



B.28

Annual report 2020/21



Cover acknowledgement:
Lynley Jenkins

Annual report 2020/21

Presented to the House of
Representatives as required by section
37 of the Public Audit Act 2001

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About this annual report

This 2020/21 annual report is the main accountability document for the Controller and Auditor-General. It describes the work we have carried out to demonstrate how we will achieve our ultimate outcome – that Parliament and the public have trust and confidence in New Zealand's public sector.

This annual report informs our stakeholders – Parliament, public organisations, and New Zealanders – about our strategic intentions, priorities, and performance for the year 1 July 2020 to 30 June 2021. It has been prepared in keeping with the requirements of the Public Audit Act 2001 and the Public Finance Act 1989.

In this report, the "Office" includes the Auditor-General, the Deputy Auditor-General, the Office of the Auditor-General Tumuaki o te Mana Arotake, Audit New Zealand Mana Arotake Aotearoa, the Corporate Services Team, and contracted audit service providers.

We are interested in feedback to help us improve our reporting. Feedback can be sent to enquiry@oag.parliament.nz.

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

I am pleased to present the Controller and Auditor-General's annual report for 2020/21.

New Zealand spent much of 2020/21 responding to the health, welfare, social, and economic impacts of Covid-19. All aspects of our lives were affected, as was every public organisation in New Zealand.

My organisation was no exception. In this environment I am proud of the significant achievements of my Office, and the people who work for it, during 2020/21.

Our work is designed to help improve trust in, and the value New Zealanders receive from, public organisations. In my view, at a time when there is a significant and rapid increase in Government expenditure to respond to the impacts of Covid-19 and the reliance we all place on essential public services, the importance of our work has never been more apparent.

The value of the audit

Our annual audits of the nearly 3400 public organisations that are required to publicly report are core to our work. These audits give assurance to Parliament and the public that they can rely on the financial and performance information the public sector reports. They also provide the foundation for much of our other work.

Through our audits, we make recommendations to help public organisations address weaknesses or risks and improve their performance or accountability. How public organisations respond to these recommendations makes a critical difference to how they perform for New Zealanders.

It almost goes without saying that Covid-19 has affected the auditing process. The effects of Covid-19 meant a 25-30% increase in audit work (for example, extra work on asset valuations) required to complete the 2019/20 audits. Our audits were also less efficient as a result of Covid-19 and we were unable to recover the costs of this inefficiency from public organisations.

In response to Covid-19, I have deliberately prioritised audit quality over timeliness.

In 2020, Parliament agreed to extend the reporting deadlines of most public organisations with a 30 June balance date. This was to give them more time to prepare their financial statements and performance information and to have them audited. We also delayed the audit of the financial statements of the Government by five weeks to help ensure that there was enough time to prepare and audit this vital accountability document.

It was a significant achievement for the public sector and my auditors to complete their work in the revised time frames. My priority was maintaining quality, of the public sector's reporting and of my audits. This was important to preserve accountability during the pandemic and it further enhanced New Zealand's reputation as a country with world class, and resilient, public financial management.

My Office also, in the second half of 2020/21, had the job of completing the three-yearly audits of councils' long-term plans and the associated consultation documents.

These are fundamental accountability documents for councils. Our audit provides assurance that the documents are fit for purpose and are prepared using reasonable underlying assumptions and information. My auditors again did an excellent job in completing this work on top of their normal audit responsibilities.

Helping to get it right

Through our discretionary work we continue to shine a light on how the Government spends public money and what outcomes it achieves for that money. We are engaging sooner in the public sector's work so our observations and recommendations occur early in a programme, when they can be of the most use.

We set a deliberately ambitious work programme for 2020/21. We also responded to important issues that arose during the year, such as planning for the Covid-19 vaccine roll-out. This, together with the ongoing constraints arising from Covid-19, meant that some other work set out in our annual plan has been delayed and will be reported on in 2021/22.

I have been generally pleased with the response to our work from public organisations. We have seen many of our formal recommendations acted on and improvements being made. This reflects the constructive working relationships my staff form and the approach taken by most public organisations to our work, despite the pressure they are under with Covid-19 and, for some, preparing for or implementing significant reform.

Our inquiry work highlighted, through our review of the Auckland Light Rail procurement, the importance of following good procurement practice. Our review of the decision to purchase a house for the Vice Chancellor of the University of Auckland was a reminder of the need to carefully manage sensitive expenditure.

We continued to raise the profile of our Controller work, with regular reporting on whether Government expenditure has been appropriately authorised.

Relationships matter

Our survey work and my meetings with select committees highlight that Parliament continues to find my Office's work and advice relevant and helpful. There were many new members of Parliament after the 2020 election and we assisted with their induction. My team continues to be active in supporting select committees to hold the Government to account for its performance. We revised our briefings to committees this year, added more extensive sector level briefings, and increased the number of briefings we carried out.

I am also pleased to see the increased media coverage of our work. Ultimately, we are here to serve Parliament and the public, and the media is an important channel for reaching the public.

We have continued to build our relationships with audit and risk committee chairpersons through providing advice and facilitating forums for discussion. This year we particularly focused on the chairpersons of local government audit and risk committees, given the significant challenges facing local government and the role of these committees in the governance over long-term plans.

More broadly, we continue to update and expand our good practice guidance to help the public sector "get it right" from the start, including publishing an updated guide on sensitive expenditure.

Upholding our international responsibilities

I am currently the Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the regional organisation that supports the development of Auditors-General in the Pacific.

Through this role, my Office supports (with the assistance of funding from the Ministry of Foreign Affairs and Trade) a small Secretariat in Auckland. This Secretariat works tirelessly to increase the capacity, independence, and capability of Auditors-General in Pacific nations. My Office also works directly in a twinning relationship with the Auditors-General of the Cook Islands and Samoa.

In June we hosted PASAI's 23rd Congress virtually. An online format meant we could arrange a wider range of keynote speakers than usual to share their knowledge and experience with attendees. These included former Prime Minister and former Administrator of the United Nations Development Programme the Rt Hon Helen Clark, Director Governance Global Practice at the World Bank Ed Olowo-Okere, South African Auditor-General Tsakani Maluleke, and Kiwibank New Zealander of the Year Dr Siouxsie Wiles.

As Auditor-General of New Zealand, I am also the Auditor-General for Niue and Tokelau.

The future

There is still some way to go before we know how the world might be after the immediate threats and implications of Covid-19 have been addressed.

One issue we have now, and which is likely to continue, is a severe shortage of auditors in New Zealand and Australia. This is a direct result of the border closures, where previously senior auditors could come to New Zealand to assist in the completion of public and private audits during the peak periods.

Parliament has recognised this challenge and again extended some reporting deadlines for public organisations with 30 June 2021 and 30 June 2022 balance dates. Ensuring that we have enough qualified auditors to do our work will be a challenge for the foreseeable future. Addressing this will have wide-ranging implications for recruitment and retention policies, audit methodologies and technologies, and on audit fees, which have generally been under-priced for too long.

Thank you

I want to acknowledge the extraordinary efforts made by public servants to keep New Zealanders safe and to support our well-being since Covid-19 spread around the world.

I also thank Parliament for continuing to support my Office and for the deep interest it takes in our work.

Finally, I want to thank all staff and audit service providers for producing the high-quality work, under pressure, that continues to support trust and confidence in the public sector. We will continue to prioritise quality, the well-being of our staff and service providers, and public sector trust and confidence as we carry out our role during another Covid-dominated year. As I said at the outset, I believe the importance of the work we do has never been more apparent.

Nāku noa, nā



John Ryan
Controller and Auditor-General
Tumuaki o te Mana Arotake

28 September 2021

2020/21

Our year in numbers



3000+

reports on public organisations' financial statements and performance information



937

of our recommendations for improvement in systems and processes implemented in public organisations



15

reports presented to Parliament



10

introductory sector briefs given to select committees



183

letters to Ministers on audit findings



10

published letters and submissions to help shape public sector accountability



5

updates on our Controller work published



64

requests for inquiries received



161

Annual review, Estimates, and sector briefings to select committees



1600+
mentions in
mainstream media



500+
social media
posts



4
blog posts



400+
responses to
correspondence

Statement of responsibility

I am responsible, as Controller and Auditor-General, for:

- the preparation of the Office's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Office is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Office, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2021 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2022 and its operations for the year ending on that date.



John Ryan
Controller and Auditor-General

28 September 2021

Countersigned:



Aaron Crookston
Chief Financial Officer

28 September 2021

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About us

Our role, vision, and purpose

The Controller and Auditor-General is an important part of the constitutional framework in New Zealand, and his role is described in the Public Audit Act 2001. The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. The role exists because the ultimate authority for all public sector activity stems from Parliament.

Our vision is of a high-performing and trusted public sector. The Auditor-General's purpose is to give Parliament and New Zealanders an independent view about public sector performance and accountability.

What we do

To remain independent, we report to Parliament and not to Government. Our independence from Government is protected by law through the Public Audit Act 2001.

Most of our work involves carrying out annual audits of public organisations, forming a view on whether financial and non-financial information is a fair reflection of an organisation's performance and recommending where organisations can improve. This core activity takes up 85% of our resources.

The rest of our work is on providing advice that helps Parliament and the public hold public organisations to account for their use of public money. We:

- carry out inquiries (which consider the appropriateness of the behaviour of public organisations and their use of resources); and
- carry out performance audits (which look at the effectiveness of spending by public organisations) and special studies (which research and publish information that will benefit public sector performance and accountability).

We produce about 30 reports containing this advice each year. We also provide support to select committees when they scrutinise public organisations, and we also monitor spending against parliamentary appropriations (our Controller function).

Every three years we audit councils' long-term plans and their consultation documents about those plans, so that New Zealanders can be fully informed about their council's intentions and what they will cost.

We also make a considerable contribution to the audit community internationally, primarily in the Pacific region.

The outcomes we seek

The ultimate outcome we seek is that Parliament and New Zealanders have trust and confidence in the public sector. To achieve this, the public sector must be high performing and accountable. Relevant and reliable information is critical to holding the public sector to account. Everything we do is directed towards achieving the outcomes in our performance framework.

How we are organised

The Auditor-General, Tumuaki o te Mana Arotake, has 420 staff in two business units – the Office of the Auditor-General (the OAG) and Audit New Zealand – supported by our shared Corporate Services Team.

The OAG is structured into seven main groups, as shown in the diagram below. The diagram also shows Audit New Zealand and the other audit service providers we contract from the private sector to carry out some audits on the Auditor-General's behalf.

The Auditor-General and Deputy Controller and Auditor-General are Officers of Parliament. Together, they are responsible for the two business units and the work of the contracted audit service providers.



* The Executive Office includes the Controller and Auditor-General, Deputy Controller and Auditor-General, Assistant Controller, and the International team.

How we work together

Each of our business groups has a specific role and the work programme of each group is based on the expertise of the staff. However, much of our work involves contributions from more than one group.

For example, preparing to audit councils' long-term plans has been a three-year process, involving several stages and the development of several products. Without the contribution of a number of groups, this important triennial process could not have been achieved. Some of the tasks carried out are represented in the following diagram.

Our work on 2021-31 long-term plans

To support councils



6

long-term plan bulletins

providing guidance to councils preparing long-term plans



4

presentations

at training sessions organised by Taituarā Local Government Professionals Aotearoa to explain our audit focus

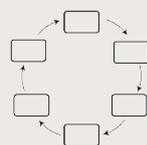


2

facilitated sessions

for chairpersons of council audit and risk committees

To carry out our audits



updated the methodology

for use in the audits



7

guidance documents

on our updated methodology



55,000+

hours spent auditing

the consultation documents and long-term plans



legal and auditing advice

provided for complex audit matters related to the long-term plans



10

newsletters

to share good practice and provide ongoing advice as audits progressed

66 out of 78

councils adopted their long-term plan as at 30 June 2021



2

What shaped our work in 2020/21

Our strategic direction provides the context for our work

The *Auditor-General's strategic intentions to 2025* is our long-term strategic planning document. It sets out the impacts and outcomes we are working towards. Our medium-term strategy for 2018-21 describes how we will build on our core functions and what we will do differently to generate the impact we need to achieve our outcomes.

Our strategy is organised around four strategic shifts we need to make to respond to the changing operating context we work in and to enhance the impact of our activities. The four strategic shifts are:

1. focus more on examining how well the public sector achieves positive change for New Zealanders;
2. help New Zealanders become better informed about public sector performance and accountability;
3. be more active in sharing insights about what "good" looks like; and
4. help improve the public sector accountability system.

We describe the progress we have made on our strategic shifts in the performance results for the services we deliver.

Our organisation development plan for 2018-21 describes the main areas we intend to focus on to improve our organisation and support the delivery of our strategy (see Part 4).

Our *Annual plan 2020/21* sets out our discretionary programme of work for the year. In this report, we describe our progress against our annual plan, including our work on providing assurance to Parliament and the public on the response to, and recovery from, Covid-19. We regularly review the

work in our annual plan so that it remains relevant and responsive to the dynamic and changing operating environment. Appendix 5 provides a summary of progress made during the year on the work plan set out in our annual plan for 2020/21.

Collectively, our strategic intentions, strategy, organisation development plan, and *Annual plan 2020/21* shaped our work in 2020/21. This annual report reviews our progress in 2020/21 in the context of our changing operating environment.

The key strategic risks we manage

Our key strategic risks are:

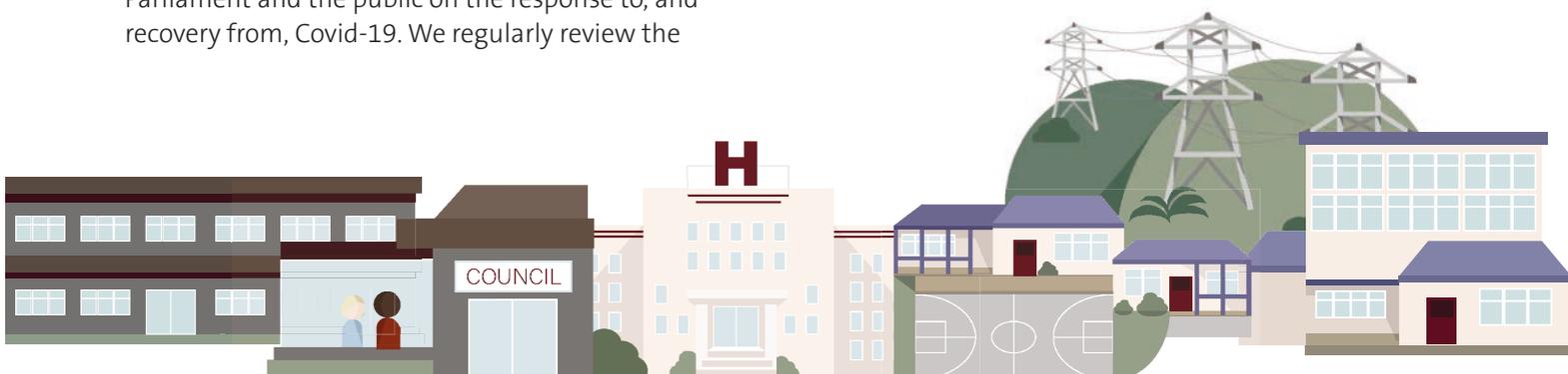
- loss of independence;
- audit failure;
- loss of capability; and
- loss of reputation.

We manage these risks through the processes that support our work. In addition, our Audit and Risk Committee provides further insight and advice to help us manage risk. The Committee's report for the year ended 30 June 2021 is included as Appendix 1.

Managing the effects of Covid-19 on our work

Covid-19 has continued to affect us as well as many of the public organisations we audit.

In keeping with our role, we have been monitoring spending related to Covid-19. There is considerable public interest in how funding has been allocated to, and spent on, the Government's Covid-19 initiatives.



Good quality decision-making, value for money, integrity, and effective monitoring and reporting practices are essential. When large amounts of money are spent quickly and in new ways, it is important for the Government to be transparent with its spending and what it has achieved with that spending.

The effects of Covid-19 on our annual audit work

During 2020/21, Covid-19 affected our ability to carry out annual audits of public organisations, often because of organisational closures during lockdown. People in the public organisations that we audit needed more time to prepare the material that we need. Covid-19 has also increased the complexity of many annual audits.

In 2020/21, deadlines for all annual audits were extended as public organisations were allowed more time to meet their annual reporting obligations. The closure of New Zealand's border from March 2020 affected the ability of the auditing profession to secure enough auditors – both for short-term work and as permanent employees.

There is no short-term solution to the current industry-wide shortage of auditors. Together with the broader auditing profession, we are actively working on a range of longer-term measures to address this shortage.

Given the ongoing auditor shortage, Parliament has again extended the statutory reporting time frames for some public organisations by two months. The extension mostly affects Crown entities, councils, and council-controlled organisations with 30 June balance dates and will apply in both 2021 and 2022.

The effects of Covid-19 on our performance audits

In 2020/21, we committed to an ambitious work programme. Covid-19 contributed to delays with some of our performance audits, with some completed after 30 June 2021.

One piece of new work not included in our *Annual plan 2020/21* looked at preparations for the nationwide roll-out of the Covid-19 vaccine, which is the largest immunisation programme ever carried out in New Zealand. We concluded that, to achieve the Government's overall goals, a significant scale-up was still needed. At the time of our review, we were not confident that the Government would achieve its vaccination goals for 2021.

We also reported on our review of the Ministry of Social Development's management of the Wage Subsidy Scheme.

The effects of Covid-19 on staff well-being

Covid-19 continued to affect our staff in 2020/21. Our people were able to work from home during the lockdowns but for many this proved to be challenging. Our Auckland-based staff were the most affected by periodic lockdowns in that region.

During 2020/21, we were mindful of the impact of working under lockdown. We made sure we had systems and processes for our people to manage not only their scheduled work through the already established process of remote audits, but also the impact of rapid change. We provided customised well-being tools that recognised these diverse operating conditions to support people during these challenging times.

Covid-19 has also created opportunities for staff. We delivered training remotely that we would normally deliver in person in the Pacific, and held the first-ever virtual PASAI Congress.

We have taken what we learned from our response to the Covid-19 lockdowns and applied it to the way we work now. More of our people are working flexibly and staff travel has also reduced. Our in-house information technology expertise supports this flexibility.

3

Our performance story

In this Part, we report on the outcomes we contribute towards, the impacts we aim to achieve, and the services we are funded to deliver.

Reporting on our outcomes, impacts, and services tells our performance story for 2020/21.

Everything we do is directed towards achieving the outcomes shown in our performance framework below.

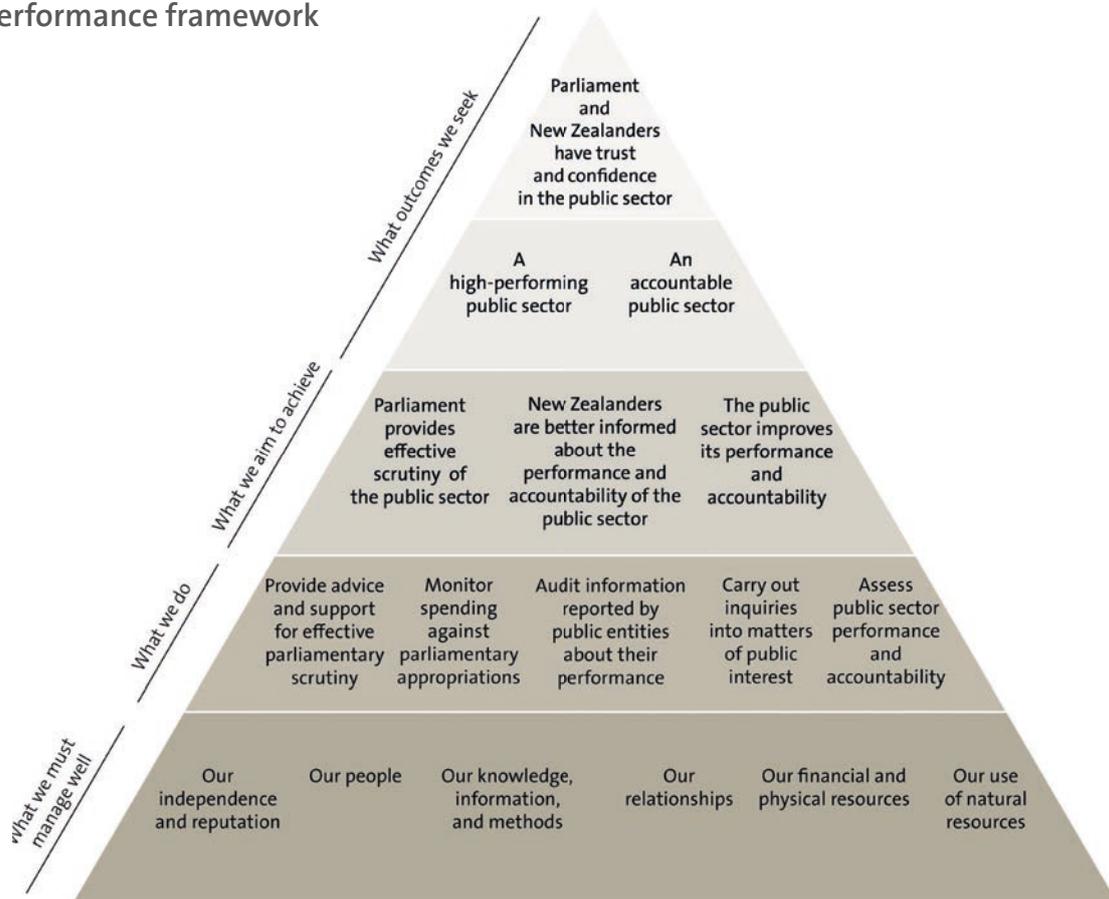
The framework has five layers. The top two layers are the outcomes we contribute towards, the third layer is the impacts we are aiming to achieve, and the fourth layer is the work we do.

