Controller and Auditor-General
Tumuaki o te Mana Arotake

B.28

Annual report 2021/22

Photo acknowledgement:
mychillybin © Alistair Lang

Annual report 2021/22

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

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 2022 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 2023 and its operations for the year ending on that date.

John Ryan
Controller and Auditor-General

29 September 2022

Aaron Crookston
Chief Financial Officer

29 September 2022

About this annual report

This 2021/22 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.

The annual report informs our stakeholders – Parliament, New Zealanders, and public organisations – about our strategic intentions, priorities, and performance for the year 1 July 2021 to 30 June 2022. 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 Group, 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.

Contents

Auditor-General's overview

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

I am pleased to present my annual report for 2021/22.

This year reinforced, more than most, the importance of the work of my Office. New Zealand has had another challenging year responding to the Covid-19 pandemic and the arrival of Omicron. The country, including the public sector, has faced many challenges dealing with the health effects of the pandemic on top of the ongoing social and economic impacts.

I am proud of our contribution to maintaining trust and confidence in the public sector in difficult circumstances.

Our annual audits

Our audits of public organisations' annual reports are our most significant work. They provide assurance to Parliament and the public on the financial and performance information that the public sector reports. They also provide recommendations on how public organisations can improve.

The ongoing global auditor shortage has severely affected the audit profession here in New Zealand. It has made it impossible for audit service providers, including Audit New Zealand, to complete all public sector audits within normal statutory deadlines. Retaining auditors in a tight labour market is difficult, and the border restrictions in response to Covid-19 have limited our ability to recruit senior qualified auditors from overseas to help with peak workloads. The Covid-19 pandemic has also caused restrictions and staff absences and increased the complexity of our audit work. In this environment, we continue to prioritise the quality of our audit work over timeliness. This has created a backlog of deferred audits that we plan to address over the coming year.

Despite these challenges, we still completed 88% of the audits of large public organisations on time. This is a significant achievement in the current environment.

Although there is no quick fix to the challenges Covid-19 has created, we are actively addressing aspects that are within our control. This includes reallocating audit work to balance workloads between my audit service providers, increasing our recruitment efforts nationally and internationally, and focusing on supporting our people as they face high workloads in a difficult environment.

We are also progressively addressing the long-term issue of some audit fees not meeting the cost of carrying out the audit. This has restricted our ability to invest in people and technology. This is no longer a sustainable position for any auditor, including for public sector auditors.

Improving trust and performance in the public sector

Our performance audits, inquiries, and other work also continue to help improve the performance of public organisations.

We have continued to focus on important government programmes in 2021/22. This includes examining key aspects of the Government's response to Covid-19, such as our inquiries into the Strategic Tourism Assets Protection Programme and the Ministry of Health's procurement of saliva testing services, and significant long-term projects, such as our performance audit on the governance of the City Rail Link project.

We have increased our follow-up work on previous performance audits by ensuring that all major audits are followed up 12 to 24 months after publishing the performance audit report. I am encouraged to see, through these follow-ups, that public organisations are implementing our recommendations for improvement.

We have also continued to raise the profile of our Controller work. Parliament's control of public spending is a fundamental aspect of New Zealand's system of government. Our Controller work provides assurance on whether public money has been spent within the authority provided by Parliament.

Our relationships help us make a difference

Our primary function is to support Parliament in its role of holding the public sector to account for its performance. Therefore, our relationship with Parliament is a key measure of our success.

This year we surveyed select committee chairpersons about our work supporting them. The results confirmed that Parliament continues to greatly value our advice and reports and holds our capability and understanding of issues in high regard. We are pleased with this positive result. However, we know we can always do more to support select committees in their scrutiny of public organisations.

The good practice guidance we produced this year has been well received. Public servants want to do the right thing, rather than be told later that they got it wrong. Our good practice guidance helps them do that.

We have also increased the promotion of our good practice material through events designed to share insights with public sector leaders, practitioners, and audit and risk committee chairpersons.

Our international work is continuing

The Covid-19 pandemic has not prevented us from having a key role in supporting good governance in the Pacific. As Secretary-General, my Office has continued to support the Pacific Association of Supreme Audit Institutions in its role to support developing Supreme Audit Institutions across the Pacific.

