



Summary

Observations from our central government audits: 2021/22

The public's trust in government depends on its demonstration of competency, reliability, and honesty in its use of public money and resources. To help the public sector maintain an informed, trusting, and enduring connection with the public it serves, Parliament and the public need to understand what government is seeking to achieve, what is being spent, and what progress is being made

A government's goals are often broad and long term. They frequently require a range of different organisations to work together. We continue to be concerned that the way public organisations report on their spending and performance has limited relevance to an increasingly diverse, dynamic, and connected society and does not answer the questions that Parliament and the public are most interested in. The Parliamentary Commissioner for the Environment and the Productivity Commission have recently raised similar concerns.

Current public sector reporting focuses almost entirely on the reporting of individual public organisations. Although improvements are still needed at this level, even more improvements are

needed at the whole-of-government level and for reporting on major initiatives or funds, whether these are carried out by individual organisations or jointly.

We simply are not getting the information that allows us to understand the performance of the government at multiple levels or that enables Parliament and the public to hold government to account for that performance.

In our view, this type of improved public accountability should sit alongside improved performance as the driver for public sector reform. Without accountability to Parliament and the public being at the centre of reform and change, we risk a loss of trust in New Zealand's system of public management and in the public sector more generally.

We are pleased to see some progress on improved system-level reporting and accountability over the past year. This includes the Treasury's revised reporting on Covid-19 expenditure through the Covid Response and Recovery Fund and the steps taken to improve reporting on climate change initiatives through the Climate Emergency Response Fund.



We also acknowledge efforts to improve cross-agency collaboration on complex, often long-standing, issues through new arrangements like interdepartmental executive boards. However, although these boards may make it easier for government agencies to work together, it is too often left for Parliament and the public to try to piece together information to answer questions of public accountability and to understand what has been spent and what has been achieved. This is because it is very difficult to do so from the information currently reported publicly.

Public accountability should not be an afterthought. There are times when the public sector responds well to the accountability requirements of Parliament. However, without legislative change to mandate better reporting, the risk remains of reporting not meeting the needs of Parliament and the public.

Recent reform of public service legislation enables public agencies to work in new ways. In our view, reform is now required of the Public Finance Act to ensure that the public sector meets the accountability requirements of a 21st century New Zealand. This will not be a small task, but given the importance of public trust in government, it is, in our view, both an urgent and a critical one.

Central government audits

On 30 September 2022, we issued our audit report on the Financial Statements of the Government of New Zealand, which included an unmodified opinion and described several key audit matters arising during the audit. Among them was reporting on the Government's climate change commitments, and matters relating to the Holidays Act 2003. The provision for employee entitlements in the Government's financial statements includes \$2.1 billion for amounts owing to employees who have been paid less than their legal entitlements under the Holidays Act 2003. This includes \$1.7 billion for former district health boards – more than twice the amount announced in the 2022 Budget for the cost of living payment. Resolving this issue requires strong central agency leadership.

Our Controller work provides assurance about whether public expenditure is within the authority provided by Parliament. Where it is not, it needs to be reported to Parliament and dealt with appropriately. The Government's financial statements report a historically low number of instances of unappropriated expenditure for 2021/22 (12

instances). This marks a continuation of the historical low reported for 2020/21.

Errors continue to be made that result in unappropriated expenditure. For the most part, the errors are inadvertent and due to administrative oversights. However, a greater concern is when unlawful payments have been made over long periods and, when discovered, are not immediately corrected.

New areas for independent assurance

We will provide independent assurance on the New Zealand Health Plan and on the reporting of performance against that plan. This is a key aspect of the health reforms, and our work will provide additional assurance to Parliament and the public on the health information as publicly reported.

The Finance and Expenditure Committee has also considered increased independent assurance on aspects of the proposed new water services entities.

We are confident that our work in these new areas will support and enhance the already robust assurance processes in place over other parts of the public financial management system.

Integrity and the pressure to deliver

There is continuing pressure on the public service workforce to meet the Government's priorities and deliver on an active reform agenda in the face of significant challenges.

Increased staff turnover is affecting many public sector organisations. This, together with the pressure to deliver, creates additional risks to ensuring that integrity is maintained and sound processes are followed when spending public money. We have seen with the cost of living payment the impact of prioritising speed and expediency over accuracy and quality. We have also commented on the need for processes supporting funding decisions to be clear and for strong post-payment assurance where there are high trust processes used.