Each of our outcomes, impacts, and services has performance standards or performance measures and annual targets.

Achieving our targets relies on the quality and effectiveness of each of the components in the fifth layer of the framework. We describe in Part 4 our 2020/21 priorities for each of these components that we must manage well.

The measures for our services are based on quantity, quality, timeliness, or a combination of these. The data and commentaries on the following pages describe the aggregated results for each of our performance indicators or performance measures for 2020/21.

Our performance framework



Reporting on the outcomes we contribute towards

Our purpose is made up of the outcomes we contribute towards and the impacts we aim to achieve. These outcomes and impacts make up the upper three layers of our performance framework.

We have a range of measures for the outcomes and impacts. This section focuses on outcomes, and the following section sets out the results for our impact measures.

Results for our indicators generally show progress towards our outcomes in 2020/21. New Zealanders' trust in public services has increased, and the New Zealand public sector continues to be regarded as having one of the lowest levels of corruption in the world.

Given the ongoing impact of Covid-19, it remains important that public organisations continue to improve how they account for the public resources they use, meet the high standards of governance and integrity expected of them, and improve their performance. We will continue to play our part in influencing these important outcomes.

Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector

Trust and confidence are the foundations of our system of government. They are fundamental to giving the Government the ability to govern on behalf of the people. To maintain New Zealanders' trust and confidence, the public sector must be competent, be reliable, and act with integrity.

Indicators show that New Zealanders' levels of trust in public services (both experience-based and perception-based trust) improved in 2020.

Indicators		Progress		
Levels of trust in public services (Kiwis Count survey) Target: improving trend (or at least maintained)	Experience-based trust	2020 81%*	2019 79%	2018 80%
	Perception-based trust	2020 69%*	2019 49%	2018 50%

* These results are an aggregate from the survey results for two quarters of 2020. Covid-19 and several technical issues meant that the survey of trust in public services could be carried out only for two quarters of 2020. The results show an increase in experience-based trust and a spike in perception-based trust. Te Kawa Mataaho Public Service Commission says that the spike in perception-based trust may be attributed to a recent change in methodology. However, some of it is likely related to Covid-19 because the public sector was core to the national response to Covid-19 in 2020.

Source: Te Kawa Mataaho Public Service Commission.

Indicator	Progress		
Corruption perception score (Transparency International Corruption Perceptions Index) Target: improving trend (or at least maintained)	2020	2019	2018
	88	87	87
	1st equal	1st equal	2nd

The Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption. The most recent results show that New Zealand maintained its ranking with a score of 88 out of 100. New Zealand ranked first equal with Denmark and remains one of the top-performing countries in the Index.

Source: Transparency International.

Outcome 2: A high-performing public sector

A high-performing public sector is one that delivers services reliably, has strong leadership, builds institutional capacity and capability, and is transparent. It has a public management system that supports and enables it to do this.

Indicator	Progress		
Quality of public services (Kiwis Count survey)	2020	2019	2018
	No data available	77	77

Because of technical issues and the impact of Covid-19, Te Kawa Mataaho Public Service Commission's survey on the quality of public services was not carried out in 2020. This means that no data is available for 2020. Decisions have yet to be made about the future of the quality of public services survey. Results reported for 2019 and 2018 are out of 100.

Outcome 3: An accountable public sector

For Parliament and New Zealanders to have trust and confidence in the public sector, public organisations need to be effectively held to account for their spending and performance.

Each year, we assess trends for aspects of public sector accountability. These aspects include timely and reliable information, sound management, and good governance. To assess whether the public sector demonstrates accountability for its performance, including its use of public resources, we examine the relevance, reliability, and timeliness of annual reports (including financial and performance reports).

A high-level summary of the results of our indicators and these trends is shown below. Although public organisations maintained the relevance and reliability of their information in 2020/21, Covid-19 continues to significantly affect timeliness. Some public organisations were unable to provide the financial information we needed to complete our audits and issue our audit reports by the applicable statutory deadlines. We provide more detail in *Reporting on our services: 3 Audit information reported by public organisations about their performance* (see page 27).

Indicators	Target	Progress		
Number and percentage of unmodified audit opinions from our annual audits	The percentage of unmodified audit opinions from our annual audits is improved (or at least maintained)	2020/21	2019/20	2018/19
		3356	2836	3094
		97%	97%	97%

Despite the challenges Covid-19 presented during the year, public organisations have maintained the quality of their reported financial and performance information.

Indicators	Target	Progress		
Percentage of audit reports that are signed off by the applicable statutory deadline	At least 80% of audit reports are signed off by the applicable statutory deadline	2020/21 71% Revised measure for 2020/21	2019/20 63%	2018/19 81%

This target was not achieved in 2020/21 or 2019/20.

During 2019/20, Covid-19 had a significant adverse effect on our audits, particularly the audits of schools (which are required to have audited financial statements completed by 31 May). Most school audit work is carried out during April and May. For much of April and May 2020, New Zealand was in lockdown.

In 2020/21, Covid-19 continued to create challenges for auditors and public organisations in a range of sectors, affecting the timely completion of audits. During 2020/21, timeliness of audits improved, including school audits. Parliament passed legislation in August 2020 to extend the statutory reporting time frame by up to two months for most organisations with 30 June 2020 balance dates. This supported our auditors to complete their audits by the extended statutory deadline.

The wording of this indicator was revised for 2020/21. Previously, it was “Percentage of audit reports and opinions that are signed by the applicable statutory deadline”.

Percentage of entities with audit reports in arrears as at 30 June	Less than 10%	2020/21 18% Revised measure for 2020/21	2019/20 25%	2018/19 New measure for 2019/20
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Covid-19 significantly affected the timely completion of audits in 2020/21 and 2019/20. A national auditor shortage also emerged in the first half of 2021. This affected the completion of our audits, particularly our school and other smaller public organisations’ audits, which make up nearly all audits in arrears. These factors contributed to our not achieving the target.

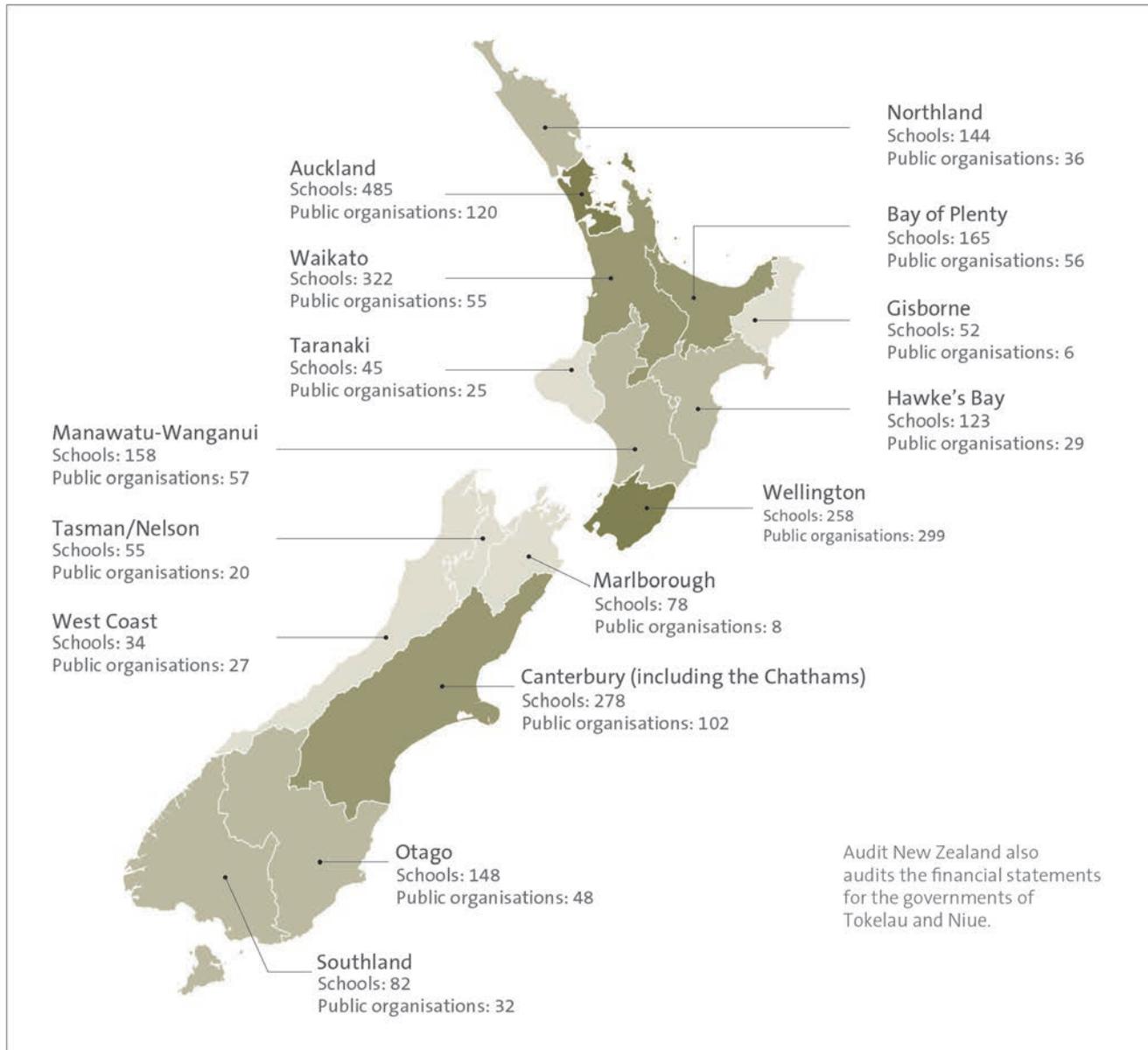
The wording of this indicator was revised for 2020/21. Previously, it was “Percentage of entities with audit opinions in arrears as at 30 June”.

As well as the indicators of an accountable public sector shown in the table above, we draw on other information sources to assess public sector accountability. These indicators provide only supplementary information.

Indicators	Progress		
Worldwide governance ranking (Worldwide Governance Indicators)	2019 Above 90th percentile	2018 Above 90th percentile	2017 Above 90th percentile
<p>The World Bank’s Worldwide Governance Indicators measure the quality of governance in more than 200 countries for six dimensions of governance. Results for the previous calendar year are usually published every September. The 2020 results are not yet available. From 2017 to 2019, New Zealand consistently ranked above the 90th percentile for all six governance dimensions.</p> <p>Source: World Bank.</p>			
Integrity ranking (International Civil Service Effectiveness Index)	2021 Not assessed	2020 Not assessed	2019 1st
<p>The International Civil Service Effectiveness Index assesses how a country’s central government civil service is performing compared with others around the world. The integrity aspect of the Index measures the extent that civil servants behave with integrity, make decisions impartially and fairly, and strive to serve both citizens and Ministers.</p> <p>The most recent results from the University of Oxford’s International Civil Service Effectiveness Index show that the New Zealand public sector ranked first on integrity against a total of 38 countries assessed. The next assessment is expected in 2022.</p> <p>Source: University of Oxford.</p>			

Our audit work is a core part of the Auditor-General’s mandate to maintain the financial integrity of the public sector. The following map shows the regional distribution of the schools and the other public organisations we audited in 2020/21.

Regional spread of audits carried out in 2020/21



Reporting on our intended impacts

Our impact indicators show the difference we are making for our key stakeholders – Parliament, public organisations, and New Zealanders. To influence our outcomes, our aim is to achieve the impacts shown in our performance framework.

Results from 2020/21 show that we are progressing towards our intended impacts. Our inquiry reports and the recommendations from our performance audits help public organisations to improve their performance. Encouraging public organisations to implement the recommendations from our annual audits is an important way we can help improve public sector performance and accountability. We would like to see continued improvement in the implementation of our recommendations.

The three areas of impact are described below.

Impact 1: Parliament provides effective scrutiny of the public sector

Our work in providing advice and reports to Parliamentary select committees helps enable them to hold the public sector to account. The information we provide must be relevant, reliable, and timely. We have received feedback that confirms the quality of our reports and advice to Parliament.

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
Our advice and reports help select committees scrutinise the public sector more effectively Parliamentary select committees confirm our advice and reports were helpful	100%	100% when last assessed*	100%	New indicator for 2019/20
* Our surveys of select committee chairpersons are carried out every two years. This result is from our 2020 survey.				

Impact 2: New Zealanders are better informed about the performance and accountability of the public sector

We aim to focus our work on issues that are relevant and important to New Zealanders. Our work is increasingly receiving more media coverage than in previous years. The 2020/21 increase was mainly driven by a high-profile report on the Covid-19 vaccine roll-out. Our audits of councils' long-term plans and consultation documents, and our response to an inquiry request about land purchased for housing at Ihumātao, also boosted our media coverage.

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
New Zealand media provide increased coverage of our reports and letters Number of citations	Increasing	Increasing 1621	Increasing 1454	Decreasing 1277
In 2020/21, the number of citations in the media about our work increased by 11% from 2019/20.				

Impact 3: The public sector improves its performance and accountability

To assess whether we are having a positive influence on the performance and accountability of the public sector, we look at a range of activities. We assess whether instances of government departments spending public money without Parliamentary authority have reduced. We also look at whether public organisations have improved aspects of their performance in response to our performance audits and inquiries, and whether they have implemented our annual audit recommendations in a timely manner.

Controller function

The 2020/21 result is based on information from the 2019/20 financial statements of the Government, and the 2019/20 result is based on information from the 2018/19 financial statements of the Government.

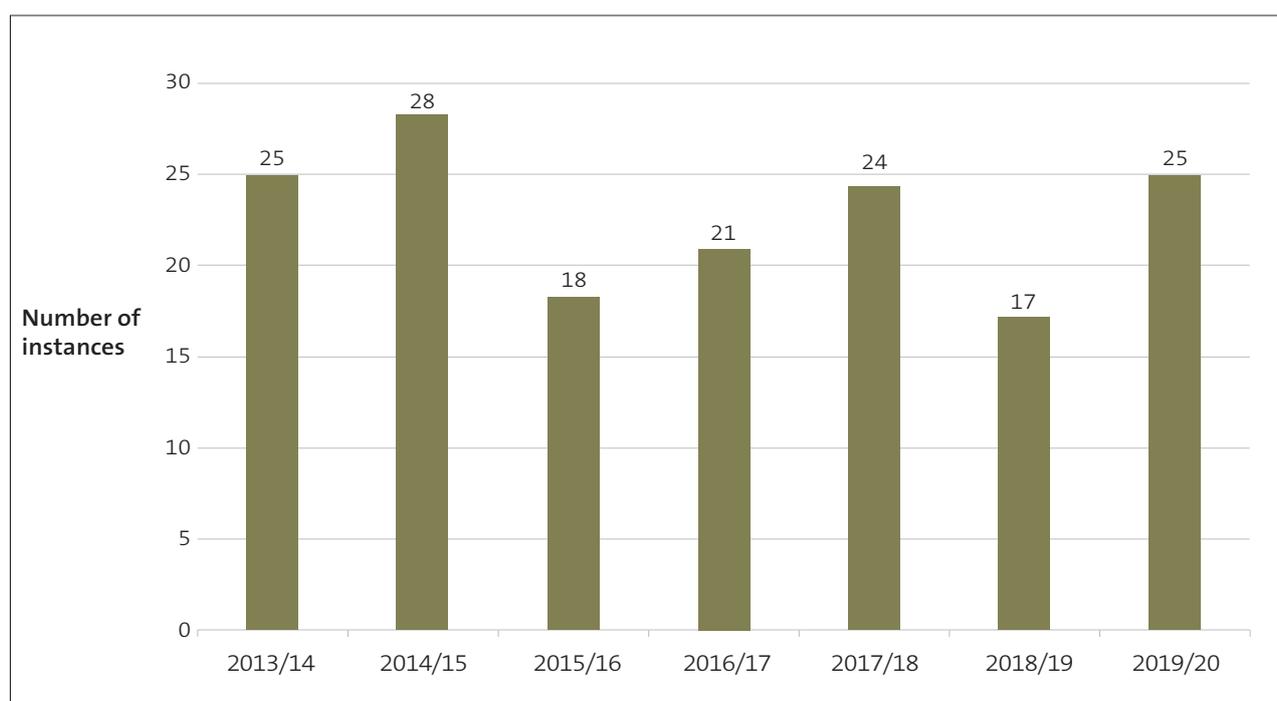
In 2020/21, instances of unappropriated spending increased to 25. Although five of these 25 instances were directly related to the pressing need for spending related to Covid-19, this is the highest number of instances in four years (see the commentary in the table below).

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
Government departments reduce the instances of public spending without Parliamentary authority*	Reducing	Increasing 25	Reducing 17	Increasing 24
Number of instances of expenditure incurred in excess of, or without, appropriation or other authority from Parliament				

* The results for this indicator are from the financial statements of the Government, which are prepared for the previous financial year. The most common reason for unappropriated spending is administrative errors in the documentary requirements. This accounted for \$716 million of the \$915 million total unappropriated expenditure. The total unappropriated spending equates to 0.6% of the final budgeted amount for 2019/20 in Budget 2019.

As shown in the following graph, from 2013/14 to 2018/19, the number of instances of unappropriated spending declined overall. However, as referred to above, in 2020/21 this number had increased again, to 25 instances of unappropriated spending.

Number of instances of unappropriated expenditure, from 2013/14 to 2019/20



Source: The Treasury (2020), *Financial Statements of the Government of New Zealand for the year ended 30 June 2020*.

Annual audits

To help the public sector improve, the Auditor-General's in-house audit service provider, Audit New Zealand, and private sector audit service providers send reports setting out the audit findings and recommendations to the governors of public organisations. This provides those responsible for making improvements with a basis for taking the next steps. We measure the impact of our work by assessing public organisations' implementation of our recommendations.

Our result for 2020/21 provides a benchmark for future reporting. Because of a change in the methodology, we cannot compare the results for 2019/20 to the results for 2020/21. In early 2021/22, we will look at how soon and in what way organisations implement the recommendations we make, including the level of risk of not implementing each recommendation. This will provide greater transparency of reporting.

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
<p>Public entities implement our annual audit recommendations in a timely manner</p> <p>We will identify and report on how larger entities have responded to recommendations made as part of our annual audits</p>	Increasing (or maintaining)	38%	46%	New indicator for 2019/20
<p>In 2019/20, we introduced a new way of measuring the impact of our work and assessed how tertiary education institutions had implemented the recommendations from our audits. In 2020/21, we assessed how 195 larger public organisations, including district health boards, tertiary education institutions, government departments, and councils, had implemented the recommendations from our audits. Implementing recommendations helps organisations to manage risks and realise benefits of the audit process.</p> <p>In 2020/21, of the 2490 recommendations at the beginning of the year, 937 (38%) of our recommendations were effectively implemented by the end of the financial year. We understand that there can be many reasons why recommendations are not implemented in a timely manner. Some recommendations can take more than one year to implement, particularly where they require underlying system changes. Other recommendations may become irrelevant with time as organisations change processes and their technology.</p>				

Performance audits

Our performance audit reports help public organisations improve their performance and accountability. We continue to look for ways to enhance the impact of our performance audit work so that those with responsibility for making improvements can do so. We provide more details about the effect of our performance audit work in *Reporting on our services: 5 Assess public sector performance and accountability*.

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
<p>Public entities have improved aspects of their performance in response to our performance audits</p>	Increasing**	Achieved	Results not available*	Achieved
<p>In 2020/21, we trialled a different approach to following up on our performance audits. In 2019/20, we sampled two public organisations to see whether they had implemented our recommendations and if our recommendations had had the intended effect. We published the findings.</p> <p>This year, a sample of audited public organisations were asked to self-assess the progress they had made against each of our recommendations about 12 months after we published our audit. This approach enables us to follow up more audits than previously. We have published the results on our website.</p> <p>* We published the results from our follow up work on our website in 2020/21.</p> <p>** We revised this target to better reflect the work we carry out. Previously, the target was to report on one to two a year.</p>				

Inquiries

Our inquiries function enables us to inquire into issues of concern that are raised with us. Our inquiries seek to understand what has happened and what lessons there are for the public sector. Our findings help public organisations to improve their performance and accountability. We provide more details of the inquiries process in *Reporting on our services: 4 Carry out inquiries into matters of public interest*.

Indicator	Target	2020/21 result	2019/20 result	2018/19 result
<p>Public entities have improved aspects of their performance in response to our inquiries</p> <p>We will identify and report on any effects from our inquiries</p>	Report on one to two each year	Achieved	Achieved	Achieved
<p>In 2020/21, we identified effects from two inquiries. An effect is where the organisation has taken or is taking action in response to the findings of our inquiry. The first effect related to work we carried out in 2017 about the donations schools requested from those seeking out-of-zone enrolments. The second effect related to work on sensitive expenditure we carried out in 2020/21 about the University of Auckland’s purchase of a house in Parnell to accommodate the Vice-Chancellor.</p>				

Reporting on our services

Five services contribute to our outcomes and impacts.