I am also the Auditor-General of the governments of Niue and Tokelau, where there have been significant delays in completing their financial statements of government. Both governments have made commitments to bring their annual reporting up to date over the coming year.

Building capability to support our work

We have not been immune to the challenges caused by Covid-19 that have affected every other public organisation.

This year reinforced, more than most, the importance of the work of my Office.

Staff well-being and supporting staff in a challenging work environment has continued to be our focus. This includes ensuring that we have competitive work and remuneration practices. We are also aware that we are under-represented in Māori and Pacific staff and have begun to implement key strategies to address this.

We are well progressed in modernising our audit and back-office technologies, which we have historically underinvested in. We continue to build our capability in technical and data and analytics areas.

As with other public organisations, we have also completed a baseline assessment of our greenhouse gas emissions. In the coming year, we will target plans to further measure and then reduce these over time.

Thank you

The public sector generally performs well and operates with strong integrity. We should be proud to have a public sector of this quality and of the dedicated people who work in it.

I thank my staff and audit service providers for continuing to deliver high-quality work in an extremely challenging environment. Every day they make a positive difference to the performance of the public sector.

Finally, I thank Parliament for its deep interest and support for the Office and our work. Parliamentarians have a difficult job and I am proud that my Office plays a strong and positive role in supporting them.

Nāku noa, nā

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

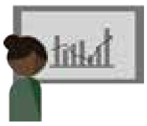
29 September 2022

Our year in numbers
2021/22

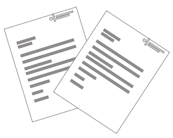
2704
audit reports issued on public organisations' financial statements and performance information.

676
recommendations implemented by large public organisations to improve systems and processes.

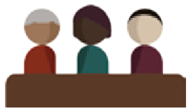
181
briefings given to select committees to help them scrutinise and improve the performance and accountability of public organisations.



50
pieces of work issued to help shape public sector accountability, including letters, submissions, good practice guides, and an integrity framework.

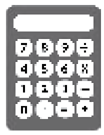


4
blog posts.

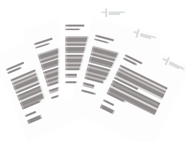


26
events hosted.

49
inquiry requests.



4
updates on our Controller work published.



169
letters on audit findings sent to Ministers.

17
reports to Parliament.

1487
mentions about the Office and our work in mainstream media.

550+
social media posts.

1000+
national and international correspondence received and responded to.

What went well in 2021/22

We completed the audits that were critical for public accountability

The ongoing global auditor shortage and the Covid-19 pandemic continued to affect our ability to complete all audits within statutory deadlines. However, we completed 88% of the audits for large public organisations within these deadlines, which is a significant achievement given the challenging operating environment. Those organisations also implemented nearly 700 recommendations that auditors made for improving systems and processes.

We were also able to report the results of these audits to select committees on time. This enabled them to examine the public organisations and report on them to Parliament.

We published more work with more impact

Despite a challenging operating environment, we published 50 pieces of work, including 19 significant reports. This is about 40% more than the previous year.

We published good practice guidance on reporting about performance (together with the Treasury) in April 2022. In feedback we received on the guidance, more than 91% of respondents found the guidance useful. We also launched our integrity framework to help leaders and governors of public organisations build a culture of integrity. More than 200 stakeholders attended our launch event for the integrity framework, making it one of our largest launch events.

In December 2021, we made a submission to the Pae Ora Legislation Committee about our concerns about the accountability arrangements in the Pae Ora (Healthy Futures) Bill. This submission resulted in the Committee recommending changes to the Bill related to accountability arrangements. These recommended changes were adopted in the final legislation, ensuring that the New Zealand Health Plan and the performance reporting against it will be independently audited.

This year we completed more follow-ups of performance audits than ever before. From these follow-ups, we found that the audited organisations have made good progress on implementing our recommendations.

We strengthened relationships

We support Parliament's role to hold the public sector to account for its performance. This year, we have continued to build on our relationships to achieve this. The results of this year's survey of parliamentary select committees confirmed that our advice and reports are helpful and our capability and understanding about issues is highly regarded.

We also hosted more events to promote our good practice guidance and share insights with public sector leaders and practitioners. We continued to build our relationships with public sector audit and risk chairpersons through regular online forums. These continue to receive excellent feedback from participants.

