allocated by the Auditor-General, and provides other assurance services to public entities within the Auditor-General's mandate.



For more information
on the role of the
Auditor-General see
[oag.govt.nz/about-us/
about-cag](http://oag.govt.nz/about-us/about-cag).

Here is a basic structure showing how work is allocated:



Standards for auditing and independence

All appointed auditors are required to meet the Auditor-General's auditing standards. These standards underpin the quality and consistency of all audits conducted on the Auditor-General's behalf, including the appropriate identification, scoping, investigation, and reporting of audits, other auditing services, and inquiries.

To effectively and credibly provide assurance to Parliament, the Auditor-General's appointed auditors and their staff must be (and be seen to be) independent. There are strict constraints on them, covering:

- personal involvement with an audited entity (including family ties);
- financial involvement with the entity (such as investments);
- providing certain other services to the entity (such as carrying out valuations); and
- dependence on fees from the entity.