Performance results for the services we provided in 2020/21 are mixed. For some, we have exceeded or met performance targets, and for others we did not meet the targets. In 2021/22, we will focus our efforts to ensure that our performance for each service improves.

Our indicators for service delivery cover the main dimensions of performance: quality, quantity, and timeliness.

1. Provide advice and support for effective Parliamentary scrutiny

This service is funded through the appropriation *Statutory Auditor Function MCA, Supporting Accountability to Parliament Category*. The amount appropriated for this category in the Main Estimates for 2020/21 was \$5.636 million. For further information on the actual expenditure incurred, see Part 6: Our appropriations.

Drawing on information and insights gathered from our work, we provide advice and support to Parliament and select committees to assist their scrutiny of public sector performance. This includes their annual reviews and their scrutiny of forecast spending through the Estimates of Appropriations examinations after the Government announces its Budget each year.

After the 2020 election, we supported the induction of select committees. We provided briefings on key issues in different sectors, helping select committees decide where to focus their scrutiny. We continued to invest in building our knowledge of the public sector, including of emerging trends and risks. This enables us to tailor our briefings about public organisations and the issues and risks they face.



In 2020/21, we increased our emphasis on cross-agency work in the public sector to reflect select committees' interest in this work. For example, we provided advice in support of select committee annual reviews in the housing sector, briefings on our work on the Joint Venture for Family Violence and Sexual Violence, and briefings for Labour Market and Education Votes.

In 2020/21, demand from select committees for our advice remained high. Select committees asked us to provide 97 briefings in support of annual reviews and 64 briefings on Votes or particular appropriations for their examinations of proposed government spending. We also issued more than 180 letters to Ministers on the findings from our audits of organisations in their portfolio.

We also continue to carry out and report to Parliament on our responsibility to review the service performance of Auckland Council and its subsidiaries under the Local Government (Auckland Council) Act 2009.

Performance for *Provide advice and support for effective Parliamentary scrutiny*

Our provision of services to Parliamentary select committees during 2020/21 has continued to meet expectations.

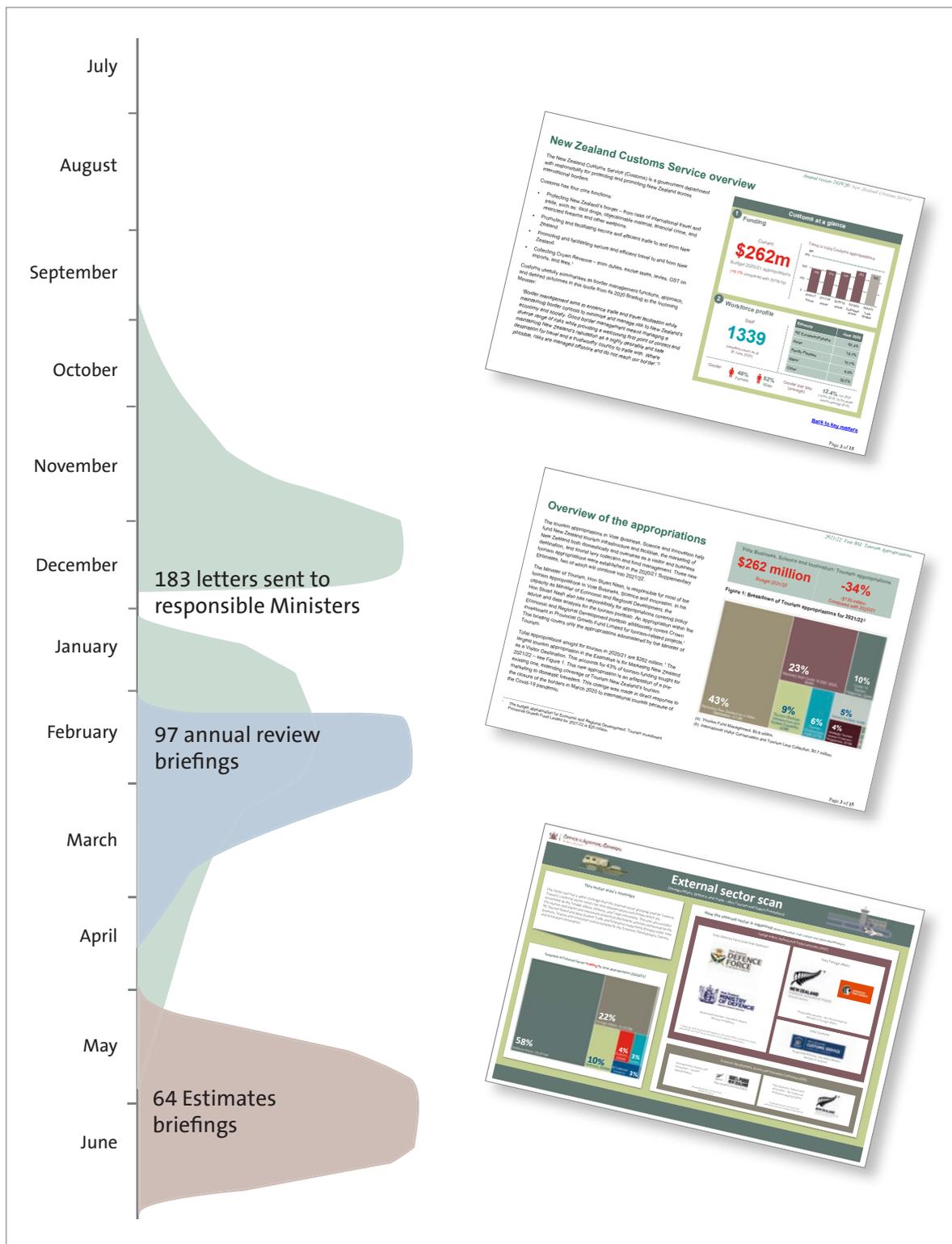
Quality

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of Parliamentary select committees that rate our advice as at least "satisfactory"	100%	100% when last assessed*	100%*	Revised measure for 2019/20
* Our surveys of select committee chairpersons are carried out every two years. This result is from our 2020 survey.				
Percentage of briefing papers that are submitted to select committees by the agreed deadline	100%	100%	98%	100% Revised measure for 2019/20
We revised the wording of this measure for 2019/20. Previously, it was "Briefings are given to select committees at least two days before examination, unless otherwise agreed".				

The following diagram shows the workflow pattern of the support we provided to Parliamentary select committees in 2020/21.

Although our support for select committees happens throughout the year, it involves a series of high-productivity periods that reflect the cycle of scrutiny work for the committees. The key periods involve annual review briefings and Estimates briefings. Ahead of annual reviews, we send letters to responsible Ministers about the results of our annual audits and we provide sector briefings to subject select committees.

Our support to Parliament and Ministers



2. Monitor spending against Parliamentary appropriations (our Controller function)

This service is funded through the appropriations *Statutory Auditor Function MCA*, the *Audit and Assurance Services RDA* and *Audit and Assurance Services*. The amount of these appropriations in the Main Estimates for 2020/21 was \$111.255 million. For further information on the actual expenditure incurred, see *Part 6: Our appropriations*.

Our Controller function provides independent assurance to Parliament that public money has been spent lawfully and within Parliamentary authority. It supports the important constitutional principle that the Government cannot spend, borrow, or impose a tax without Parliament’s approval.

Every year, we present a report to Parliament that includes an account of the work we carried out under the Controller function, along with our findings and conclusions. In recent years, we have also provided an interim account of our work and findings by publicly reporting on our work at the half-year point.

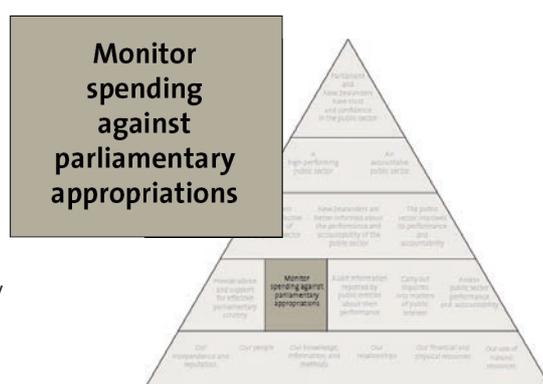
We have been reporting on the Government’s Covid-19 spending as well as our usual Controller reports. We have been tracking the amount of public money that the Government has approved for the response to, and recovery from, Covid-19, as well as the actual spending incurred. We carried out tests to determine whether the Covid-19 spending approvals were properly authorised and whether subsequent spending was incurred in line with those approvals.

We also carry out appropriation audits of government departments. These audits ensure that spending by government departments and Offices of Parliament is lawful and within the scope, amount, and period of the appropriation or other authority.

As mentioned in *Reporting on our impacts: Impact 3*, five instances of unappropriated spending resulted from administrative errors in the documentary requirements in 2019/20. This was the most common reason for unappropriated spending, accounting for \$716 million of the \$915 million total unappropriated expenditure. Such errors could and should have been avoided.

Some spending was unappropriated because departments that were anticipating funding transfers from the previous year incurred spending prematurely – that is, before the authority had been confirmed. This is an ongoing problem. We will continue to remind departments to take care in managing the timing of any spending that relies on increased authority, including potential funding transfers between years.

During 2020/21, we worked with the Treasury to share key messages with finance professionals in government departments. These messages are designed to help them avoid unappropriated spending.



Performance for *Monitor spending against Parliamentary appropriations*

Timeliness

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
The monthly Controller reports (for the months of September to May) are provided to the Treasury within five working days of receiving the Treasury’s monthly reports and statements	100%	100%	100%	100%
	All nine reports	All procedures were followed and agreed time frames were met for all nine reports	All procedures were followed and agreed time frames were met for all nine reports	All procedures were followed and agreed time frames were met

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
We issue a report to Parliament and the public on the Auditor-General's exercise of the Controller function for each financial year	At least annually	We issued five public reports on the Controller function	We issued six public reports on the Controller function	New measure for 2019/20
We report annually to Parliament and publish additional reports on our website.				

3. Audit information reported by public organisations about their performance

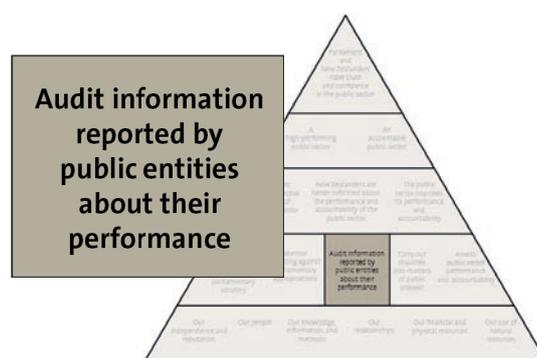
This service is funded through the appropriations *Audit and Assurance Services RDA* and *Audit and Assurance Services* and the amount appropriated in the Main Estimates for 2020/21 was \$94.579 million. For more information on the actual expenditure incurred, see Part 6: Our appropriations.

The core work of our Office is annual audits of public organisations. They account for 85% of our resources. Our in-house audit service provider, Audit New Zealand, and private sector audit service providers carry out this work.

We also issue reports to those charged with governance on how they could improve their public organisation's performance and reporting. Our annual audits fundamentally support the integrity of the financial and performance reporting of public organisations.

An annual independent review of our audit allocation model for allocating audits helps us to continue to deliver high-quality audits (see Appendix 2). We also carry out quality assurance reviews of appointed auditors once every three years.

Our performance results show that Covid-19 affected the timeliness of our audits.



Performance for *Audit information reported by public organisations about their performance*

Quantity

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Number of annual audit reports signed and issued	Not applicable	3356	2922	New measure for 2019/20

Based on the number of public organisations, we expect to sign and issue nearly 3400 audit reports each year. Covid-19 significantly affected the timely completion of about 500 audits during 2019/20. Most of these were completed and have now been included in the reported results for the year ended 30 June 2021. Covid-19 continues to affect the timely completion of audits, and about 400 were late in 2020/21.

Number of council long-term plan (LTP) audit reports signed and issued	Not applicable	66	Not assessed, as not an LTP year	Not assessed, as not an LTP year
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Twelve councils did not adopt their audited 2021-31 long-term plans by 30 June 2021, the statutory deadline for adopting a new plan. Councils faced several challenges in preparing their 2021-31 long-term plans, and these may have contributed to missing the statutory deadline. We will provide information about the reasons councils did not meet their statutory deadlines in our report on the audits of the 2021-31 long-term plans, which will be published in 2021/22.

Quality

We are committed to maintaining high standards of auditing. Every three years, we carry out a quality assurance review of appointed auditors to ensure that they have complied with *The Auditor-General's Auditing Standards*. We expect all our auditors to achieve at least a “satisfactory” grade.

For 2020/21, 90% of our auditors achieved this target. We work with those auditors who do not achieve a “satisfactory” grade to address any immediate concerns, and we carry out a follow-up review the following year. Where necessary, we make changes to auditors’ audit portfolios.

The Public Audit Act 2001 requires us to report each year on any significant changes made to *The Auditor-General's Auditing Standards*. We have made no significant changes to the standards during the year.

We will continue to uphold high standards of auditing. We will also review what factors have contributed to the 2020/21 result and put in place steps to address them.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of appointed auditors with a quality assurance grade of at least “satisfactory” based on the most recent quality assurance review	100%	90%	93%	94%

The quality assurance grade of appointed auditors is influenced by the rating of audit files subject to quality assurance review. The 10% of appointed auditors who were not graded at least “satisfactory” need to improve the audit approach or audit evidence obtained. Despite the need for this improvement, we were satisfied that the conclusions reached by these auditors and the opinions included in the audit reports were appropriate.

Percentage of audit files subject to quality assurance review during the year that achieve a rating of at least “satisfactory”	100%	69%	91%	New measure for 2019/20
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This year, 69% of the audit files we reviewed achieved a rating of at least “satisfactory”. If the audit files for small audits are excluded, the percentage of audit files that achieved a rating of at least satisfactory is 87% (see Appendix 6).

Of the small audits that did not achieve a rating of at least “satisfactory”, most were with one audit service provider. After our review, the audit service provider made changes to address our findings. We performed a review of the changes implemented before the audit service provider issued any further audit reports. We concluded the changes made addressed our findings.

For the 13% that were not small audits and did not achieve a rating of at least “satisfactory”, we made sure that the conclusions reached by the auditors and the opinions included in audit reports were appropriate. We did not require additional audit evidence to be obtained.

We also ask appointed auditors to make the improvements needed for all future audit files to be rated at least “satisfactory”. We follow up during the following year to check that the improvements have been made.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Number of audit opinions withdrawn	No audit opinions withdrawn	1 Revised measure for 2020/21	4 New measure for 2019/20	New measure for 2019/20
One audit report was withdrawn and a new report was issued. The original audit report incorrectly referred to a breach of a statutory reporting deadline. The new audit report explained that there had been no such breach.				
Percentage of public entities that are “satisfied” with the overall quality of their audit service (as determined by responses to our satisfaction survey)	At least 85%	71%	82%	76%
Overall client satisfaction reduced this year. This was in part due to delays in completing audits because of Covid-19.				
Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits and to monitor the reasonableness of audit fees	Confirmed	Confirmed by annual independent review (See Appendix 2)	Confirmed by annual independent review	Confirmed by annual independent review

Timeliness

Covid-19 had a significant adverse effect on our timeliness in completing audits in 2020/21. Although more audit reports were signed by the statutory deadline this year compared to last year, timeliness has not returned to the levels recorded before Covid-19. New Zealand was in lockdown when most of the more than 2400 school audits would usually be carried out.

In August 2020, legislation was enacted to extend the statutory reporting deadlines for public organisations with a 30 June 2020 balance date. This change enabled us to complete more audits within deadlines during the last half of 2020 than we would have if the deadlines had not been extended.

The ongoing effects of Covid-19, including a national auditor shortage that emerged in the first half of 2021, have continued to have an adverse effect on timeliness.

Although there is no short-term solution to the industry-wide shortage of auditors, legislation was enacted in July 2021 to amend the Crown Entities Act 2004 and Local Government Act 2002 to extend the statutory reporting time frames for public organisations with a 30 June 2021 and 30 June 2022 balance dates.

We are actively working on a range of longer-term approaches to address these issues. For example, we support adding auditors to Immigration New Zealand’s list of priority workers and extending the circumstances where some auditing work can be carried out offshore or through virtual secondments (with due consideration of security risks).

The commentaries for the following performance measures explain some of the circumstances affecting the achievement of the corresponding performance standards. We will look at how we can improve the factors within our control for 2021/22.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of audit reports that are signed by the applicable statutory deadline	At least 80%	71% Revised measure for 2020/21	63%	81%
<p>This target was not achieved in 2020/21 or 2019/20.</p> <p>During 2019/20, Covid-19 had a significant adverse effect on our audits, particularly the audits of schools (which are required to have audited financial statements completed by 31 May). Most school audit work is carried out during April and May. For much of April and May 2020, New Zealand was in lockdown.</p> <p>In 2020/21, Covid-19 continued to create challenges for auditors and public organisations in a range of sectors, affecting the timely completion of audits. During 2020/21, timeliness of audits improved, including school audits. Parliament passed legislation in August 2020 to extend the statutory reporting time frame by up to two months for most organisations with 30 June 2020 balance dates. This supported our auditors to complete their audits by the extended statutory deadline.</p> <p>The wording of this indicator was revised for 2020/21. Previously, it was “Percentage of audit reports and opinions that are signed by the applicable statutory deadline”.</p>				
Percentage of entities with audit reports in arrears as at 30 June	Less than 10%	18% Revised measure for 2020/2021	25%	New measure for 2019/20
<p>Covid-19 significantly affected the timely completion of audits in 2020/21 and 2019/20. A national auditor shortage also emerged in the first half of 2021. This affected the completion of our audits, particularly our school and other smaller public organisations’ audits, which make up nearly all audits in arrears. These factors contributed to our not achieving the target.</p> <p>The wording of this indicator was revised for 2020/21. Previously, it was “Percentage of entities with audit opinions in arrears as at 30 June”.</p>				
Percentage of finalised reports to governors about the audit (which incorporate responses from management) that are provided within six weeks of signing the audit report	100%	90%	97%	97%
<p>Achieving this target was challenging because of the ongoing effects of Covid-19. Extra audit work also needed to be done for the Institutes of Technology and Polytechnics that were disestablished during 2019/20 (with opinions due 31 July 2020) and the 3-yearly audits of councils’ long-term plans and consultation documents about those plans.</p>				
Percentage of Ministerial letters on annual audits that are issued to Ministers and Parliamentary select committees within the expected time period:	100%	61%	93%	New measure for 2019/20
<ul style="list-style-type: none"> • where the audit report statutory deadline is 31 October, within 15 weeks of signing the audit report; and • for all other audits, within 10 weeks of the signing of the audit report 				
<p>In 2020/21, we did not achieve our target. Because of the effect of Covid-19 on public organisations and auditors, statutory deadlines for 2020 audits were extended. They changed from 30 September to 30 November 2020 for government departments and from 31 October to 18 December 2020 for Crown entities. Because of the later statutory deadlines, a significant number of Ministerial letters for audits with 30 September deadlines had to be prepared during December and January, when staff take annual leave. This caused delays in finalising some of these letters. Also, after the general election on 17 October 2020, we delayed sending Ministerial letters until new Ministers were sworn in (on 6 November 2020). This contributed to some Ministerial letters not being issued within the expected period.</p>				

Public organisations' satisfaction with our auditing services

We measure public organisations' satisfaction with our auditing services annually through a client satisfaction survey carried out by an external party. In 2020/21, the external party surveyed 440 public organisations and received responses from 70% of them.

Our target is that at least 85% of the public organisations surveyed are satisfied with the overall quality of their audit service (as determined by responses to our satisfaction survey).

Of the organisations that responded to our survey, 71% were satisfied with the services our auditors provide. This is an 11% decrease from the previous year. This decrease was attributed primarily to timeliness and communication, generally because of the disruption and delays that Covid-19 caused to audits.

Other assurance work

Audit New Zealand carries out other assurance work. This work generally focuses on reviewing procurement and contract management, project management, asset management, risk management, governance, and conflicts of interest. However, it can include any services of a kind that it is reasonable and appropriate for an auditor to perform.

Assurance work promotes value by helping public organisations to comply with rules and guidelines, and to adopt good practice.

Audit New Zealand and our other audit service providers also carry out other assurance engagements that are prescribed in other legislation than the Public Audit Act 2001 – for example, work to support disclosure regimes required by the Commerce Commission.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors from Audit New Zealand and private sector auditing firms to carry out the annual audits of public organisations on his behalf. Our processes are designed to ensure that these auditors are independent, that they carry out audits of high quality, and that their audit fees are reasonable.¹ The annual independent review of the methods and processes we use to allocate or tender audits and to monitor whether audit fees are reasonable confirms their probity and objectivity.

Our audit work is funded by fees charged to each audited public organisation. The fees are agreed after consultation with the organisation within agreed parameters.

There is pressure for fees to increase to reflect such factors as increasing requirements on auditors from auditing standards and regulators' expectations, rising expectations of auditors by the organisations being audited, and increases to charge-out rates as a result of increases in input costs.

The following table summarises changes in audit fees from 2019/20 to 2020/21. The figures exclude additional audit fees negotiated with public organisations because of unforeseen problems arising after audit fees were agreed.