Despite the Covid-19 pandemic affecting our ability to travel, we have continued to play a key role in supporting good governance in the Pacific, including through our role as Secretary-General of the Pacific Association of Supreme Audit Institutions.

We supported our people

We continued supporting our staff in a challenging work environment. This included implementing a new competency framework and updating our remuneration system. We also made considerable progress this year modernising our audit documentation, back-office, and security technologies and to prepare key Office systems to move to the cloud. Overall, our staff engagement increased.

Auditing challenges during 2021/22

The audit profession has faced intense pressure in recent years. This year, global auditor shortages, staff absences due to illness and isolation rules, lockdowns, and increasing audit complexity due to Covid-19 have all affected our audit service providers' ability to deliver audits on time. At the same time, public organisations have also faced significant challenges in preparing their financial statements and providing access to information.

There is a global shortage of auditors, which is affecting the public and private sectors in New Zealand.

In previous years, senior qualified auditors were either seconded from overseas or recruited permanently to help during busy audit periods. However, in 2020/21 and 2021/22, border restrictions in response to Covid-19 limited access to auditors from overseas.

Graduate recruitment has also been more difficult. There are currently fewer students studying accounting at New Zealand universities and a tight labour market is giving graduates a wide range of opportunities.

Competition for auditors is also high. Auditors at all levels, including those who have not yet qualified, have many options in both the public and private sectors. Auditors are also leaving the profession. With New Zealand's border re-opening, auditors are also taking the opportunity to travel and work overseas.

Our auditors have faced increasing complexity as organisations grapple with the implications and risks associated with the pandemic, and increasing regulatory requirements. Fees have also remained under pressure.

There are no quick and easy solutions to these challenges. However, we have worked hard during 2021/22 on matters we can influence.
For example, we:

- sought, and were granted, legislative changes from Parliament to extend reporting deadlines;
- reallocated audit work to better balance workloads between our audit service providers;
- significantly increased our recruitment efforts nationally and internationally;
- worked with Chartered Accountants Australia and New Zealand to gain a border class exemption for audit staff;
- worked on secondment arrangements with Auditors-General in Australia and the United Kingdom;
- ensured that audit fees better reflect the scope of the audit and the effort required to complete it; and
- supported our people as they dealt with high workloads.

Quality audits are fundamental to New Zealand's public accountability system. Therefore, to help ensure audit quality is maintained, some audits have had to be deferred from their normal reporting deadlines.

A key focus over the next 12 months will be to clear any Covid-related audit backlogs and to continue to seek ways to respond to the challenges our audit service providers and the audit profession generally are facing.

What did not go well in 2021/22

We were affected by Covid-19

The Covid-19 pandemic and the re-emergence of other respiratory viruses have significantly disrupted our ability to complete work.

We experienced reduced productivity due to Covid-19-related lockdowns and illness. Public organisations also haven't always had the capacity to engage with us during planned time frames for audits and other work because of staff absences.

Lockdowns and isolation periods have made it difficult for audit teams and public organisations to work through issues together. We have had less timely access to records and key personnel. All of this has increased the time it has taken to complete work, alongside increased complexity of the work.

We did not complete all audits on time

This year, it has not been possible to complete all public sector audits within their statutory deadlines.

We have worked hard on what we can influence to manage this issue (see our auditing challenges during 2021/22 for a description of what we did).

We faced ongoing capacity challenges

There is no comprehensive short-term solution to the industry-wide global shortage of auditors. We are working on a range of measures to address this shortage over the medium to longer term.

Our sector manager Giovanni has started a Pasifika Network across our offices (9 of 10).

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Our work

Overview of our performance

We have summarised whether our performance improved, declined, or was maintained for each group of our measures and targets. Much of our work was affected by the Covid-19 pandemic, the international shortage of auditors, and other pressures on public organisations and auditors that affected the timeliness of audits.

Our performance framework

Everything we do is directed towards achieving the outcomes in our performance framework. The framework sets out the **outcomes** we contribute to, **impacts** we are aiming to achieve, and work we do (our **services**).