1 Section 42 of the Public Audit Act 2001 states that audit fees must be reasonable.

Sector	2019/20 to 2020/21				2018/19 to 2019/20			
	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of organisations*	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of organisations*
Central government	2.4%	0.4%	2.0%	329	4.9%	2.8%	2.1%	382
Local government	5.3%	0.2%	5.1%	362	4.8%	8.6%	(3.8%)	266
Schools	3.0%	0.3%	2.7%	2443	3.1%	0.5%	2.6%	2439
Total	3.4%	0.3%	3.1%	3134	4.5%	4.1%	0.4%	3087

* The number of organisations is all those whose audit fees were agreed at the time our analysis was prepared.

4. Carry out inquiries into matters of public interest

This service is funded through the appropriation *Statutory Auditor Function MCA, Performance Audits and Inquiries Category* and the amount appropriated for the category in the Main Estimates for 2020/21 was \$11.040 million. For further information on the actual expenditure incurred, see Part 6: Our appropriations.

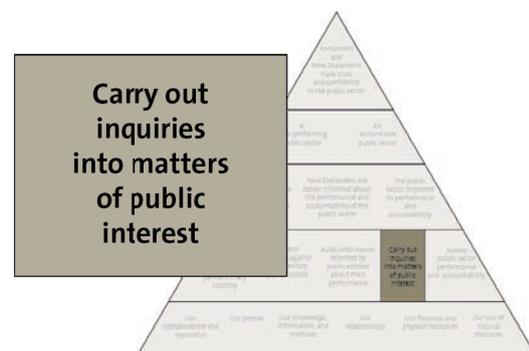
This section includes the inquiries we carry out and the work we do to administer the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest matters in local government.

Our inquiries work is an important mechanism for improving Parliament's and New Zealanders' trust and confidence in the public sector. Through our inquiries function, we can inquire into matters of concern that are raised with us. Our inquiries aim to understand what has happened and what lessons there are for the public sector. We use the findings from our work to help public organisations improve.

Inquiries can arise from our audit or other work, requests from members of Parliament or a public organisation, or concerns raised by the public. We receive a considerable number of requests every year and we carefully consider all issues raised with us, although not all will result in a full inquiry.

We decide whether issues warrant our investigation when matters of concern arise. The process we use involves three categories:

- Category 1 – Triage/Initial view: where we consider new potential inquiry work (either requested or self-initiated) and form an initial view about whether to proceed with further work within four weeks.
- Category 2 – Assessment: where, having decided under Category 1 to do more work, we carry out inquiry work to understand the facts and form a view on those facts (including whether we conclude our work at this point or carry out a major inquiry). We expect to conclude work under category 2 within six months.
- Category 3 – Major inquiries: where we carry out an in-depth investigation of the issues and prepare a detailed report on that investigation. We expect to complete our major inquiries within the agreed period.



Performance for *Carry out inquiries into matters of public interest*

Quantity

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Number of requests for inquiry received (including protected disclosures and monitoring issues)	Not applicable	64	48	New measure for 2019/20
Number of protected disclosures received (a subset of the number above)	Not applicable	9	6	New measure for 2019/20
Number of pieces of inquiry work (other than major inquiries) concluded during the year	Not applicable	62	42	New measure for 2019/20
Number of major inquiries concluded during the year	Not applicable	4	2	New measure for 2019/20

Quality

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of Parliamentary select committees that rate our reports on performance audits, inquiries, and other studies as at least “satisfactory”	100%	Not assessed, because this is not a quality assurance review year	100%	New measure for 2019/20

Timeliness

This year, we achieved our timeliness targets for our three inquiry categories. We continue to actively balance the obligations of fairness and natural justice inherent in our work, and the volume and complexity of the issues we consider, with being timely.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of requests for inquiries or self-initiated issues that are considered and a view is reached within four weeks	90%	94%	New measure for 2020/21	New measure for 2020/21
Percentage of pieces of inquiry work (except major inquiries) that are concluded within six months	At least 90%	90% Revised performance standard for 2020/21	81%	New measure for 2019/20
We achieved our timeliness target of concluding preliminary inquiry work (except major inquiries) within six months. We concluded 52 out of 58 pieces of inquiry work in this category within six months.				
Percentage of major inquiries that are concluded and their findings reported within the expected time period	At least 75%	75%	50%	New measure for 2019/20
We achieved our timeliness target for concluding major inquiries and reporting their findings within the expected period. We completed three out of four major inquiries within the expected period.				

Case studies

Our inquiry into the University of Auckland's decision to purchase a house in Parnell

Trust and confidence in public organisations are driven by competence, reliability, and honesty. Public organisations need to manage sensitive expenditure deliberately and diligently. As with all spending, they must be able to justify it.

Our report *Inquiry into the University of Auckland's decision to purchase a house in Parnell* examined how well the University managed sensitive expenditure when purchasing a house in Parnell, Auckland in November 2019.

We were interested in this matter because it seemed an unusual purchase for the University to make. The house cost about \$5 million, and the University entered into a tenancy agreement with the incoming Vice-Chancellor from the start of her five-year term of employment. The rent was set at about 50% of the market rent. This raised questions about the University's use of public resources and how it manages sensitive expenditure.

We decided to carry out a major inquiry – an in-depth investigation of the issues – and concluded that this was sensitive expenditure that the University had not managed well.

Our report outlines the lack of a justifiable business purpose in providing accommodation to the incoming Vice-Chancellor or hosting an anticipated 14 events in two years. We considered that the price of the house and the reduced rent were not moderate or conservative in the circumstances.

Our work helped the University of Auckland to improve its sensitive expenditure policies and practices. After we completed our work, the University reviewed its management of sensitive expenditure. It concluded that it needed stronger internal processes, improved management reporting, and expanded policies on sensitive expenditure. It also identified a need for education and training on sensitive expenditure throughout the University.

Our good practice guide *Controlling sensitive expenditure: Guide for public organisations* provides further guidance on specific types of sensitive expenditure. It outlines the principles for making decisions about sensitive expenditure.

Auckland light rail city centre to Māngere project

To help build trust and confidence, public organisations need to carry out their procurement in a transparent, accountable, impartial, and equitable way.

In November 2020, we published a letter to the Chief Executive of the Ministry of Transport about the process for selecting a delivery model and partner for light rail in Auckland from the city centre to Māngere.

There were concerns that the process should have been carried out more competitively than simply between two parties – in this case, between the New Zealand Transport Agency/Waka Kotahi and NZ Infra (a proposed joint venture between the New Zealand Superannuation Fund and Canadian institutional investors, Caisse de Depot et Placement du Quebec).

We were also concerned that the process could have resulted in selecting a party to deliver light rail before the policy or design for that light rail system had been determined. There were also questions about whether the process complied with the Government Procurement Rules.

Our response set out the planning and analysis we expect in a procurement of this nature and how the Government Procurement Rules should be applied. After we published our response, the Minister of Transport publicly acknowledged the messages in it and said that he expected that standard procurement processes will be followed in the future.



Quality assurance of our inquiries

In May 2021, we commissioned an independent barrister to carry out a quality assurance assessment of selected aspects of inquiries performed under section 18 of the Public Audit Act 2001.

The reviewer assessed three inquiry reports against the scope/purpose of the work and the available evidence to evaluate whether the conclusions were supported and whether the inquiries complied with the Auditor-General's auditing standard for inquiries (AG-6 Inquiries).

The review found that, in each case, the conclusions contained in the reports were supported and that the inquiries had been carried out in keeping with administrative law principles and AG-6 Inquiries. The reviewer made some minor recommendations to improve processes and streamline the process of conducting an inquiry in certain circumstances.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of inquiries that meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)	100%	100%	New measure for 2019/20 Not assessed, as not a quality assurance review year	New measure for 2019/20

Local Authorities (Members' Interests) Act 1968

The Auditor-General administers the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest matters in local government. This year, we received 33 requests to approve contracts under the Local Authorities (Members' Interests) Act.

We measure our timeliness for those requests from the time when we have all the information we need to carry out our work. This year, we completed 88% of requests to approve contracts under the Local Authorities (Members' Interests) Act within our target of 21 days.

Quantity

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Number of Local Authorities (Members' Interests) Act 1968 approval requests received	Not applicable	33 Revised measure for 2020/21	96 New measure for 2019/20	New measure for 2019/20
We revised this measure for 2020/21 to reflect requests to approve contracts only. The basis for measurement in 2019/20 was all enquiries received.				
Percentage of requests under the Local Authorities (Members' Interests) Act 1968 for approval of contracts that are responded to within the expected time period (within 21 days)	At least 90%	88%	93%	Revised measure for 2019/20
The previous measure included all work related to the Local Authorities (Members' Interests) Act 1968 (contract approvals, investigations, and declarations). The new performance measure now only measures timeliness for approving contracts. In 2020/21, four approvals were late. Most of these were in the first half of the year.				

5. Assess public sector performance and accountability

This service is funded through the appropriation *Statutory Auditor Function MCA, Performance Audits and Inquiries Category*. The amount appropriated for the category in the 2020/21 Main Estimates was \$11.040 million. For more information on the actual expenditure incurred, see Part 6: Our appropriations.

The Public Audit Act 2001 allows the Auditor-General to assess the performance and accountability of public organisations, particular sectors, or the entire public sector. Performance audits, special studies, and the other evaluation and assessment work we do are an important part of our work programme. Each year, we publish our planned work programme in our annual plan as required by the Public Audit Act. Appendix 5 describes progress on the work in our *Annual plan 2020/21*.

Performance audits continue to be an important part of our work programme. The purpose of our performance audits is to help improve public sector performance and provide assurance to Parliament and the public that public organisations are delivering what they have been set up and funded to do.

Performance audits enable us to examine areas that we are not able to in our annual audits and to make recommendations to improve public sector performance. We also monitor public organisations' progress in implementing recommendations from our previous performance audits.

In 2020/21, we worked on 16 performance audits and completed nine of these. We aim to complete the remaining seven performance audits before December 2021. We provide details of the nine published performance audit reports and the nine other publications we published this year in Appendix 4. These publications are available on our website.



Performance for *Assess public sector performance and accountability*

Quantity

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Number of performance audit reports issued during the year	Not applicable	9	4	New measure for 2019/20
Number of other publications issued during the year	Not applicable	9	14	New measure for 2019/20

The number of other publications issued during the year refers to research reports, sector reports and letters, good practice guides, and any other publications that have been published on our external website but have not already been reported elsewhere.

Quality

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of performance audits that substantially meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)	100%	100% when last assessed	100%	Revised measure for 2019/20

The Australian National Audit Office carries out an external peer review of our performance audit function every two years. The most recent external review was in 2019/20. Our Quality Assurance team carries out an internal peer review every three years. The most recent internal review was in 2019/20.

Performance measure	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of Parliamentary select committees that rate our reports on inquiries, performance audits, and other studies as at least “satisfactory”	100%	100% when last assessed	100%	Revised measure for 2019/20
We carry out our stakeholder surveys every two years. This result is from our 2019/20 survey. Our next survey is planned for 2021/22.				
Percentage of audited entities that rate our performance audits as at least “satisfactory”	At least 85%	93%	88%	Revised measure for 2019/20
We surveyed the 22 public organisations that participated in the nine performance audits we completed in 2020/21. We received 15 responses. Fourteen rated our performance audits as at least “satisfactory” and one was neutral. We use a five-point survey scale, ranging from strongly disagree to strongly agree. We assess that responses were at least “satisfactory” if the organisation responded with agree or strongly agree.				

Timeliness

The performance audits in our work programme can be complex and involve managing many dependencies that can affect timeliness. We continue to look at how we set performance audit time frames, at how we can better manage dependencies, and for ways we can make the insights from our work available in a timely way.

In 2020/21, we completed most of our performance audits within 12 months and 56% within 10 months. We completed our audit of the Covid-19 vaccination programme within three months.

Performance measure*	Performance standard	2020/21 result	2019/20 result	2018/19 result
Percentage of performance audits that are concluded and their findings reported within six months	At least 10%	11%	New measure for 2020/21	New measure for 2020/21
Percentage of performance audits that are concluded and their findings reported within 10 months	At least 70%	56%	New measure for 2020/21	New measure for 2020/21
Percentage of performance audits that are concluded and their findings reported within 12 months	100%	89%	New measure for 2020/21	New measure for 2020/21
* We revised our timeliness measure for 2020/21 to provide more transparency on timeliness. The previous measure assessed the timeliness of performance audits against expected time frames. The methodology we apply excludes periods where work is delayed because of matters beyond our control.				
Percentage of other publications concluded, and their findings reported within the expected time-period**	At least 75%	88%	New measure for 2020/21	New measure for 2020/21
** The expected period for other publications is the financial year we first stated the work would be completed in an annual plan.				

Following up implementation of our recommendations

Each year, we assess the progress public organisations have made in acting on the recommendations from a selection of our previous performance audits. Generally, we follow up after 18 to 24 months. This gives public organisations time to make any necessary changes.

We choose which audits to follow up based on the significance of the areas identified for improvement in the performance audit report, the time that has elapsed since we made our recommendations, and the resources we have to assess progress.

In 2020/21, we published two follow-up reports, one on the *Accident Compensation Corporation's case management and the other on using information to improve public housing services*. We have also trialled a different way of following up on our performance audits.

We will now ask audited organisations to assess the progress they have made against each recommendation 12 months after the audit was published. This will enable us to follow up more audits than previously. We will publish the results of the follow ups on our website when they are available. We will still carry out follow-up audits as resources allow.

Case studies

Rapid real-time performance audits

In February 2021, we agreed with the Ministry of Health to review its preparations for the nationwide roll-out of the Covid-19 vaccine during the early stages of the programme. We carried out this work quickly so the Ministry could make any improvements before it rolled out the vaccine to the general population.

We recommended that the Ministry continue to communicate transparently with the public about risks to the roll-out and raise public awareness of the immunisation programme. We also recommended that the Ministry provide more clarity about the roll-out and the Ministry's role in it to district health boards and primary health care providers.

The Ministry was open to receiving and acting on our feedback. When we published our report in May 2021, it had made changes to the roll-out in response to our recommendations. The Ministry released a statement on its website about how it had already responded to our recommendations.

Further information about what we found and recommended is in our report, *Preparations for the nationwide roll-out of the Covid-19 vaccine*, which is available on our website.



Focusing on the most significant areas of spending

The Wage Subsidy Scheme is the Government's largest single area of spending (more than \$13 billion up to 30 June) in response to Covid-19. The Government has estimated that the Wage Subsidy Scheme has indirectly supported about 1.8 million employees. Our report outlines how well the Government has managed the Wage Subsidy Scheme.

We found that the agencies involved did a good job of designing and implementing the Wage Subsidy Scheme on a large scale and at speed. On average, the Ministry of Social Development, which was responsible for administering the scheme, made payments to employers within 3.5 days of receiving applications.

The Government decided to use a "high-trust" approach to be able to make payments to employers quickly. However, a high-trust approach has greater risks of fraud and error, and, in our view, the Ministry should have taken more steps to manage that risk. In particular, we recommended that the Ministry test the reliability of its post-payment assurance work and prioritise the remaining enforcement work.

We also recommended that, given the need for these types of schemes when crises occur, the agencies involved evaluate the scheme to inform the Government's preparation for future schemes.

The Inland Revenue Department told us that it followed our recommendations from this work when implementing the Small Business Cashflow Scheme. We also understand that the Ministry of Social Development, the Inland Revenue Department, the Ministry of Business, Innovation and Employment, and the Treasury are discussing how to carry out a timely evaluation of the development, operation, and impact of the scheme so the Government can use the findings to inform its preparation for future crisis-support schemes.

Further information about what we found and recommended is in our report, *Management of the Wage Subsidy Scheme*, which is available on our website.



4

Developing our organisational capability

Everything we do to achieve our impacts and outcomes relies on how we build our relationships and our resourcing. The work of the OAG and Audit New Zealand is underpinned by our values:

- People matter.
- Our independence is critical.
- We act with integrity and courage.
- We're here to make a difference.

The bottom layer of our performance framework identifies what we must manage well to achieve our purpose. By improving how we manage our resources, we aim to be in the best possible position to carry out our core functions to the standard that Parliament and the public expects. We provide more detail below about each of these, including why they are important and what we achieved in 2020/21.



Our independence and reputation



Our independence and strong mandate underpin all our work and activities.

Maintaining our independence is critical. The credibility of our work relies on our being free of influence (real or perceived) so that we can carry out our work and report without constraint. We have high standards of independence, and we closely monitor compliance with those standards.

Our independence and reputation are also critical to maintaining Parliament's and the public's trust and confidence in our work. They enable us to maintain our position as one of the strongest "pillars" in New Zealand's national integrity system.²

During 2020/21, to protect the quality and independence of our audit work, we:

- continued to actively monitor and manage potential conflicts of interest for our staff and the audit service providers appointed to carry out audits on behalf of the Auditor-General; and
- maintained a focus on risks to our independence and reputation in our strategic risk register.

Our people



Our culture and engagement, skills, and capability enable us to deliver high-quality professional work.

A positive culture and strong engagement will help our people to perform at their best. Our reputation relies on our ability to attract and retain capable and highly skilled staff. We have focused on the following areas:

Culture and well-being

The well-being of our people and a strong and supportive Office culture have been central to our people-related initiatives for 2020/21.

We prepared an Office-wide resilience and well-being plan aimed at having resilient people and leaders who are able to look after their own and others' well-being. We also delivered a range of initiatives to our employees to prioritise their well-being and welfare, during lockdowns and in working environments that had changed because of Covid-19.

² According to Transparency International New Zealand, the New Zealand arm of the global anti-corruption agency.

We also supported employee-led networks, including He Tāngata, a Pasifika Network, and a Rainbow Network.

Working more effectively with Māori is a priority for the Office. We continued work on increasing our capability in te ao Māori in the context of a developing an overall Te Ao Māori strategy. We continued our investment in building capability and competence in engaging with Māori by encouraging and supporting more employees to have a basic knowledge of te reo Māori. During 2020/21, 58 learners attended a range of te reo lessons.

We also delivered a training and coaching programme to Audit Managers, Directors, and Sector Managers working with public organisations where tikanga Māori is fundamental to how they operate. To support this, we provided 67 learners with a one-to-one affirmative action programme, Te Hāpaitanga, and implemented processes to address unconscious bias in the recruitment process.

Capability development

We began implementing our people strategy. As part of our people strategy we began to build a competency framework, which sets out requirements for all roles in the OAG and the Corporate Services Team. We developed a range of training programmes that take account of our role, purpose, and vision and ensure that learning is appropriate for the types of work our people carry out. We have also continued training and developing our auditors, including providing support for them to qualify as chartered accountants and holding training events to further develop their auditing capability.

Leadership

Leadership development continues to be a strong focus for the Office. We embedded our OAG and Corporate Services Team people leaders' forum, and Audit New Zealand people leaders completed a year-long programme focused on developing local leadership cohorts.

Recruitment, retention, and remuneration

We started work on a new remuneration and reward system for staff in the OAG and the Corporate Services Team.

We completed the review of Audit New Zealand's intern and graduate recruitment and onboarding processes and implemented its recommendations.

The recommendations aim to ensure that our approach to recruitment is fit for purpose and that the best possible talent is being attracted to, sourced by, and retained by Audit New Zealand.

We also carried out work on a retention strategy for Audit New Zealand, looking at how we continue to make Audit New Zealand the employer of choice for audit employees.

Equal employment opportunities

Under the Public Audit Act 2001, the Auditor-General must develop and publish an equal employment opportunities programme, comply with this programme, and include in the annual report an account of how the programme was met. We consider quality of employment opportunity critical to creating a workplace that enables all of our people to contribute to their full potential.

The principles and practice of equal employment opportunities are embedded in our people policies. We provide equality of opportunity in the workplace (for example, in access to, consideration for, and encouragement in recruitment, selection, promotion, conditions of employment, learning, capability building, and career development) regardless of ethnic or national origin, sexual orientation, marital status, disability, gender, age, family status, political opinion, or religion). We consider diversity an asset to the Office and the work we do.

Information about our staff numbers and diversity is published on our website.

Our knowledge, information, and methods

Our collective knowledge and expertise about the public sector, and the processes we use to do our work.



Parliament agreed to invest in the Office in Budget 2020 (\$6.3 million capital and \$8.3 million operating over five years) to modernise our infrastructure, enhance our data and information technology capability, and address vulnerabilities through implementation of our Information Systems Strategic Plan.

The Plan is also about ensuring that our systems support improved engagement with Parliament, public organisations, stakeholders, and the public.

We have now completed much of the preliminary work. This included upgrades to our operating systems and security and the foundational work to securely enable cloud services. The build phase for selected core systems will begin in 2021/22. We have also invested in our ability to carry out data analytics, which includes developing a Data and Knowledge Strategy.

We implemented a new client portal that enables secure sharing of audit documents between public organisations and Audit New Zealand. This will make audits more efficient and better support remote working for our auditors, as well as reducing travel. As at 30 June, there were 133 public organisations with 31 March 2021 or 30 June 2021 balance dates who were either actively using or had been trained to use the client portal.

The next significant investments are a new audit contract management system and new audit documentation tool. We have selected a provider to build and pilot features for a new audit contract management and self-service application. The build will start in October 2021 if the pilot is successful. We have begun procurement of a new audit documentation tool for Audit New Zealand.

We also invested in tools and support processes to continue to enable remote working. Although we handled last year's lockdown well, it has taken time to make that a sustainable way of working.

Our relationships



Our mutually productive and respectful relationships with all our stakeholders are important to us.

We have a wide range of stakeholders, and our ability to manage these relationships well is important to our ability to influence and have impact.

Our engagement matters because we need to understand what our stakeholders are concerned about and where risks might arise. These insights help inform our work, allow us to target how we can best assist public organisations with the challenges they face, and shape how we communicate the key messages from our work to influence improvements to public sector practice.

We normally hold regular events for public organisations about governance and accountability, accounting and auditing developments, standards, issues, and opportunities. Because of Covid-19, these events could not be held. Instead, we held some of these online and recorded them, and made sessions publicly available so that governors, managers, finance teams, and other public sector staff could continue to have access to information to help them in their work.

We also:

- strengthened our relationships with public sector and audit profession groups by providing briefings and presentations on good practice, emerging risks, and sector insights;
- increased our focus on liaising with audit and risk committees and chairpersons, including establishing new forums both in person and virtually;
- continued to provide briefings on reports for members of Parliament and briefings for select committees to aid their scrutiny of public sector spending and performance; and
- continued to collaborate with Transparency International New Zealand to host events in Wellington and Auckland focused on strengthening public sector integrity and transparency.

We aim to increase the effectiveness of how we engage with, and provide value for, our stakeholders. To achieve this, we carried out surveys to better understand what Parliamentary select committees and other stakeholders consider we do well and where we need to improve.

We increased the number of staff working on our Pacific capacity-building programme to help strengthen our relationships with Pacific audit offices. This enabled us to increase the amount we spend supporting the work of PASAI and on our twinning partnerships. The goal of this work is to help strengthen accountability, transparency, and good governance in the Pacific.

We also worked on our sector teams' operating model to better target our efforts, improve our impact, and support performance in the public sector.

Our financial and physical resources



Our use of financial and physical resources to support our work.

Funding to support our activities has been constrained for more than a decade. We have kept operating costs low, but this has had a range of effects. We have had to reprioritise funding to absorb salary increases and other inflationary pressures in an environment that was struggling with increasing service demand and complexity to meet the expectations of our audit service providers, public organisations, and other stakeholders.

We are mostly funded through audit fees that are collected directly from public organisations subject to audit. We also receive Crown funding for other aspects of our work, such as advising select committees and reporting to Parliament and the public on audits and inquiries.

In the past three years, we have secured additional Crown funding to help us remain sustainable and improve various Crown-funded services. This funding has enabled us to substantially build our people capability in critical areas, ensuring that we have the skills we need to deliver more, better, and faster, addressing remuneration pressures, and investing more in training and development.

The funding has also allowed us to implement a multi-year programme of work to improve our information technology services and systems. We describe the changes we are proposing to make to our information technology in more detail in the section of this Part titled “Our knowledge, information, and methods”.

Although we have recently received more Crown funding, our fees for audit and assurance work that funds 85% of our resources have not kept pace with costs. Because of Covid-19, we intentionally constrained fee increases. In 2019/20, new fee increases were kept as low as possible for most sectors, and local government fees increased by only 1.5%.

As a result of cost pressures and constrained revenue due to Covid-19, we no longer have any reserves in our audit and assurance memorandum

account and we are projecting deficits in coming years. To address the shortfall, we have lifted fee rates this year by 8% for some sectors and will need to continue to substantially increase fees into the future.

We are also considering other mitigation options and will report on these to the Officers of Parliament Committee in 2021/22.



Our use of natural resources

Our use of natural resources and managing the environmental impact of our activities.

New Zealanders expect public organisations to use all their resources wisely – including the natural resources they consume – and to work to minimise their impact on the environment as much as possible. We have been assessing the environmental impact of our activities for the past few years, looking for opportunities to reduce or mitigate that impact.

We:

- have implemented the main waste management improvements in our Wellington office that an audit by the Sustainability Trust recommended;
- presented features for staff about waste minimisation initiatives on our intranet;
- have continued work on developing an environmental impact reporting dashboard, using the data we have gathered from suppliers;
- have committed to reporting on our greenhouse gas emissions from 2022/23, as a voluntary contribution to the Government’s Carbon Neutral Government Programme; and
- will continue to look for other opportunities to reduce our environmental impact (for example, through conducting more of our training events for our staff online and using technology to reduce our need to travel to carry out audits).

5

Our international contribution

We aim to strengthen public sector accountability and promote good governance by sharing our skills, knowledge, and expertise with other audit bodies throughout the world. We are an active member of the international auditing community known as the International Organisation of Supreme Audit Institutions (INTOSAI). Our primary focus is working with PASAI, which is one of the seven regional organisations of INTOSAI.

The Auditor-General of New Zealand is currently the Secretary-General of PASAI. PASAI is the official regional organisation of supreme audit institutions (SAIs) in the Pacific. PASAI has 27 members.

We work with PASAI to support accountability, transparency, and good governance in the Pacific. Through this role our Office supports a small Secretariat in Auckland that works to increase the capacity, independence, and capability of SAIs in Pacific nations. In turn, this work contributes to stability in the Pacific and accountability for the resources that New Zealand invests in the region.

Our work focuses on PASAI's 2014-24 Strategic Plan. We support PASAI's training and development programmes, administration, and governance, to ensure that quality programmes are delivered that meet PASAI's member's needs and development partner funds are used effectively.

In 2020/21, because Covid-19 disrupted travel, we supported PASAI to adapt their programmes to be delivered online. We also delivered online training programmes for PASAI focused on stakeholder engagement with Parliament and the media, leading effective audit teams, interpersonal skills for auditors, and report writing techniques.

We also hosted PASAI's first virtual Congress. The Congress is PASAI's decision-making body. Consisting of all PASAI members, it provides guidance to the PASAI Governing Board. More than 100 people from 35 countries registered for the three-day event. The theme of "Impact through leadership" saw discussion about leadership opportunities and challenges experienced during the pandemic. Keynote speakers included the Right Honourable Trevor Mallard, the Honourable Aupito William Sio, the Right Honourable Helen Clark, and Dr Siouxsie Wiles.

As part of our Pacific focus, we are privileged to have twinning relationships with the Samoa Audit Office and the Cook Islands Audit Office. These strong relationships enable us to work closely with these SAIs to strengthen their systems and processes and enhance their skills.

This year we worked with the Cook Islands Audit Office on the audit of their Financial Statements of the Government resulting in the audit of these accounts being brought up to date after a prolonged period of backlog, and with the Samoa Audit Office to further strengthen their integrity, fraud, and controller functions.

The Ministry of Foreign Affairs and Trade funds our work with PASAI and with the Samoa Audit Office and the Cook Islands Audit Office.

The Auditor-General is also the Auditor-General of Niue and Tokelau under their respective accountability arrangements. Our auditors complete the audits of the Governments of Niue and Tokelau. With travel to the region disrupted by Covid-19, our auditors carried out their work virtually.

During 2020/21, we strengthened our relationships with other New Zealand public organisations that also work in the Pacific with a focus on governance and accountability. Every two months, we host meetings with this group. As we all adapted to the challenges of international capacity building work in the context of a global pandemic, this collaboration enabled participating agencies to share good practice and experiences.



6

Our appropriations

Our services are funded through the appropriations for Vote Audit 2020/21. In the table below, we show the links between the appropriations and our services.

Our services	Our appropriations
<p>Provide advice and support for effective Parliamentary scrutiny.</p> <p>Our advice to select committees, and our support for the international public sector auditing community.</p>	<p><i>Statutory Auditor Function MCA</i></p> <p>MCA means multi-category appropriation – more than one aspect of our work is covered by this appropriation.</p>
<p>Monitor spending against Parliamentary appropriations.</p> <p>Our Controller function.</p>	<p><i>Statutory Auditor Function MCA</i></p>
<p>Audit information reported by public organisations about their performance.</p> <p>Our annual audits of public organisations and our audits of councils' long-term plans.</p>	<p><i>Audit and Assurance Services RDA</i></p> <p>RDA means revenue-dependent appropriation – the amount of money depends on the audit fees charged for audits of public organisations.</p> <p><i>Audit and Assurance Services</i></p> <p>This appropriation is funded by the Crown, not by the small organisations that we audit.</p>
<p>Carry out inquiries into matters of public interest.</p> <p>Our inquiries work and also our work on sharing good practice.</p>	<p><i>Statutory Auditor Function MCA</i></p>
<p>Assess public sector performance and accountability.</p> <p>Our performance audits and special studies.</p>	<p><i>Statutory Auditor Function MCA</i></p>

Our appropriation statements are provided in the pages that follow in this Part.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Office for the year ended 30 June 2021.

Statement of budgeted versus actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2021

This statement reports actual expenses incurred against each appropriation administered by the Office.

End-of-year performance information for all appropriations is reported in this annual report.

Annual and permanent appropriations for Vote Audit	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000 ¹	Supplementary Estimates 2020/21 \$000 ¹	Main Estimates 2021/22 \$000 ¹
Output expenses					
Audit and Assurance Services RDA ²	95,011	81,818	94,429	92,919	89,345
Audit and Assurance Services	150	3,535	150	150	2,150
Total appropriations for output expenses	95,161	85,353	94,579	93,069	91,495
Other expenses					
Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority) ³	1,011	1,099	1,099	1,011	1,099
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	9,319	6,769	11,040	12,026	11,875
Supporting Accountability to Parliament	6,934	6,620	5,636	5,964	6,210
Total Statutory Auditor Function MCA	16,253	13,409	16,676	17,990	18,085
Total appropriations for operating expenditure	112,425	99,861	112,354	112,070	110,679
Capital expenditure					
Controller and Auditor-General Capital Expenditure PLA ⁴	1,389	1,520	2,525	1,672	4,393
Total annual and permanent appropriations	113,814	101,381	114,879	113,742	115,072

- 1 All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.
- 2 The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2020/21, revenue under this appropriation was \$95.395 million – see page 49, Financial performance for *Audit and Assurance Services RDA*.
- 3 Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.
- 4 Costs incurred pursuant to section 24(1) of the Public Finance Act 1989.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority for the year ended 30 June 2021

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority in the year ended 30 June 2021 (2020: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2021

The Office did not receive any capital injections without, or in excess of, appropriation or other authority in the year ended 30 June 2021 (2020: Nil).

Statutory Auditor Function MCA

About the appropriation *Statutory Auditor Function MCA*

The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources. It includes two categories:

Supporting Accountability to Parliament

This category is limited to reporting to Parliament and others as appropriate on matters arising from audits and inquiries, reporting to and advising select committees, and advising other agencies in New Zealand and abroad to support Parliament and the public in holding public organisations to account for their use of public resources.

This category is intended to provide advice and assistance to Parliament and our other stakeholders to assist them in their work to improve the performance and accountability of public organisations. Our Controller function operates under this category and provides independent assurance to Parliament and the public that public money has been spent lawfully and within Parliamentary authority.

Performance Audits and Inquiries

This category is limited to carrying out and reporting on performance audits and inquiries relating to public organisations under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.

This category is intended to provide Parliament and the public with assurance about how well public organisations use resources and manage a range of matters and programmes. We make recommendations where we consider that improvements can be made.

Financial performance for *Statutory Auditor Function MCA*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Income					
Crown	17,219	14,633	16,233	17,219	17,644
Other	631	522	443	771	441
Expenditure	(16,253)	(13,409)	(16,676)	(17,990)	(18,085)
Surplus	1,597	1,746	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

Statutory Auditor Function MCA costs were \$1.737 million lower than in the Supplementary Estimates, mainly due to the deferral of some projects related to the Office's Information Systems Strategic Plan to 2021/22 and a reduced number of publications as a result of delays caused by Covid-19.

The surplus of \$1.737 million is subject to an In-Principle Expense Transfer (IPET) of \$1.100 million approved by the Officers of Parliament Committee (OPC) in February 2021. OPC will be requested to confirm or approve an amended amount in October 2021. The IPET currently allows the Office to increase the available budget in 2021/22 by up to \$1.100 million for the deferral of projects that were not completed in 2020/21.

Audit and Assurance Services RDA

About the appropriation *Audit and Assurance Services RDA*

This appropriation is limited to audit and related assurance services as authorised by statute. It provides for audit services to all public organisations (except smaller public organisations, such as cemetery trusts and reserve boards) and other audit-related assurance services. The audit services we provide are funded by audit fees charged to public organisations.

Financial performance for *Audit and Assurance Services RDA*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Income from third parties	95,395	81,818	94,429	92,919	89,345
Expenditure	(95,011)	(81,818)	(94,429)	(92,919)	(89,345)
Surplus**	384	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

The higher level of actual income and expenditure compared to the Main Estimates primarily arose from more work completed on audits of public organisations carried out by contracted audit service providers. This additional work was partially offset by a lower level of work completed by Audit New Zealand on 30 June 2021 audit engagements due to capacity constraints.

Because this is a revenue-dependent appropriation, expenditure appropriations for this output class are capped at the revenue total for the year. In years where there is a deficit, the remainder of the costs relating to these outputs are reported in the *Audit and Assurance Services* appropriation below.

Audit and Assurance Services

About the appropriation *Audit and Assurance Services*

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. It provides for audit and related assurance services of smaller organisations, such as cemetery trusts and reserve boards, which are funded by the Crown, rather than by audit fees charged to these organisations.

This appropriation also provides for when costs exceed revenue under the *Audit and Assurance Services RDA* appropriation. Deficits reported through this appropriation are attributed to the *Audit and Assurance Services* memorandum account.

Financial performance for *Audit and Assurance Services*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Income	150	150	150	150	150
Expenditure	(150)	(3,535)	(150)	(150)	(2,150)
(Deficit)**	-	(3,385)	-	-	(2,000)

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

A combined view of the financial performance for the two appropriations is shown below:

Combined financial performance for *Audit and Assurance Services RDA* and *Audit and Assurance Services*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Income from Crown	150	150	150	150	150
Income from third parties	95,395	81,818	94,429	92,919	89,345
Total Income	95,545	81,968	94,579	93,069	89,495
Expenditure	(95,161)	(85,353)	(94,579)	(93,069)	(91,495)
Surplus/(Deficit)**	384	(3,385)	-	-	(2,000)

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

Remuneration of Auditor-General and Deputy Auditor-General PLA

About the appropriation *Remuneration of Auditor-General and Deputy Auditor-General PLA*

This appropriation is limited to remuneration expenses for the Auditor-General and the Deputy Auditor-General, as authorised by clause 5 of Schedule 3 of the Public Audit Act 2001. This permanent appropriation provides for payment to the Auditor-General and Deputy Auditor-General as determined by the Remuneration Authority.

Financial performance for *Remuneration of Auditor-General and Deputy Auditor-General PLA*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Income	1,011	1,099	1,099	1,011	1,099
Expenditure	(1,011)	(1,099)	(1,099)	(1,011)	(1,099)
Surplus	-	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

The Auditor-General and Deputy Auditor-General lead the performance of the Office. The performance of the Office's activities, including this appropriation, is reflected in the information provided in this annual report. The reduced income and expenditure in 2020/21 compared with the prior year and Main Estimates reflects the pay reduction taken by the Auditor-General and Deputy Auditor-General in response to Covid-19, as determined by the Remuneration Authority.

Controller and Auditor-General – Capital Expenditure PLA

About the appropriation *Controller and Auditor-General – Capital Expenditure PLA*

This appropriation is limited to the purchase of assets by, and for the use of, the Auditor-General, as authorised by section 24(1) of the Public Finance Act 1989. It is intended to achieve the renewal and replacement of assets that support the delivery of the Auditor-General's operations.

Financial performance for *Controller and Auditor-General – Capital Expenditure PLA*

	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Property, plant, and equipment	1,060	1,034	685	1,063	1,850
Intangible assets	21	290	1,688	305	2,467
Other	308	196	152	304	76
Total Capital Expenditure	1,389	1,520	2,525	1,672	4,393

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

Our capital expenditure programme provides for the purchase of facilities and tools to enable our staff to carry out their work – for example, hardware and software for information systems, vehicles, building fit-outs, and furniture and fittings.

This year, we spent significantly less on software assets than planned as we deferred the implementation of several software projects related to our Information Systems Strategic Plan until 2021/22 so we could focus on the delivery of our core audit and assurance work.

Our financial results

Overview of our financial results

Operating result

For 2020/21, our Office had a surplus of \$1.981 million. Our net operating results by output are summarised below.

	Audit and Assurance Services \$000	Statutory Auditor Function \$000	Remuneration of Auditor-General and Deputy Auditor-General \$000	Total \$000
Revenue	95,545	17,850	1,011	114,406
Costs	(95,161)	(16,253)	(1,011)	(112,425)
Surplus/(Deficit)*	384	1,597	-	1,981

* The operating surplus excludes gain on sale of assets, which was \$20,000 for the year.

The surplus of \$0.384 million relating to our *Audit and Assurance Services* reflects the additional revenue generated from the audit of councils' long-term plans, in addition to the annual audit and other assurance engagements completed by Audit New Zealand. This surplus is transferred to our memorandum account, which was set up to help us manage the peaks and troughs in our audit fee revenue cycle.

The surplus of \$1.597 million on the *Statutory Auditor Function* arose from the deferral of some projects to 2021/22 largely as a result of delays caused by Covid-19. The surplus is subject to an In-Principle Expense Transfer (IPET) of \$1.100 million approved by the Officers of Parliament Committee (OPC) in February 2021. OPC will be asked to confirm or approve an amended amount in October 2021. The IPET currently lets us increase the available budget in 2021/22 by up to \$1.100 million for the deferral of projects that were not completed in 2020/21.

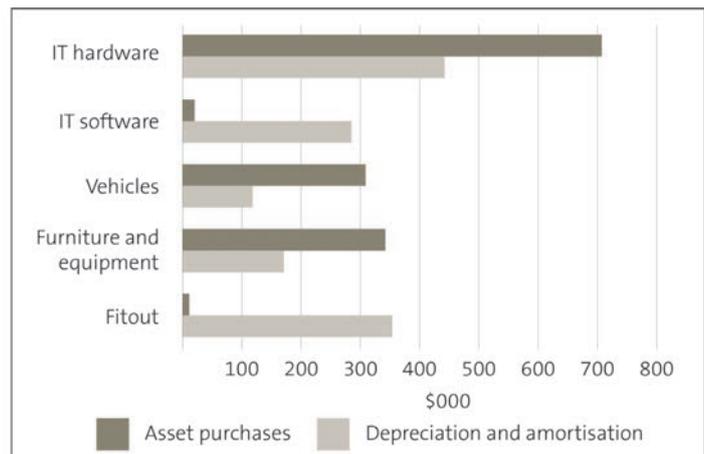
Memorandum account

The surplus for the year was less than planned, mainly due to capacity constraints affecting progress on our annual audits, in addition to audits of councils' long-term plans.

	Audit and Assurance Services memorandum account \$000
Opening balance at 1 July 2020	(1,559)
Audit and Assurance Services surplus	384
Closing balance at 30 June 2021	(1,175)

Investment in our assets

In 2020/21, we maintained our replacement programme for IT hardware, furniture, and vehicles. We also started implementing our Information Systems Strategic Plan, which covers a five-year programme of work to improve our information systems and services across the Office.



Statement of comprehensive revenue and expense

for the year ended 30 June 2021

This statement reports the revenue and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are presented in Part 6.

	Notes	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Revenue						
Crown funding	2	18,380	15,882	17,482	18,387	18,906
Audit fee revenue	3	95,382	81,816	94,642	93,460	89,556
Other revenue		644	524	230	230	230
Gain on sale of plant and equipment		20	5	-	-	-
Total revenue		114,426	98,227	112,354	112,077	108,692
Expenditure						
Personnel costs	4	58,170	51,154	54,866	58,813	59,651
Other operating costs	5	52,674	47,138	54,416	49,837	48,363
Depreciation and amortisation expense	10, 11	1,270	1,196	1,357	1,298	1,527
Capital charge	6	311	373	419	349	419
Total expenditure		112,425	99,861	111,058	110,297	109,960
Surplus/(Deficit)		2,001	(1,634)	1,296	1,780	(1,268)
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		2,001	(1,634)	1,296	1,780	(1,268)

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

Statement of financial position

as at 30 June 2021

This statement reports total assets and liabilities. The difference between total assets and total liabilities is called equity.

	Notes	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Assets						
Current assets						
Cash and cash equivalents	7	3,884	5,077	5,695	3,907	2,657
Receivables	8	9,938	8,174	8,348	9,183	7,598
Prepayments		932	897	809	809	637
Work in progress	9	2,747	1,913	1,105	1,105	1,499
Total current assets		17,501	16,061	15,957	15,004	12,391
Non-current assets						
Plant and equipment	10	3,768	3,502	3,607	3,750	4,464
Intangible assets	11	835	1,100	2,498	1,122	3,249
Total non-current assets		4,603	4,602	6,105	4,872	7,713
Total assets		22,104	20,663	22,062	19,876	20,104
Liabilities						
Current liabilities						
Payables and deferred revenue	12	7,581	7,830	6,579	6,805	5,818
Repayment of surplus due to the Crown	13	1,617	1,751	-	-	-
Employee entitlements	14	7,064	5,820	5,639	5,858	5,411
Total current liabilities		16,262	15,401	12,218	12,663	11,229
Non-current liabilities						
Payables and deferred revenue	12	-	2	-	-	-
Employee entitlements	14	596	598	613	570	600
Total non-current liabilities		596	600	613	570	600
Total liabilities		16,858	16,001	12,831	13,233	11,829
Net assets		5,246	4,662	9,231	6,643	8,275
Equity						
Taxpayers' funds		6,421	6,221	7,729	6,421	6,221
Memorandum account	15	(1,175)	(1,559)	1,502	222	2,054
Total equity		5,246	4,662	9,231	6,643	8,275

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2021

Equity is the Crown's investment in the Office and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds and a memorandum account.