Each of our outcomes, impacts, and services have performance indicators (or measures) and annual targets. The performance indicators for our services are based on quantity, quality, timeliness, or a combination of these.

The data and commentaries in the following sections describe the results for each of our performance indicators for 2021/22.

Our strategic direction

The *Auditor-General's strategic intentions to 2025* is our long-term strategic planning document. It sets out the impacts we want to achieve and the outcomes we are working towards. The ultimate outcome we are seeking is that Parliament and the public have trust and confidence in the public sector.

Our strategy is organised around four strategic shifts:

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.
4. Help improve the public sector accountability system.

The progress we have made on our strategic shifts is described in the performance results for the services we deliver. We also describe the main areas we have focused on to improve our organisation and carry out our work.

Our *Annual plan 2021/22* sets out our discretionary programme of work for the year.

In this report, we describe our progress against our annual plan. We regularly review the work in our annual plan so that it remains relevant and responsive to the dynamic and changing operating environment. Appendix 4 provides a summary of progress made during the year on the work programme set out in our *Annual plan 2021/22*.

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. Our Audit and Risk Committee also provides insight and advice to help us manage risk. See Appendix 1 for the Committee's report for the year ended 30 June 2022.

Performance area	2021/22*	2020/21*
Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector	Maintained	Maintained
Outcome 2: A high-performing public sector	No data	No data
Outcome 3: An accountable public sector	Declined**	Improved
Impact 1: Parliament provides effective scrutiny of the public sector	Maintained	Maintained
Impact 2: New Zealanders are better informed about the performance and accountability of the public sector	Declined	Improved
Impact 3: The public sector improves its performance and accountability	Improved	Declined
Service 1: Provide advice and support for effective parliamentary scrutiny		
Timeliness	Maintained	Maintained
Quality	Maintained	Maintained
Service 2: Monitor spending against parliamentary appropriations (our Controller function)		
Timeliness	Maintained	Maintained
Service 3: Audit information reported by public organisations about their performance		
Quantity	Declined**	Improved
Timeliness	Declined**	Maintained
Quality	Improved	Declined
Service 4: Carry out inquiries into matters of public interest		
Quantity	Declined	Improved
Timeliness	Improved	Improved
Quality	Not assessed	New measure
Service 5: Assess public sector performance and accountability		
Quantity	Increased	Maintained
Timeliness	Declined	Improved
Quality	Improved	Improved

* These are judgements based on whether the results for the majority of the measures in this category improved, declined, or were maintained when compared to the previous year's results.

** This result has been affected by the Covid-19 pandemic and the auditing challenges we have faced this year.

The outcomes we seek

It is 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 continue to improve their performance.

Results for our indicators generally show progress towards our outcomes in 2021/22. This year we faced difficulties with completing audits on time, which has affected our performance results for the accountability of the public sector.

What went well	What didn't go to plan
Results from the Kiwis Count survey showed that experience-based trust in public services remains high. New Zealand remains one of the top-performing countries in the Transparency International Corruption Perceptions Index.	There was a decline in the timeliness of reporting (71% in 2020/21 to 57% in 2021/22).

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

The New Zealand public sector continues to be regarded as having one of the lowest levels of corruption in the world. Trust and confidence in the public sector remain high.

Indicator: Levels of trust in public services based on Kiwis Count survey

Target: Improving trend (or at least maintained)

Indicators	2021/22	2020/21	2019/20	2018/19
Experience-based trust	81%	81%	79%	80%
Perception-based trust	62%	69%	49%	50%

Source: Te Kawa Mataaho Public Service Commission.

Indicators show that New Zealanders' levels of trust in public services was maintained for experience-based trust. Perception-based trust decreased in 2021/22, but still remains higher than what it was in 2019 and 2018.

Te Kawa Mataaho Public Service Commission states that results for trust and confidence in government are starting to stabilise after a sharp increase in 2020. This increase was attributed to a change in survey methodology and the Government's response to the Covid-19 pandemic.

Logan in our Hamilton office has an internet-famous cat (5 of 10).

Indicator: Transparency International Corruption Perception score

Target: Improving trend (or at least maintained)

Year	Score
2021	88 (1st equal)
2020	88 (1st equal)
2019	87 (1st equal)
2018	87 (2nd)

Source: Te Kawa Mataaho Public Service Commission.