	Notes	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 20/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
<i>Taxpayers' funds</i>						
Balance at 1 July		6,221	6,221	6,221	6,221	6,221
Total comprehensive revenue and expense		2,001	(1,634)	1,296	1,780	(1,268)
Transfer of memorandum account net (surplus)/ deficit for the year		(384)	3,385	(1,296)	(1,780)	1,268
Capital contribution		200	-	1,508	200	2,900
Surplus repayment due to the Crown		(1,617)	(1,751)	-	-	-
Balance at 30 June		6,421	6,221	7,729	6,421	9,121
<i>Memorandum account</i>						
Balance at 1 July		(1,559)	1,826	206	(1,558)	422
Memorandum account net surplus/(deficit) for the year		384	(3,385)	1,296	1,780	(1,268)
Balance at 30 June	15	(1,175)	(1,559)	1,502	222	(846)
Total equity						
Balance at 1 July		4,662	8,047	6,427	4,663	6,643
Balance at 30 June		5,246	4,662	9,231	6,643	8,275

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

Statement of cash flows

for the year ended 30 June 2021

This statement summarises the cash movements in and out of the Office during the year. It takes no account of money owed to the Office or owing by the Office, and therefore differs from the Statement of comprehensive revenue and expense.

	Notes	Actual 2020/21 \$000	Actual 2019/20 \$000	Main Estimates 2020/21 \$000*	Supplementary Estimates 2020/21 \$000*	Main Estimates 2021/22 \$000*
Cash flows from operating activities						
Receipts from the Crown		18,380	15,882	17,482	18,387	18,906
Receipts from public entities ¹		52,425	46,381	56,612	54,504	57,659
Payments to suppliers ¹		(13,770)	(12,492)	(16,419)	(13,624)	(17,465)
Payments to employees		(55,037)	(47,785)	(52,549)	(57,143)	(58,375)
Net GST paid ²		(55)	(85)	240	174	(88)
Capital charge paid		(311)	(373)	(419)	(349)	(419)
Net cash flow from (used in) operating activities	16	1,632	1,528	4,947	1,949	218
Cash flows from investing activities						
Receipts from sale of plant and equipment		113	80	63	103	25
Purchase of plant and equipment		(1,368)	(1,230)	(837)	(1,367)	(1,926)
Purchase of intangible assets		(20)	(290)	(1,688)	(305)	(2,467)
Net cash flow from (used in) investing activities		(1,275)	(1,440)	(2,462)	(1,569)	(4,368)
Cash flows from financing activities						
Capital contribution		200	-	1,508	200	2,900
Surplus repayment to the Crown		(1,750)	(220)	-	(1,750)	-
Net cash flow from (used in) financing activities		(1,550)	(220)	1,508	(1,550)	2,900
Total net increase (decrease) in cash and cash equivalents		(1,193)	(132)	3,993	(1,170)	(1,250)
Cash at the beginning of the year		5,077	5,209	1,702	5,077	3,907
Cash and cash equivalents at the end of the year		3,884	5,077	5,695	3,907	2,657

* All Estimates information is unaudited. The figures under Main Estimates 2020/21 reflect the forecasts published in Budget 2020 and in the Office's 2019/20 annual report, and the figures under Supplementary Estimates 2020/21 reflect the updated forecasts published in Budget 2021.

1 The Statement of cash flows does not include the contracted audit service provider audit fee revenue or expense, as these do not involve any cash transactions with the Office.

2 The GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Statement of commitments

as at 30 June 2021

This statement records expenditure to which the Office is contractually committed at 30 June 2021.

Non-cancellable operating lease commitments

The Office may lease property, plant, and equipment in the normal course of its business. These leases are for premises, which have a non-cancellable leasing period ranging from less than a year to four years.

The Office's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Office by any of its leasing arrangements.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2020/21 \$000	Actual 2019/20 \$000
Non-cancellable operating lease commitments		
Not later than one year	2,230	2,750
Later than one year and not later than five years	305	2,364
Later than five years	-	-
Total non-cancellable operating lease commitments	2,535	5,114
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	2,535	5,114

Statement of contingent liabilities and contingent assets

as at 30 June 2021

This statement discloses situations that existed at 30 June 2021, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2021 (2020: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2021 (2020: Nil).

Notes to the financial statements

for the year ended 30 June 2021

Note 1: Statement of accounting policies

Reporting entity

The Controller and Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, is an Office of Parliament for the purposes of the Public Finance Act 1989, and is domiciled and operates in New Zealand. The relevant legislation governing the Office's operations is the Public Audit Act 2001. The Office's ultimate parent is the New Zealand Crown.

Our primary objective is to provide independent assurance to Parliament and the public about how public organisations are performing, through auditing public organisations, carrying out performance audits, providing reports and advice to Parliament, and carrying out inquiries and other special studies.

We have designated ourselves as a public benefit entity (PBE) for financial reporting purposes.

Our financial statements are for the year ended 30 June 2021 and were authorised for issue by the Controller and Auditor-General on 28 September 2021.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements of the Office have been prepared in keeping with the requirements of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

The financial statements have been prepared in keeping with Tier 1 PBE Standards.

These financial statements comply with PBE Financial Reporting Standards (FRS).

Presentation currency and rounding

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars (\$000).

Standards issued and not yet effective and not early adopted

Standards and amendments issued but not yet effective, which have not been early adopted and which are relevant to the Office, are:

Amendment to PBE IPSAS 2: Cash Flow Statements

An amendment to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, include both changes arising from cash flows and non-cash changes. This amendment is effective for the year ending 30 June 2022, with early adoption permitted. This amendment will result in additional disclosures. We did not adopt the amendment early.

PBE IPSAS 41: Financial Instruments

PBE IPSAS 41 replaces PBE IFRS 9: *Financial Instruments* and is effective for the year ending 30 June 2023, with early adoption permitted. Although the Office has not assessed the effect of the new standard, it does not expect any significant changes as the requirements of PBE IPSAS 41 are similar to those contained in PBE IFRS 9. We do not intend to adopt the standard early.

PBE FRS 48: Service Performance Reporting

PBE FRS 48 establishes requirements for selection and presentation of service performance information and is effective for the year ending 30 June 2023, with earlier adoption permitted. Previously, there has been no PBE standard dealing solely with performance reporting. We have not yet assessed the effect of the new standard and do not intend to adopt the standard early.

Budget and forecast figures

The forecast financial statements (Main Estimates 2021/22) have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures (all Estimates information) are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2020/21 Main Estimates and Supplementary Estimates

The 2020/21 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2020, and in the Office's 2019/20 annual report.

The 2020/21 Supplementary Estimates forecast financial statements are based on the updated forecasts published in Budget 2021.

2021/22 Main Estimates

The 2021/22 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2021. They have been prepared in keeping with PBE FRS 42: *Prospective Financial Statements* and comply with that standard.

The 2021/22 forecast financial statements were approved for issue by the Auditor-General on 6 April 2021. The Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

Although we regularly update our forecasts, updated forecast financial statements for the year ending 30 June 2022 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what might occur during 2021/22. The forecast figures have been compiled on the basis of existing government policies and after the Auditor-General consulted with the Speaker and the Officers of Parliament Committee.

The main assumptions, which were adopted as at 6 April 2021, were as follows:

- The Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Office will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand.

- The Auditor-General will continue to use audit expertise from Audit New Zealand and contracted audit service providers.
- Forecast personnel costs are based on expected staff numbers necessary to deliver the work of the Office, incorporating remuneration rates that are based on current costs adjusted for anticipated market changes.
- Operating costs are based on estimates of costs that will be incurred under the Office's current operating model, with small allowances for price increases.
- Forecast capital expenditure and depreciation are based on planned replacement of motor vehicles and IT equipment, plus continued investment in developing the Office's software programs.

The actual financial results achieved for 2021/22 are likely to vary from the forecast information presented, and the variations might be material. There are likely to be flow-on effects from Covid-19, including demand and supply impacts on the audit profession generally, which is likely to put pressure on the completion of audits in the short term and might reduce the forecasts of revenue and expenditure in 2021/22.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

Goods and Services Tax

All items in the financial statements are presented exclusive of Goods and Services Tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (Inland Revenue) is included as part of receivables or payables in the Statement of financial position.

The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

We are exempted from paying income tax by section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

Output cost allocation

We have determined the cost of outputs using allocations as outlined below.

Direct costs are those costs directly attributable to a single output. Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contracted audit service providers is charged directly to output class: *Audit and Assurance Services RDA*.

Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output. These costs include: corporate services costs, variable costs such as travel, and operating overheads such as property costs, depreciation, and capital charges. Indirect costs are allocated according to the time charged to a particular activity.

In 2020/21, we reviewed our cost allocation approach for allocating indirect costs. Previously, team overheads within the Office were allocated to each output based on the total direct time charged to a project by all teams across the Office. We noted that a more accurate and improved approach was to charge team overheads by the direct time charged by each team to each project.

The impact of the above change was to transfer \$0.391m of costs from the Audit and Assurance Services Revenue Dependent Appropriation to the Statutory Auditor Function Multi-Category Appropriation.

There have been no other changes in cost allocation policies since the date of the last audited financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made about the future. These estimates and assumptions might differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors,

including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are:

- Audit fee revenue, work in progress, and income in advance – see Notes 3, 9, and 12.
- Depreciation and amortisation – see Notes 10 and 11.
- Retirement leave – see Note 14.

Effects of Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of the Covid-19 pandemic, and two weeks later the New Zealand Government declared a State of National Emergency. Since that time, the country and certain regions within it have entered several lockdowns and the Government has imposed stricter border conditions.

Covid-19 significantly affected the ability of public organisations and our auditors to complete their work within the statutory reporting deadlines, due to inefficiencies of working remotely and additional audit work required. Parliament passed legislation on 5 August 2020 to extend the statutory reporting time frames by up to two months for organisations with 30 June 2020 balance dates that reported under the Crown Entities Act 2004, Crown Research Institutes Act 1992, Local Government Act 2002, Public Finance Act 1989, and State-Owned Enterprises Act 1986.

Covid-19 continues to significantly affect many organisations in New Zealand, including ours, particularly with stricter border conditions and reduced global mobility.

There is now a shortage of auditors across New Zealand and Australia. Normally, the audit profession relies on bringing in auditors from overseas to manage the workload. With global mobility restrictions, there is a limited supply of auditors in both the public and private sectors. Compounding this are auditor retention challenges. A tight labour market for qualified finance staff means that auditors are being actively sought for other positions.

The impact of the auditor shortage has been particularly acute for Audit New Zealand, our in-house audit service provider. Audit New Zealand relies on both recruitment from overseas and on

short-term engagements of auditors from New Zealand private audit firms during its busy period.

Auditors are also experiencing extended high workloads – from an extremely busy 2020 due to Covid-19, and a busy first half of 2021 with the audits of councils' long-term plans and their associated consultation documents.

For these reasons, Parliament passed further legislation in July 2021 to extend by two months the statutory reporting time frames in the Crown Entities Act 2004 and the Local Government Act 2002. The extensions apply to Crown entities and organisations listed in Schedules 4 and 4A of the Public Finance Act 1989 and local authorities and council-controlled organisations with 30 June balance dates.

The above factors affected Audit New Zealand's ability to progress the 2021 June audits in addition to the audits of long-term plans prepared by councils. This resulted in a lower surplus in the memorandum account than budgeted.

The Office continued to monitor the cash position and cash injections were not ultimately required.

We also considered the possible effect on trade receivables and formed the view that no impairment needed to be recognised.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of commitments at the value of that penalty or exit cost.

Note 2: Crown funding

The Crown provides revenue to meet the costs of the Office in assisting Parliament in its role of ensuring accountability for the use of public resources. The services provided to Parliament include reports to Parliament and other constituencies; reports and advice to select committees; responding to taxpayer and ratepayer enquiries; advice to government bodies, professional bodies, and other agencies; and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

Accounting policy

Revenue from the Crown is measured based on the Office's funding entitlement for the year. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments approved in the Appropriation (Supplementary Estimates) Act for the year.

There are no conditions attached to the funding from the Crown. However, we can incur expenses only within the scope and other limits of its appropriations.

The fair value of revenue from the Crown has been determined to be equivalent to the funding entitlement.

Note 3: Audit fee revenue

Accounting policy

The specific accounting policies for audit fee revenue are explained below:

Fee revenue generated by the Office for audits and other assurance services

Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised. When it is probable

that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Fee revenue generated by contracted audit service providers for audits

Fee revenue generated by contracted audit service providers (other than Audit New Zealand) for audits of public organisations is also recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public organisations.

Critical accounting estimates and assumptions

Assessing the value of audit fee revenue and associated work in progress or income in advance for engagements open at balance date is the most significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of fee revenue

	Actual 2020/21 \$000	Actual 2019/20 \$000
Fee revenue generated by the Office for audit and assurance services	54,455	45,437
Fee revenue generated by contracted audit service providers for audits of public entities*	40,927	36,379
Total audit fee revenue	95,382	81,816

* Revenue generated by contracted audit service providers (other than Audit New Zealand) does not involve any cash transactions with the Office.

Note 4: Personnel costs

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Obligations for contributions to The Auditor-General's Retirement Savings Plan, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution plans and are recognised as an expense in the surplus or deficit as incurred.

Breakdown of personnel costs

	Actual 2020/21 \$000	Actual 2019/20 \$000
Salaries and wages	54,489	47,788
Other employee-related costs	1,475	1,351
Employer contributions to defined contribution plans	1,542	1,385
Increase/(decrease) in employee entitlements	664	630
Total personnel costs	58,170	51,154

Note 5: Other operating costs

Accounting policy

Expenses of audit service providers

Fees for audits of public organisations carried out by contracted audit service providers are recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public organisations.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term. All leases entered into by the Office are operating leases.

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other operating costs

	Actual 2020/21 \$000	Actual 2019/20 \$000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	100	97
Operating lease payments	2,748	2,811
Fees for audits of public entities carried out by contracted audit service providers*	40,927	36,379
Other expenses	8,899	7,851
Total other operating costs	52,674	47,138

* Expenditure relating to audits carried out by contracted audit service providers does not involve any cash transactions with the Office.

Note 6: Capital charge

Accounting policy

The capital charge is recognised as an expense in the financial year to which the charge relates.

Further information on the capital charge

We pay a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year.

The capital charge rate is determined by the Treasury, and for the year ended 30 June 2021 was 5% (2020: 6%).

Note 7: Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand and funds on deposit with banks and is measured at its face value.

Further information on cash and cash equivalents

We have the use of an overdraft facility to manage seasonal cash flows during the second half of the financial year. The overdraft limit is \$500,000, and interest is charged on the daily balance at Westpac New Zealand Limited's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (2020: Nil).

Note 8: Receivables

Accounting policy

Short-term receivables are recorded at their face value, less an allowance for expected losses and any provision for impairment.

A receivable is considered impaired when there is sufficient evidence that we will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amount expected to be collected.

The expected credit loss rates for receivables at 30 June 2021 and 30 June 2020 are based on the payment profile of revenue on credit over the previous two years at the measurement date and the corresponding historical credit losses experienced for that period.

The allowance for credit losses at 30 June 2021 and 30 June 2020 was determined as 0%.

Breakdown of receivables and further information

The ageing profile of receivables at year-end is detailed below:

30 June 2021	Gross \$000	Estimates of losses %	Expected credit losses \$000	Impaired credit losses \$000	Net \$000
Not past due	8,142	0	-	-	8,142
Past due 1-30 days	1,150	0	-	-	1,150
Past due 31-60 days	192	0	-	-	192
Past due 61-90 days	196	0	-	-	196
Past due over 90 days	258	0	-	(13)	245
Carrying amount	9,938		-	(13)	9,925

30 June 2020	Gross \$000	Estimates of losses %	Expected credit losses \$000	Impaired credit losses \$000	Net \$000
Not past due	6,624	0	-	-	6,624
Past due 1-30 days	669	0	-	-	669
Past due 31-60 days	207	0	-	-	207
Past due 61-90 days	97	0	-	-	97
Past due over 90 days	590	0	-	(13)	577
Carrying amount	8,187		-	(13)	8,174

Movements in the provision for impairment and allowance for credit loss of receivables were as follows:

	Actual 2020/21 \$000	Actual 2019/20 \$000
Balance at 1 July	13	17
Additional provisions made during the year	-	-
Receivables written off during the year	-	(4)
Balance at 30 June	13	13

Note 9: Work in progress

Accounting policy

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents unbilled revenue.

Critical accounting estimates and assumptions

The value of work in progress is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Note 10: Property, plant, and equipment

Accounting policy

Property, plant, and equipment includes furniture and fittings, leasehold improvements, office equipment, information technology hardware, and motor vehicles. Property, plant, and equipment is measured at cost, less accumulated depreciation, and impairment losses.

Additions

Individual assets, or groups of assets, are capitalised if their cost is greater than \$1,000.

The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

In most instances, an item of property, plant, and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and fittings	4 years (25%)
Office equipment	2.5-5 years (20%-40%)
IT hardware	2.5-5 years (20%-40%)
Motor vehicles	3-4 years (25%-33%)

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Impairment of property, plant, and equipment

Property, plant, and equipment assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is determined using an approach based on a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is also recognised in the surplus or deficit.

Critical accounting estimates and assumptions

Determining the depreciation rates for physical assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for depreciation costs, accumulated depreciation, and net book values.

Breakdown of property, plant, and equipment and further information

	Furniture and fittings \$000	Office equipment \$000	Leasehold improvements \$000	IT hardware \$000	Motor vehicles \$000	Total \$000
Cost						
Balance at 1 July 2019	1,633	503	3,169	2,845	1,028	9,178
Additions	332	41	204	456	197	1,230
Disposals	(164)	-	-	(168)	(216)	(548)
Balance at 30 June 2020	1,801	544	3,373	3,133	1,009	9,860
Additions	176	166	11	707	308	1,368
Disposals	(13)	(24)	-	(325)	(250)	(612)
Balance at 30 June 2021	1,964	686	3,384	3,515	1,067	10,616
Accumulated depreciation and impairment losses						
Balance at 1 July 2019	1,527	454	1,404	2,091	356	5,832
Depreciation expense	110	42	228	486	122	988
Elimination on disposal	(164)	-	-	(169)	(129)	(462)
Balance at 30 June 2020	1,473	496	1,632	2,408	349	6,358
Depreciation expense	135	36	254	442	118	985
Elimination on disposal	(13)	(24)	-	(323)	(135)	(495)
Balance at 30 June 2021	1,595	508	1,886	2,527	332	6,848
Carrying amounts						
Balance at 1 July 2019	106	49	1,765	754	672	3,346
Balance at 30 June 2020	328	48	1,741	725	660	3,502
Balance at 30 June 2021	369	178	1,498	988	735	3,768

Note 11: Intangible assets

Accounting policy

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by the Office are recognised as an intangible asset. Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred, as are costs associated with hosted software or “as a service” arrangements.

Costs associated with development and maintenance of the Office’s website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each year is recognised in the surplus or deficit.

The useful life and associated amortisation rate of intangible assets have been estimated at between 2.5 and 5 years (20%-40%).

Impairment

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment. For further details, refer to the policy for impairment of property, plant, and equipment in Note 10. The same approach applies to the impairment of intangible assets.

Critical accounting estimates and assumptions

Determining the amortisation rates for intangible assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for amortisation costs, accumulated amortisation, and net book values.

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:

	Acquired software \$000	Internally generated software \$000	Total \$000
Cost			
Balance at 1 July 2019	4,181	1,027	5,208
Additions	92	198	290
Disposals	-	-	-
Balance at 30 June 2020	4,273	1,225	5,498
Additions	20	-	20
Disposals	-	-	-
Balance at 30 June 2021	4,293	1,225	5,518
Accumulated depreciation and impairment losses			
Balance at 1 July 2019	3,953	238	4,191
Depreciation expense	176	31	207
Elimination on disposal	-	-	-
Balance at 30 June 2020	4,129	269	4,398
Depreciation expense	95	190	285
Elimination on disposal	-	-	-
Balance at 30 June 2021	4,224	459	4,683
Carrying amounts			
Balance at 1 July 2019	228	789	1,017
Balance at 30 June 2020	144	956	1,100
Balance at 30 June 2021	69	766	835

There are no restrictions over the title of the Office's intangible assets. No intangible assets are pledged as security for liabilities.

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at the amount payable.

Income in advance is recognised where amounts billed are in excess of the amounts recognised as revenue.

Critical accounting estimates and assumptions

The value of income in advance is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of payables and deferred revenue

	Actual 2020/21 \$000	Actual 2019/20 \$000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,790	1,132
Income in advance	4,456	4,957
Accrued expenses	618	968
Total payables under exchange transactions	6,864	7,057
Current payables and deferred revenue under non-exchange transactions		
GST payable	717	773
Total payables and deferred revenue under non-exchange transactions	717	773
Total current payables and deferred revenue	7,581	7,830
Non-current payables and deferred revenue under exchange transactions		
Other payables	-	2
Total non-current payables and deferred revenue	-	2

Payables are non-interest-bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables therefore approximates their fair value.

Note 13: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year. The amount to be repaid includes any unused Crown funding and/or gains on sale of assets from the previous financial year. Any surplus arising from audit fees collected under the revenue-dependent appropriation is transferred to the memorandum account and held for use in the *Audit and Assurance Services RDA* output class in future years. The memorandum account is explained further in Note 15.