The Transparency International Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption. The most recent results show that New Zealand ranked first equal with Denmark and Finland.

Outcome 2: A high-performing public sector

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

Indicator: Quality of public services (Kiwis Count survey)

Target: Improving trend (or at least maintained)

Year	Result
2021/22	No data available
2020/21	No data available
2019/20	77
2018/19	77

Te Kawa Mataaho Public Service Commission stated that it no longer collects this information. We will reassess this indicator when we review all our performance indicators in the coming year.

The 2020/21 survey on the quality of public services was not carried out because of technical difficulties. Results reported for 2019/20 and 2018/19 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.

Indicator: Number and percentage of unmodified audit opinions from our annual audits

Target: Improving trend (or at least maintained) for the percentage

Year	Number and percentage of unmodified audit opinions
2021/22	2595 (96%)
2020/21	3356 (97%)
2019/20	2836 (97%)
2018/19	3094 (97%)

The percentage of unmodified audit opinions from our annual audits decreased by 1%. This does not necessarily mean that public organisations' reported financial and performance information has dropped in quality. Instead, it is because there are fewer total audit opinions, and many small outstanding audits still to be completed have historically had fewer audit report modifications.

Indicator: Percentage of audit reports that are signed off by the applicable statutory deadline

Target: At least 80%

Year	Audit reports signed off by the applicable statutory deadline
2021/22	57%
2020/21	71%*
2019/20	63%
2018/19	81%

* Revised measure for 2020/21

This target has not been achieved since the onset of Covid-19 in March 2020.

In 2021/22, 57% of audit reports were signed by the applicable statutory deadlines. We have focused on completing the audits of large public organisations that are most critical for public accountability and parliamentary scrutiny. We are pleased to have completed 88% of the audits of large public organisations on time.

However, for many small organisations, we completed 54% of audits on time. This is due to the impacts of the Covid-19 pandemic on staff availability for both the public organisations and audit service providers. These disruptions affected the timely completion of audits, particularly for schools.

Indicator: Percentage of entities with audit reports in arrears as at 30 June

Target: Less than 10%

Year	Percentage of audit reports in arrears
2021/22	33%
2020/21	18%*
2019/20	25%
2018/19	New measure for 2019/20

* Revised measure for 2020/21.

This target has not been achieved since the onset of Covid-19 in March 2020.

As at 30 June 2022, 33% of audit reports were in arrears because of the Covid-19 pandemic impacting staff availability in both public organisations and audit service providers. More than 70% of the audit reports we must issue each year are for schools, and they are required to have audited financial statements completed by 31 May.

As noted above, we completed 54% of audits for small organisations, including schools, on time. Many of those not completed remained incomplete as at 30 June 2022. Schools accounted for 98% of the audits in arrears.

Supplementary indicators

We draw on other information sources to assess public sector accountability. These indicators provide only supplementary information.

Indicator: Worldwide governance ranking (Worldwide Governance Indicators)

Target: At or above 90th percentile, with improving trend (or at least maintained)

Year	Ranking
2021	Not yet available
2020	Above 90th percentile
2019	Above 90th percentile
2018	Above 90th percentile
2017	Above 90th percentile

Source: World Bank.

The World Bank's Worldwide Governance Indicators measure the quality of governance in more than 200 countries for six dimensions of governance:

- Voice and Accountability.
- Political Stability and Absence of Violence.
- Government Effectiveness.
- Regulatory Quality.
- Rule of Law.
- Control of Corruption.

The 2021 results are not yet available. From 2017 to 2020, New Zealand has consistently ranked above the 90th percentile for all six governance dimensions.

Indicator: Integrity ranking (International Civil Service Effectiveness Index)
Target: Ranking is improving (or at least maintained)

Year	Integrity ranking
2022	Not assessed
2021	Not assessed
2020	Not assessed
2019	1st

Source: University of Oxford.

The International Civil Service Effectiveness Index (the Index) assesses how a country's central government civil service is performing compared with other countries. 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. Because the Index has not carried out an assessment since 2019, we will reassess this indicator when we review all our performance indicators in the coming year.