	Note	Actual 2020/21 \$000	Actual 2019/20 \$000
Surplus/(Deficit) current year		2,001	(1,634)
Less: Surplus/(Deficit) transferred to/from memorandum account	15	384	(3,385)
Total provision for payment to the Crown		1,617	1,751

Note 14: Employee entitlements

Accounting policy

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave, and time off in lieu earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where it is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows.

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

The measurement of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial

basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factors. Any changes in these assumptions will affect the carrying amount of the liability.

The discount rate is based on New Zealand Government bond data at 30 June 2021. The salary inflation factor has been determined after considering current and historical salary inflation patterns.

If the discount rate were to increase/decrease by 1% from our estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$30,048 lower and \$32,658 higher respectively.

If the salary inflation factor were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$36,610 higher and \$34,226 lower respectively.

Breakdown of employee entitlements

	Actual 2020/21 \$000	Actual 2019/20 \$000
Current employee entitlements		
Salary and other accruals	2,253	1,675
Annual leave	4,252	3,651
Time off in lieu of overtime worked	295	233
Retiring leave	145	141
Sick leave	119	120
Total current employee entitlements	7,064	5,820
Non-current employee entitlements comprise:		
Retiring leave	596	598
Total non-current employee entitlements	596	598
Total employee entitlements	7,660	6,418

Note 15: Memorandum account

The memorandum account summarises the accumulated surpluses and deficits incurred in the provision of audit and assurance services by the Office on a full cost recovery basis. These transactions are included as part of our operating income and expenses in the surplus/deficit, but are excluded from the calculation of our repayment of surplus (see Note 13).

The memorandum account helps us manage fluctuating revenue flows and keep audit fees at reasonable levels over time. The memorandum account balance will be taken into account when setting audit fees in future years.

	Actual 2020/21 \$000	Actual 2019/20 \$000
Audit and assurance services		
Balance at 1 July	(1,559)	1,826
Revenue	95,545	81,968
Expenses	(95,161)	(85,353)
Surplus/(Deficit) for the year	384	(3,385)
Balance at 30 June	(1,175)	(1,559)

Note 16: Reconciliation of net surplus/ (deficit) to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the deficit reported in the Statement of comprehensive revenue and expenses to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows.

	Actual 2020/21 \$000	Actual 2019/20 \$000
Net Surplus/(Deficit)	2,001	(1,634)
Add/(Less) non-cash items		
Depreciation and amortisation	1,270	1,196
Total non-cash items	1,270	1,196
Add/(Less) movements in working capital items		
(Increase)/Decrease in prepayments	(35)	(261)
(Increase)/Decrease in receivables	(1,745)	(598)
(Increase)/Decrease in work in progress	(1,355)	1,090
(Decrease)/Increase in payables	248	373
(Decrease)/Increase in employee entitlements	1,244	1,355
Total movements in working capital items	(1,643)	1,959
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	4	7
Total items classified as investing activities	4	7
Net cash flow from operating activities	1,632	1,528

Note 17: Related party transactions

The Office is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that we would have adopted in dealing with the party at arm's length in the same circumstances.

Key management personnel compensation

	Actual 2020/21 \$000	Actual 2019/20 \$000
Key management personnel remuneration (\$000)	3,911	3,839
Full-time equivalent key management personnel	12	12

Key management personnel at 30 June 2021 comprised the Controller and Auditor-General, the Deputy Controller and Auditor-General, and the other 10 members of the OAG and Audit New Zealand Leadership Teams.

Note 18: Financial instruments

Our financial instruments are limited to cash and cash equivalents, receivables, and creditors and other payables. These activities expose the Office to low levels of financial instrument risks, including market risk, credit risk, and liquidity risk.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

We incur a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2020: Nil).

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

We have no interest-bearing financial instruments and, accordingly, no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Office, causing the Office to incur a loss.

In the normal course of the Office's business, credit risk arises from receivables and deposits with banks.

We are permitted to deposit funds only with Westpac New Zealand Limited, a registered bank with high credit ratings. For other financial instruments, we do not have significant concentrations of credit risk.

Our maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net receivables (see Notes 7 and 8).

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting liquidity requirements, we closely monitor forecast cash requirements with expected debtor receipts and cash draw-downs from the New Zealand Debt Management Office. We maintain a target level of available cash to meet liquidity requirements.

Our financial liabilities are outlined in Note 12: Payables and deferred revenue. These are all due to be settled on 30-day terms.

Categories of financial instruments

The carrying amounts of financial instruments are as follows:

	Notes	Actual 2020/21 \$000	Actual 2019/20 \$000
Loans and receivables			
Cash and cash equivalents	7	3,884	5,077
Receivables	8	9,938	8,174
Total loans and receivables		13,822	13,251
Financial liabilities measured at amortised cost			
Payables		7,581	7,830
Total creditors and other payables	12	7,581	7,830

Note 19: Capital management

The Office's capital is its equity, which comprises taxpayers' funds and a memorandum account. Equity is represented by net assets.

We manage revenue, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which we have been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, and liabilities and compliance with the Government Budget processes, Treasury Instructions, and the Public Finance Act 1989.

Note 20: Explanations of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2020/21 budget figures (2020/21 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The overall surplus for 2020/21 was \$2.001 million, compared to a surplus of \$1.296 million budgeted in the Main Estimates. Revenue was \$2.072 million higher than the Main Estimates and expenditure was \$1.367 million higher. These increases primarily reflect more work completed on audits of public entities carried out by contracted auditor service providers. These increases were offset by a lower level of revenue and, to a lesser extent expenditure, generated by Audit New Zealand due to capacity constraints and a lower level of expenditure by the rest of the Office on various projects, including implementation of the Information Systems Strategic Plan.

Statement of financial position and Statement of changes in equity

Net assets at 30 June 2021 were \$3.985 million lower than the Main Estimates. This is reflected in the Office's memorandum account balance, which was forecast in the Main Estimates to be in surplus by \$1.502 million but is in deficit by \$1.175 million. This reflects lower revenue generated by Audit New Zealand than forecast due to capacity constraints and a lower percentage of completion for the 30 June 2021 audit engagements.

Assets at 30 June 2021 were \$0.042 million higher than the Main Estimates. This reflects higher cash levels and increased receivables from billing clients based on contract schedules, partially offset by reduced software expenditure related to the Office's Information Systems Strategic Plan.

Liabilities at 30 June 2021 were \$4.027 million higher than the Main Estimates. This reflects higher levels of income received in advance and higher employee liabilities due to the effect of the Covid-19 pandemic on annual leave taken and accumulated time off in lieu.

Note 21: Events after the balance date

Due to the impacts of Covid-19, Parliament passed further legislation in July 2021 to extend by two months the statutory reporting time frames in the Crown Entities Act 2004 and the Local Government Act 2002. The extensions apply to Crown entities and organisations listed in Schedules 4 and 4A of the Public Finance Act 1989 and local authorities and council-controlled organisations with 30 June balance dates. For further information on this event refer to the critical estimates and assumptions disclosed in Note 1, Statement of accounting policies: Critical accounting estimates and assumptions. There were no other significant events after balance date that required adjustment or disclosure in the financial statements.

(2020: After balance date, the Office received approval for \$1.008 million in additional Crown funding for 2020/21 in the *Statutory Auditor Function* output class. This funding was sought on the basis of the underspending in this output class in 2019/20 and to allow for completion of work delayed due to Covid-19.)

There were no other significant events after the balance date.

Independent auditor's report

PKF Goldsmith Fox Audit
Chartered Accountants



Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

We have been appointed by the House of Representatives to carry out the audit of:

- the financial statements of the Controller and Auditor-General (the Auditor-General) on pages 54 to 74 that comprise the statement of financial position, statement of commitments, and statement of contingent liabilities and contingent assets as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2021 on pages 14 to 39; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2021 on pages 46 to 52.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
 - present fairly, in all material respects, the:
 - financial position as at 30 June 2021;
 - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General;
 - complies with generally accepted accounting practice in New Zealand;
 - presents fairly, in all material respects, for the year ended 30 June 2021:
 - what has been achieved with each appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the appropriation statements of the Auditor-General for the year ended 30 June 2021, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 28 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Auditor-General and our responsibilities, and explain our independence.

Basis for our Opinion

We carried out the audit in accordance with the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we applied the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* that is also applied to the audit of performance information in many other public sector entities in New Zealand. Our responsibilities under those standards are further described in the Responsibilities of the Auditor section of our report.

We have fulfilled our responsibilities in accordance with International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

- financial statements that present fairly the Auditor-General's financial position, financial performance, and cash flows, that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- a statement of output expenses, other expenses and capital expenditure against appropriations, and a statement of unappropriated expenditure, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

The Auditor-General is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Auditor-General is responsible for assessing its ability to continue as a going concern. The Auditor-General is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate its activities, or there is no realistic alternative but to do so.

The Auditor-General's responsibility arises from the Public Finance Act 1989.

Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the published Estimates of the Auditor-General.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports*, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auditor-General's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor-General.
- We evaluate the appropriateness of the reported performance information within the Auditor-General's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Auditor-General and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Auditor-General's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Auditor-General to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor-General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information included on pages 3 to 13, 40 to 45, and 79 to 96, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Auditor-General in accordance with the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

The engagement partner on the audit resulting in this independent auditor's report is Gordon Hansen.

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit Limited
Christchurch, New Zealand

Dated: 28 September 2021

Appendix 1

Report of the Audit and Risk Committee for the year ended 30 June 2021

Members

Warren Allen FCA, FCIS, MinstD, Chair
Susie Johnstone BComm, FCA, CFInstD, CPP
Geoff Dangerfield QSO, MSc, FCILT, CMIInstD
Greg Schollum, BMS, FCA Deputy Controller and Auditor-General

The Audit and Risk Committee is an independent committee established by, and reporting directly to, the Auditor-General. The purpose of the Committee is to oversee and provide advice to the Auditor-General on:

- risk management and internal control (both the OAG and Audit NZ);
- audit functions (internal and external) for the Office;*
- financial and other external corporate reporting;
- the governance framework and processes; and
- compliance with legislation, policies, and procedures.

The Committee has no management functions. During the past year, the Committee:

- met on four occasions to fulfil its duties and responsibilities;
- received briefings on the Office's key business activities, as a basis for ensuring that risks facing the Office are being appropriately addressed;
- reviewed the Office's strategic risks with the Auditor-General;
- received regular updates on the Controller function;
- discussed with the external auditors their audit plans and findings;
- oversaw the internal audit programme;
- monitored the implementation of recommendations made by both the external auditors and internal auditors;
- reviewed the annual report and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major areas of judgement, and compliance with legislation and relevant standards;
- reviewed major projects: Improving Parliamentary scrutiny; LTP audits; office systems strategy; ethics and integrity work programme; people strategy; future of audit; and Māori strategy.
- reviewed the various portfolio (team) updates;
- considered the Auditor-General's strategic priorities to the end of 2021, the Draft Annual Plan 2021/22, and investment (budget bid) update.

The Committee has reported to the Auditor-General on the above, and on other relevant matters. There are no outstanding or unresolved concerns that the Committee has brought to the attention of the Auditor-General.



Warren Allen
Chair, Audit and Risk Committee

17 September 2021

* The "Office" encompasses the Office of the Auditor-General, Audit New Zealand and the shared Corporate Services team.

Appendix 2

Report of the independent reviewer

19 July 2021.

Mr John Ryan
Controller and Auditor- General
P O Box 3928
Wellington 6140

John R Strahl
P O Box 33141
Wellington Mail Centre
Lower Hutt

Dear Mr Ryan

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES 2021

Background and instructions

Pursuant to section 14 of the Public Audit Act 2001 (Audit Act), you are appointed as the auditor of all public entities. Under section 42 of the Audit Act you are authorised to charge fees to public entities for all such audits, which must be reasonable.

Audit New Zealand, a business unit of your Office, has a large and competent staff. However with approximately 3,800 public entities in New Zealand, of which approximately 3,400 must be separately audited, it is impractical for Audit New Zealand itself to carry out all these audits. You thus contract auditors from the private sector to carry out many of these on your behalf. Audit New Zealand still remains by far the largest single provider, carrying out close to half of all public sectors audits (measured by audit hours).

The Office of the Auditor-General (OAG), sets strategy, policy, and standards, and appoints and oversees auditors, both from Audit New Zealand and auditors contracted from the private sector, who carry out audits on your behalf.

You have retained me as an independent person to review the basis upon which auditors, both from Audit New Zealand and the private sector, are appointed to act on your behalf, and to review the basis upon which the audit fees for these audits are determined. This is the sixth year that I have carried out this review.

This is my report on that review for the year ending 30 June 2021.

I am a former partner and chairman of law firm DLA Piper New Zealand, and currently am a director of various entities, one of which is a public entity audited by Audit New Zealand, and one of which is private and is audited by one of your private sector audit providers. I excused myself from the consideration of the appointment and fee setting for the entity audited by Audit New Zealand. I

consider that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit providers.

My instructions are;

'...to review and confirm the probity and objectivity of the methods and systems used by the Office of the Auditor-General to;

Allocate and tender audits

Monitor the reasonableness of audit fees; and

Anything else that impacts on those activities'

There has been no limitation placed on the manner in which I may carry out my work and I have been free to inspect any documents or files that I considered appropriate to the review and to discuss matters arising with staff of your office. I confirm that in the conduct of my review I have been given free access to all matters I have requested and have received full co-operation from your Office. I have also discussed the allocation of audits and the processes of fixing fees and your Office's involvement in resolving disputes, with two major private sector audit providers used by your Office.

Types of Audit Appointments.

In accordance with policies and practices adopted by your Office, there are four main types of audit appointments;

- 1 an appointment made of an auditor to an entity, usually for a term of 3 years under the Audit Allocation Model (Allocation Model);
- 2 an appointment of an auditor for an entity, following a contestable process, if you consider that is appropriate in the given circumstances;
- 3 a re-appointment of an auditor for a further term, usually 3 years, to audit that same entity;
- 4 where an audit involves 150 or more budgeted hours, the individual auditor and senior personnel may not undertake the audit work for more than 6 years, thus a new auditor must be appointed, though that may be another person in the same firm.

Appointments for new entities.

In the last financial year, the Auditor-General appointed auditors for 18 new public entities including schools.

All of these appointments were made following the principles set out in the 'Allocation Model' on which I will comment later. I reviewed the reasons given for each appointment which appeared reasonable and I did not observe any dissatisfaction by any of those entities to the appointment made, the terms of appointment, or the proposed audit fee.

Re-appointments (other than for schools).

Existing auditors were re-appointed during the last financial year to audit 97 public entities and their subsidiaries for a further term. In respect of all the appointments covered by this paragraph, I

observed no dissatisfaction from any of the entities and an appropriate process appeared to be followed and in accordance with the principles set out in the Allocation Model.

New appointments for existing entities, including schools.

There were 23 new appointments made for existing entities including schools and school related entities. I have reviewed the explanation given for each appointment, all of which looked reasonable. I have not observed any concern to any of these appointments, all of which were determined by allocation rather than tender.

Appointment of school auditors.

The appointment of auditors to the school sector is currently underway for the next three year cycle for audits for the period ending December 2021. One existing private Audit Service Provider with a large number of schools has withdrawn from the sector for future audits. I expect this is to provide some challenges due to the fact that this is not a sought after assignment for auditors generally, particularly so when resource constraints are impacting all audit firms, including Audit New Zealand at present. While it is likely that most new appointments will be made in accordance with the Allocation Model a final decision on this has not been made. I have been advised that differing approaches are being explored to ensure sufficient audit services are available to this sector. I encourage that innovation.

Audit Allocation Model.

In the last year all appointments of auditors to both new and current entities, and including all re-appointments, have been made using the Allocation Model rather than the use of a contestable tender process. The Allocation Model has been the principal method used for auditor appointments since it was first adopted in 2003 and later revised in 2010. It is a well established set of principles and they are summarised in a public document entitled; "Appointing public sector auditors and setting audit fees." The principles summarised in that document are;

- auditor independence
- auditor knowledge about public entities and public sector audits
- the particular audit skills required
- the audit's quality and cost; and
- the need for the Auditor-General to always have access to enough audit capacity and capability

The full guide is available on the OAG website (ISBN-978-0-478-38310-2) and is provided to any entity and auditor when appropriate. It is consistently followed and referred to when issues arise.

During the year under review, both the objectives of and principles to be applied in making audit appointments pursuant to the Allocation Model has been and remains under review. I understand further modelling and consideration is being given to the practical application of those principles before the revised version is finally adopted. The initial changes made to the principles are largely

consistent with the existing model, with the proposed changes being more of altered priorities rather than changes of substance. I would encourage that work to be completed soon and that the public document currently available, be updated to ensure that it accurately reflects the changes proposed. I continue to support the use of the Allocation Model as a reasonable basis for allocation decisions for most appointments. Prior to its adoption most audit appointments were made following a contestable tender process. The conduct of audits in the public sector requires specialist expertise, and a careful balance to ensure good quality and consistent auditing at reasonable cost. I remain of the view that these objectives and the balancing required to retain a consistent level of quality and reasonable cost, is best achieved by use of the Allocation Model as opposed to a pure contestable process in the vast majority of cases. This is a view shared by all of the audit service providers that I have consulted. They all consider that the use of the Allocation Model also strengthens the ability to ensure independence of appointments and independence of approach during the completion of the audit. I understand that the contestable process will continue to be used in individual cases when appropriate. I consider that once the current work on the principles and practical application has been completed, that it is important that an accurate summary of these are published to ensure transparency and consistency of decision making.

By making appointments in accordance with such a model, given the inherent discretion available, a disciplined and consistent application of the principles of the model is required when decisions are made. From my review of appointments and re-appointments made during the last year, a careful and consistent process has been followed.

Audit fees.

Section 42 of the Audit Act authorises the Auditor-General to charge fees for all audits of public entities, which must be reasonable. The factors to be taken into account when determining whether the fee is reasonable are set out in that section. If the Auditor-General and the public entity fail to agree as to the reasonableness of a fee, the matter must be submitted to arbitration.

As has been the case in previous years, your Office provided updated advance guidance to all auditors for upcoming appointments of your approach to and factors that would be acceptable and unacceptable reasons for any movement in the then current level of fees. This clearly set out those reasons where a change may be suggested and those reasons which would be considered unacceptable. In every case the guidance stresses that regardless of the reasons for any proposed fee movement, the Audit Proposal to the entity must properly explain them including why any change is suggested.

I consider it good practice to provide in advance this guidance to auditors before the fee proposal is submitted. I would encourage this approach continue at the commencement of each year.

At an individual entity level, at the commencement of every audit appointment, the fee proposed by the auditor, which is expected to be based on the guidelines previously provided, including a clear explanation of any material change is first referred to OAG by the auditor for review to ensure its reasonableness. Considerable detail including a clear breakdown of appropriate team mix and rates is expected. Once the OAG has approved the draft, it is then provided to the entity by the auditor, who then has authority to seek to agree the fee with the entity. The OAG will assist in that process and has available a comprehensive data base of fees in the sector. It is the strong preference of the

Auditor-General for the entity and the appointed auditor to reach agreement without further involvement of the OAG.

In the year under review there are currently no active outstanding disputes over audit fees but there remain some limited cases where additional fees have been sought, which are still under discussion. As is normal, there are isolated instances of some general discontent by some entities over the level of audit fees, and fresh issues may well arise following the completion of current audits.

In no case over the last year has the Auditor-General had to exercise the power to fix a fee and not since 2009 has there been a reference to arbitration.

Most issues which arise over fees are during or after the end of an audit. Some arise due to the constrained financial position of particularly small entities. Some arise due to misunderstandings about what is required, some in respect of additional work not covered in the original scope of works being necessary, and sometimes the quality of and speed in which information is provided by the entity and rework by the auditor as a result, leads to tension. In the year under review, the advent of Covid 19, which I refer to later, has led to a greater than usual number of requests from auditors for an additional fee due to additional work requirements directly as a result of Covid 19. Several such requests have been made and they may be approved if the increase sought is first considered reasonable by the OAG and the auditor is then authorised to seek the approval of the entity to the increase. In all cases reviewed, the OAG has shown consistency and care in helping to resolve these issues.

Overall I am entirely satisfied that the approach of the Auditor-General has been consistent and reasonable in the process of setting and resolving issues over audit fees, including additional recoveries.

Issues arising regarding re-appointments.

When it is time to consider the re-appointments of auditors, it is the practice of your office to inform each entity and to seek their views. A small number of entities in the last year have made a request for a change of auditor. In most cases this has not been just about fees but more often is about performance and sometimes a perception that better service would be provided with a different auditor with more experience in the particular sector.

The number involved remains very small. I have reviewed several of the requests some of which have been deferred pending your completion of the review of the Allocation Model. In all cases to date I consider the Auditor-General has taken a consistent, constructive and objective position to resolve the issues but there does remain a very small number where finalization is outstanding.

Other issues. Covid 19 and audit resources generally.

The advent of Covid-19 has had a material impact on the time required to complete the current round of audits. Increased hours in the order of 30-40% have been experienced. This has arisen because of a variety of factors, extended reporting dates, challenges with valuations of many assets, going concerns issues etc. While this has led to a greater than usual number of requests for additional fees, the additional time spend has not universally been claimed by auditors or approved in full when requested.

Of some concern is the gap in the audit sector generally of suitable resources which has been growing for some time but has been made worse because of the limited ability to recruit additional people with the required skills and experience particularly from overseas because of the limited travel opportunities due to Covid 19. Some estimates place the personnel gap in the audit sector as large as 200 people with suitable skills. This in turn is leading to increased wage outcomes as the need to retain and seek additional resources grows. I am satisfied that your Office is well aware of these challenges and that you are actively looking at possible steps that can be taken to moderate the impact of this, but it remains a difficult challenge for the whole audit sector.

There are no other material issues which arose in the previous year which in my view warrant comment in this report.

Conclusions.

I have been provided full access to all relevant material and free access to the relevant files and personnel of the OAG. I have met with and obtained full explanations to all my queries by OAG personnel and have observed the relevant internal process of the OAG regarding both appointments and fee setting and monitoring. On the basis of that review and the explanations provided I consider that the policies currently adopted for the allocation of audits and the setting of fees are appropriate and that;

- 1 the process and methods used to allocate audits has been conducted fairly, reasonably, and with suitable probity and objectivity
- 2 the approach and process taken to fix and monitor the reasonableness of audit fees has been reasonable having regard to the interest of all parties and has been conducted with suitable probity and objectivity
- 3 the subsequent issues that have arisen for both appointments and fees have been dealt with objectively, fairly, and reasonably.

Yours sincerely



John R Strahl.

Appendix 3

Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act 2001 requires us to include in the annual report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

At 30 June 2021, arrangements had been entered into for audits of the following entities:

- The New Zealand Sports Foundation Charitable Trust; and
- Te Awa Tupua (including Te Korotete).

Appendix 4

Published work in 2020/21

Major inquiries
<i>Auckland light rail City Centre to Māngere project</i>
<i>Inquiry into state schools requesting payments in connection with out-of-zone places – follow-up work</i>
<i>Inquiry into the University of Auckland’s decision to purchase a house in Parnell</i>
<i>Tauranga City Council car park building project</i>
Other inquiry work
<i>Unite for the Recovery advertising</i>
<i>Transmission Gully settlement agreement</i>
<i>Request to investigate Wellington City Council</i>
<i>Response to concerns about the Government’s purchase of land at Ihumātao</i>
<i>Engagement of consultants at Queenstown Lakes District Council</i>
<i>Hutt South office lease arrangements</i>
Performance audits
<i>Using information to improve public housing services. Progress in responding to the Auditor-General’s recommendations</i>
<i>New Zealand Transport Agency: Maintaining state highways through Network Outcomes Contracts</i>
<i>Inland Revenue Department: Benefits management for the Business Transformation programme</i>
<i>Getting the best from panels of suppliers</i>
<i>Accident Compensation Corporation case management: Progress on recommendations made in 2014</i>
<i>Preparations for the nationwide roll-out of the Covid-19 vaccine</i>
<i>Management of the Wage Subsidy Scheme</i>
<i>Working in new ways to address family violence and sexual violence</i>
<i>Strategic suppliers: Understanding and managing the risks of service disruption</i>
Other published work
<i>Managing the Provincial Growth Fund</i>
<i>Analysing government expenditure related to natural hazards</i>
<i>Controlling sensitive expenditure: Guide for public organisations</i>
<i>Tertiary education institutions: 2019 audit results and what we saw in 2020</i>
<i>Results of the 2019 school audits</i>
<i>Central government: Results of the 2019/20 audits</i>
<i>Accountability requirements to consider when establishing a new “public entity”</i>
<i>Long-term plan bulletins</i>
<i>Insights into local government: 2020</i>
<i>Housing and urban development: The challenges and our interest</i>
<i>Results of our 2019/20 audits of port companies</i>

Submission on the Protected Disclosures Bill

Controller updates on Government spending on Covid-19 (July 2020, September 2020, February 2021)

Controller update: July to December 2020

Corporate publications

Annual report 2019/20

Draft annual plan 2021/22

Annual plan 2021/22

Appendix 5

Progress against our 2020/21 work programme as described in Appendices 2 and 3 of our *Annual plan 2020/21*

Planned work	Published title or current state	Publication date
Performance in achieving reductions in family violence – Community needs research	Planned to be completed in 2021/22	
Joint venture governance and building our understanding of the family violence system	<i>Working in new ways to address family violence and sexual violence</i>	1/6/21
Overview of the housing system	Housing and urban development: The challenges and our interest	30/6/21
Extended annual audit work on KiwiBuild	Limited to standard annual audit work ³	N/A
Health and disability sector reform	This work has been incorporated into our broader programme of work on preparing submissions on government reforms	N/A
Health system leadership and sustainability	Planned to be completed in 2021/22	
Helping children at risk of disadvantage or disengagement to succeed in their education – overview	This was internal work we carried out to inform future work on improving education outcomes	N/A
Underlying financial sustainability of tertiary education institutions and international comparisons	Planned to be completed in 2021/22	
Whānau Ora	Planned to be completed in 2021/22	
Māori perspectives on accountability	Planned to be completed in 2021/22	
Making performance reporting more effective	Planned to be completed in 2021/22	
Landscape of the public accountability system: Second report	Planned to be completed in 2021/22	
Progress towards implementing the United Nations' 17 sustainable development goals	<i>The Government's preparedness to implement the sustainable development goals</i> Published 31 August 2021	
Resilience to climate change: Local government – Long-term plans	Planned to be completed in 2021/22	
Local government risk management: Stocktake of approach and reporting results	Planned to be completed in 2021/22	
Canterbury earthquakes: 10 years on, lessons learned	Planned to start in 2022/23, with a broader focus on the emergency management system	
Performance audit work on integrity – local government sector	<i>Getting it right: Managing conflicts of interest involving council employees</i> Published 5 August 2021	
Developing integrity tools and supporting resources: publish the integrity framework	Planned to be completed in 2021/22	

³ The areas of focus in the housing sector have continued to shift, and carrying out extended annual audit work on KiwiBuild became less of a priority for us. We were satisfied that our standard annual audit work could provide assurance over financial and performance reporting relevant to KiwiBuild.

Appendix 5

Progress against our 2020/21 work programme as described in Appendices 2 and 3 of our Annual plan 2020/21

Planned work	Published title or current state	Publication date
Developing integrity tools and supporting resources: internal resources and training	This was internal work carried out to develop resources to support our auditors and sector managers. This work is ongoing.	N/A
Developing integrity tools and supporting resources: develop a self-assessment tool	Cancelled ⁴	
Partnerships with the private sector to deliver public sector outcomes	Cancelled ⁵	
Governance of the Auckland city rail link programme	Planned to be completed in 2021/22	
Understanding and managing the risk of service disruption from the failure of strategic suppliers	<i>Strategic suppliers: Understanding and managing the risks of service disruption</i>	10/6/21
Effectiveness of panels of suppliers	<i>Getting the best from panels of suppliers</i>	29/9/20
Provincial Growth Fund: Management, monitoring, and evaluation of the Fund	<i>Managing the Provincial Growth Fund</i>	4/8/20
New Zealand Transport Agency: Maintaining safe and reliable state highways through network outcomes contracts	<i>New Zealand Transport Agency: Maintaining state highways through Network Outcomes Contracts</i>	4/8/20
Review of <i>Defence Major Projects Report 2019</i>	<i>Major Projects Report 2019</i> (published by New Zealand Defence Force)	3/6/21
Inland Revenue Department: Benefits from the Business Transformation programme	<i>Inland Revenue Department: Benefits management for the Business Transformation programme</i>	4/8/20
Systems and processes underpinning government decisions on major infrastructure investment	Planned to be completed in 2021/22	
Provincial Growth Fund: Reset of the Provincial Growth Fund and reprioritisation of investments	Planned to be completed in 2021/22	
Community accountability	Planned to be completed in 2021/22	
Report on the progress of public entities in implementing the Auditor-General's recommendations from previous reports: <i>Using information to improve social housing services</i>	<i>Using information to improve public housing services. Progress in responding to the Auditor-General's recommendations</i>	4/8/20
Report on the progress of public entities in implementing the Auditor-General's recommendations from previous reports: <i>Accident Compensation Corporation: Using a case management approach to rehabilitation</i>	<i>Accident Compensation Corporation case management: Progress on recommendations made since 2014</i>	3/12/20

⁴ We decided not to develop a self-assessment tool. Our work on developing resources for public entities on integrity matters is continuing.

⁵ In January 2021, Te Waihanga, the New Zealand Infrastructure Commission published the New Zealand Public Private Partnership Model Review. To avoid potential duplication with this work, we decided not to proceed with our proposed performance audit looking at public private partnerships.

Planned work	Published title or current state	Publication date
Results of the 2019/20 port company audits	<i>Results of our 2019/20 audits of port companies</i> ⁶	23/6/21
Central government: Results of the 2019/20 audits	<i>Central government: Results of the 2019/20 audits</i>	23/12/20
Summary of results of the 2019/20 central government audits for chief executives	Completed ⁷	
Results of the 2019 school audits	<i>Results of the 2019 school audits</i>	30/11/20
Results of the 2019 audits of tertiary education institutions	<i>Tertiary education institutions: 2019 audit results and what we saw in 2020</i>	8/12/20
Results of the 2019/20 district health board audits	<i>District health boards: Main findings from the 2019/20 audits</i> Published 20 July 2021	
Local government: Results of the 2019/20 audits	<i>Insights into local government: 2020</i>	29/6/21
Controller updates ⁸	<i>Controller update on Government spending on Covid-19</i>	27/7/20 17/9/20 10/2/21
	<i>Controller update: July to December 2020</i>	30/3/21
Commentary on the Treasury's statement on New Zealand's long-term fiscal position	Planned to be completed in 2021/22	
Review of good practice guidance: <i>Procurement guidance for public entities</i>	Cancelled ⁹	
Review of good practice guidance: <i>Public sector purchases, grants, and gifts: Managing funding arrangements with external parties</i>	Planned to be completed in 2021/22	
Review of good practice guidance: <i>Charging fees for public sector goods and services</i>	Planned to be completed in 2021/22	
Review of good practice guidance: <i>Controlling sensitive expenditure: Guidelines for public entities</i>	<i>Controlling sensitive expenditure: Guide for public organisations</i>	27/10/20
Supporting audit and risk committees: - Review and update our good practice guidance for audit and risk committees	Planned to be completed in 2021/22	
Supporting audit and risk committees: Expand Audit and Risk Committee Chair forums	We expanded our Audit and Risk Committee Chair forums – four workshops and two forums were held	N/A

6 After our report was published in June 2021, it was brought to our attention that Northport Limited was incorrectly described as a port company. As a result, we made several minor corrections throughout the report and published the updated report in July 2021.

7 Although the findings from our analysis of 2019/20 audits continue to inform our engagement with central government organisations, we decided to focus our communication with chief executives on other issues.

8 Our most substantive Controller report was included in Part 3 of our report *Central government: Results of the 2019/20 audits*.

9 We decided to cancel this work given the substantial material on procurement we have published in recent years. Others – such as the Ministry of Business, Innovation and Employment – also provide procurement guidance.

Appendix 5

Progress against our 2020/21 work programme as described in Appendices 2 and 3 of our *Annual plan 2020/21*

Planned work	Published title or current state	Publication date
Supporting audit and risk committees: Engage with audit and risk committee chairpersons	We increased the level of direct engagement with Audit and Risk Committee chairpersons	N/A
Understanding performance and supporting the role of monitoring agencies	Planned to be completed in 2021/22	
Providing assurance to Parliament and the public on the Covid-19 pandemic response and recovery - Understanding the centralised response	Planned to be completed in 2021/22	
Providing assurance to Parliament and the public on the Covid-19 pandemic response and recovery - Case studies on public sector business continuity	Planned to be completed in 2021/22	
Providing assurance to Parliament and the public on the Covid-19 pandemic response and recovery - Understanding what has been spent	Completed. This was internal work carried out to help inform our work on the Covid-19 response and recovery.	N/A
Providing assurance to Parliament and the public on the Covid-19 pandemic response and recovery - The Wage Subsidy Scheme	<i>Management of the Wage Subsidy Scheme</i>	11/5/21
Providing assurance to Parliament and the public on the Covid-19 pandemic response and recovery - Annual audit work	Completed. This was additional work we carried out during our annual audits to support our auditors in their work given the impact of the Covid-19 pandemic on the public sector.	N/A

Appendix 6

Report on the quality of annual audits 2020/21

This report outlines how the Office of the Auditor-General monitors the quality of annual audits.

The way we operate

The Auditor-General appoints auditors to carry out annual audits of public organisations. These auditors are appointed from Audit New Zealand (the Auditor-General's in-house audit provider) and more than 25 private sector audit firms. About 150 auditors in all have the authority to audit and issue audit reports for the public organisations they have been appointed to audit.

Because of the way we operate, the key elements that need to operate effectively are:

- the appointment of auditors and their independence to carry out audits;
- the Auditor-General's auditing standards that auditors are required to apply;¹⁰ and
- the quality of the work that auditors perform.

Our system of quality

Specific quality standards require us to establish and maintain a system of quality control designed to provide reasonable assurance that we comply with standards and applicable legal and regulatory requirements, and issue appropriate reports. The system of quality control is based on five elements and the policies and procedures that address each element:

- leadership responsibilities;
- ethical requirements;
- human resources;
- performing audit work; and
- monitoring the quality of audit work

We report below on the processes, policies, and procedures that support each element of audit quality as it applies to the Office of the Auditor-General.

Leadership responsibilities

Our governance and reporting structure contributes to audit quality

The Auditor-General is ultimately responsible for the system of quality control for all audits carried out on their behalf.

Audit quality is governed through the Office's Audit Performance and Quality Governance Committee. The role of the committee is to monitor audit delivery and quality. Membership of the committee includes the Auditor-General and Deputy Auditor-General. The committee meets six times each year, and its remit includes monitoring:

- the strategic and operational risks associated with audit quality;
- the operating effectiveness and efficiency of the quality framework against the audit quality indicators;
- the findings of internal and external reviews of audit quality; and
- progress in addressing the findings and recommendations made in internal and external reviews.

The committee met six times during 2020/21.

We also have an Audit and Risk Committee that provides independent assurance and advice to the Auditor-General. Appendix 1 includes a separate report from that committee.

Our values emphasise audit quality

Our values guide us to perform our audit work objectively and impartially, in the best interests of Parliament and the public. We hold ourselves to high standards to ensure independence and accountability throughout our organisation.

We obtain independent views about audit quality

In addition to our internal monitoring of audit quality, we obtain external independent views about audit quality. The Financial Markets Authority reviews audit files of organisations operating in capital markets, including some public sector organisations audited by private sector audit firms on behalf of the Auditor-General.

¹⁰ The Public Audit Act 2001 requires the Auditor-General to set auditing standards for carrying out audits. These are referred to as the Auditor-General's auditing standards. These standards incorporate the New Zealand auditing standards and include standards specific to audit quality.

We also periodically invite the Financial Markets Authority and the New Zealand Institute of Chartered Accountants practice review to carry out quality reviews of Audit New Zealand. These organisations last carried out independent reviews in late 2016, and both organisations have reviews scheduled during 2021/22.

Ethical requirements

Our policies, procedures, and methods promote an ethical workplace

Independence is fundamental to our ability to act with integrity, be objective, and maintain an attitude of professional scepticism. Auditing standards require auditors to be independent of the organisation they are auditing. Independence is both independence of mind and independence in appearance.

The Auditor-General's auditing standard on independence applies to all staff, including Audit New Zealand, and the private sector audit firms that carry out public sector audits. The standard is based on the requirements of the New Zealand standard to the extent there is not a conflict with the Auditor-General's legislated mandate and responsibilities.

The Auditor-General's standard goes one step further and restricts the work auditors can carry out for an organisation they audit to work of an assurance nature.

We monitor compliance with audit independence requirements

We monitor compliance with the Auditor-General's auditing standard on independence in a few ways.

For staff, including at Audit New Zealand, the work that can be done is limited by the Public Audit Act 2001, and we closely monitor the independence of those involved in annual audits, including as part of our quality assurance review program for annual audits.

For private sector audit firms, we monitor the other services they carry out for organisations they audit on behalf of the Auditor-General, and we consider independence as part of our quality assurance review program for annual audits.

For 2020/21, we were satisfied that independence standards were upheld.

We monitor how long key audit staff audit the same organisation

The Auditor-General's auditing standards limit the number of years that key audit staff, including those from contracted audit service providers can carry out the same annual audit. This is to safeguard against the threat to independence that may arise from auditing an organisation for a long time. The standard specifies the length of time that key audit staff can be assigned to the annual audit.

For 2020/21, we complied with our standard.

Human resources

All audits are allocated either to senior staff in Audit New Zealand or partners from private sector audit firms. They are responsible for recruiting, hiring, retaining, and promoting qualified audit staff to complete the audits that they have been appointed to by the Auditor-General. Our expectation is that audit work is completed by staff with the right skills and experience. We monitor the skills of audit teams as part of our quality assurance reviews.

For 2020/21, we noted a need for some upskilling of auditors due to deficiencies we found through our quality assurance reviews. Other than the upskilling, we were satisfied with the skills and experience of staff allocated to audits.

Performing audit work

We establish, maintain, and communicate audit expectations

The Office of the Auditor-General requires all audit service providers to have their own audit methodology and to apply the professional quality standards. Auditors are expected to carry out audits based on the Auditor-General's auditing standards and requirements, and guidance provided through an audit brief.

We require auditors to consult about particular matters that could affect an audit report

The Auditor-General's auditing standards require auditors to consult on specific matters that could result in a modified audit report. The Office of the Auditor-General has an Opinions Review Committee that meets, as required, to determine the modifications to be included in audit reports.

For 2020/21, the committee considered the appropriateness of 112 audit reports, including 39 audit reports on councils' long-term plans and 59 audit reports on councils' consultation documents on those plans. We analyse the nature of matters considered by the committee and communicate to auditors so that they can maintain an awareness of these in their audit work.

We require auditors to inform us of issues discovered in audited information

Sometimes during an audit, an auditor discovers or is made aware of an error or misstatement in the prior year's financial statements. If this had been known at the time, it would have resulted in changes to the financial statements or a qualification of the audit opinion in the auditor's report. The number and impact of these errors or misstatements can signal potential problems with the audit.

Such errors or misstatements require the previous year's financial statements to be restated and information included in the current year's financial statements about the error or misstatement and its impact.

Our analysis of the nature of the prior period errors shows no common trend. We have followed up with the auditors of these entities to ensure any audit quality concerns have been addressed.

We have engagement quality review for complex and large audits

The Auditor-General's auditing standards require an engagement quality review for large and high-risk audits, and the audits of issuers and councils' long-term plans.

Engagement quality review provides an objective evaluation of the significant judgements made by the auditor and the conclusions reached.

We assess compliance with engagement quality review as part of our quality assurance reviews, including evidence that the review met the requirements of the standard. For 2020/21, based on our quality reviews, we were satisfied that all audits that were required to have an engagement quality review had one, but we noted in some instances that the evidence of the review needed to be improved.

Monitoring the quality of audit work

Quality reviews and findings

Monitoring compliance with the Auditor-General's auditing standards is a key element of our system of quality assurance. Our quality assurance reviews are in addition to audit service providers monitoring their own system of quality control and complying with professional and ethical standards.

Our quality assurance reviews of annual audits are designed to determine whether audit engagements comply with the Auditor-General's auditing standards, relevant regulatory and legal requirements, and our policies.

During 2020/21, we monitored 44 auditors, which is in line with the policy requirements. Our monitoring covers, on a cyclical basis, all auditors appointed to carry out audits. We choose the audit files we want to review in accordance with our quality assurance policy, which considers the size and complexity of the audit.

Our monitoring activities in 2020/21 included:

- annual quality assurance reviews of 76 completed audits; and
- real time quality assurance reviews of 13 in-process audits.

Where we identify significant deficiencies in an audit file we monitor the remediation of each deficiency or perform further quality assurance reviews of audits carried out by that auditor. A deficiency does not mean the audit opinion is incorrect, rather it is a finding relating to the audit file, where the evidential support or quality process could be improved.

A high number of findings from quality reviews, particularly when these are repetitive, indicate issues with audit quality. Timely identification and appropriate remediation of issues is necessary to facilitate improvements in audit quality.

We evaluate findings identified in internal and external quality assurance reviews and determine the repetitive issues. We ask our auditors to carry out root cause analysis for repetitive issues to understand the underlying drivers of quality deficiencies and address them with targeted action plans.

The repetitive issues where we want audit improvement include procedures to test fair value and other estimates, evaluating the design of internal controls for information technology systems, procedures to assess completeness of revenue, and testing non-financial information.

How we determine the cause of findings

In 2020/21, we asked audit service providers to perform root cause analysis for the significant findings from our quality assurance reviews. Such analysis provides a deeper understanding of improvements that are needed, including improvements to audit methodologies. By gaining a deeper understanding of the drivers of quality deficiencies identified, targeted changes and follow-up actions can be developed.

We are monitoring the planned interventions audit firms are implementing to help prevent these recurring. We will assess these in our 2021/22 quality assurance review programme.

How we assess timely and effective remediation of findings

In each report to the Audit Performance and Quality Governance Committee on quality assurance reviews, we report on the follow-up actions for audit files with significant deficiencies.

We require our auditors to remediate all significant deficiencies and, where necessary, make changes to the audit approach for subsequent audits. Our follow up to assess remediation will occur as part of our 2021/22 quality assurance review programme.

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