Planning for changes to our strategic direction

We continued work on the Office's Te Ao Māori strategy

In 2021/22, we continued work on a strategy to further build the Office's capability in te ao Māori and relevance for iwi, hapū, and whānau Māori. We want the Office to continue to be seen as trustworthy by both partners to te Tiriti o Waitangi/the Treaty of Waitangi.

We are taking a phased approach to the development of our strategy. This year has included engaging widely with our staff about the strategy development approach. We have also worked on developing a common understanding of our role, responsibilities, and aspirations about te Tiriti/the Treaty and ensuring that this is reflected in our description of our values and recruitment and induction processes.

We've also started work to take stock of the role that our organisation has played over time in supporting improved outcomes for Māori. To improve our understanding of how well the accountability system serves the needs of Māori, we commissioned research into Māori perspectives on public accountability.

We are continuing to enhance our focus in our discretionary work programme on how well the public sector is supporting Māori to achieve improved outcomes. We have work planned to be completed in 2022/23 that considers how effectively the public sector is supporting the Whānau Ora approach and how well prepared public organisations are to meet their Tiriti/Treaty settlement obligations.

We will also continue to draw on external expertise to support how we shape and progress this work while we build our internal capability and expand our networks and relationships with Māori. In early 2022/23, we have appointed our first Director, Māori Capability and Engagement to help lead our strategy work.

We will build on the first phase of the strategy development in 2022/23. Our focus for the next phase of work will be building relationships and our te ao Māori capability.

Review of our strategic intentions

The medium-term strategy underpinning the Auditor-General's strategic intentions to 2025 was produced in 2018. There have been significant changes in our operating environment and context since then. Because of this, we have started to review and refresh our strategic intentions.

In 2022/23, we intend to publish an updated strategic intentions document and begin implementing a new strategy for the organisation.

Our intended impacts

What went well	What didn't go to plan
Feedback from parliamentary select committees confirms that our advice and reports are valued and helpful. There was a significant decrease in the number of instances of unappropriated expenditure (results are reported for the previous financial year). There was an increase in the percentage of annual audit recommendations implemented by large public organisations since 2020/21, despite the challenging operating environment.	The number of citations in the media about our work decreased by 8.3%. However, there was a significant increase in media coverage on our work the previous year due to our audits of councils' long-term plans (which we carry out every three years). The number of media citations about our work in 2021/22 was similar to the number in 2019/20.

Results from 2021/22 show that we are progressing towards our intended impacts. Our annual audit recommendations, 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 work is an important way we can help improve public sector performance and accountability.

Impact 1: Parliament provides effective scrutiny of the public sector

Our advice and reports to parliamentary select committees helps them to hold the public sector to account. The information we provide must be relevant, reliable, and timely. We have received feedback that confirms our reports and advice to Parliament are effective.

We measure this by asking parliamentary select committee chairpersons, in a survey carried out every two years, whether our advice and reports were helpful.

Indicator: Our advice and reports help select committees scrutinise the public sector more effectively

Target: 100%

Year	Score
2021/22	100%
2020/21	100% when last assessed
2019/20	100%
2018/19	New indicator for 2019/20

Source: Our surveys of select committee chairpersons, which are carried out every two years. The most recent survey was carried out in 2021/22.

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 important to New Zealanders.

We measure this through the number of citations in the New Zealand media about our work.

Indicator: New Zealand media provide increased coverage of our reports and letters

Target: Increasing

Year	Score
2021/22	Decreasing – 1487
2020/21	Increasing – 1621
2019/20	Increasing – 1454
2018/19	Decreasing – 1277

In 2021/22, the number of citations in the media about our work declined by 8.3% from 2020/21.

We aim to focus our work on issues that are important to New Zealanders. We saw a decrease this year in media citations. Last year's increase was driven by coverage of our work auditing councils' long-term plans and our report on the Covid-19 vaccine roll-out. In 2021/22, media citations decreased to a similar number to 2019/20.

Our Covid-19 related work generated the most media coverage, with our inquiry into the Strategic Tourism Assets Protection Programme having the single most citations of any of our reports. Our letter on the Ministry of Health's procurement of saliva testing services also attracted considerable media interest. There was also regular media coverage on the auditor shortage, driven by articles about deferred council annual reports and several speeches in Parliament during the passage of the Audit Time Frames Bill.

Our non-Covid-19 work that got the most media coverage were our report *Inquiry into the Ministry of Social Development's funding of private rental properties for emergency housing* and our work looking at mental health and addiction services.

Impact 3: The public sector improves its performance and accountability

We look at a range of activities to assess whether we are having a positive influence on the performance and accountability of the public sector.

We 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. We also discuss whether government departments are spending money only within the authority provided by Parliament (appropriations).

Controller function

The 2021/22 result represents occurrences of unappropriated expenditure for 2020/21, based on information from the Government's 2020/21 financial statements.

For 2020/21, there were 11 instances of unappropriated spending identified. This was a considerable decrease from 29 instances in 2019/20 and the lowest number since 2000. We measure this through the number of instances of expenditure incurred in excess of, or without, appropriation or other authority from Parliament. In the table, the results in the score column are from the financial statements of the Government, which are prepared for the previous financial year.

Indicator: Government departments reduce the instances of public spending without parliamentary authority

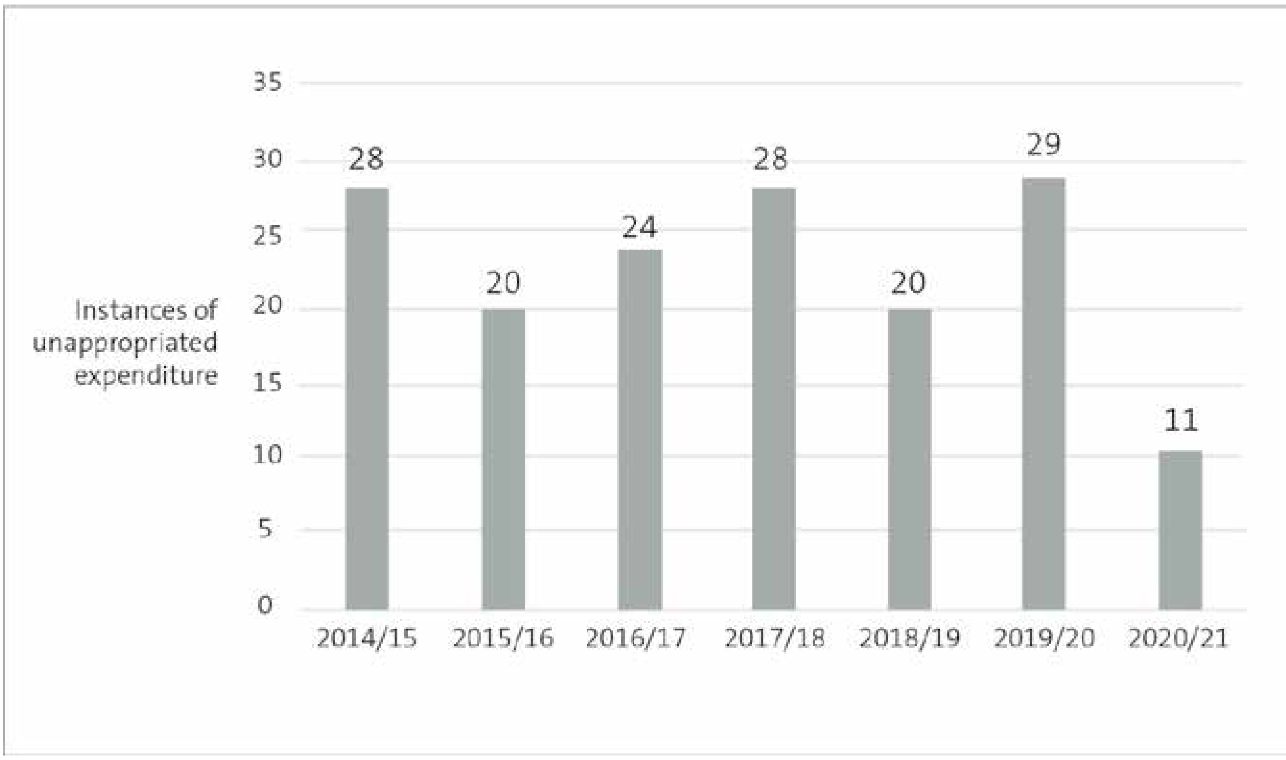
Target: Reducing

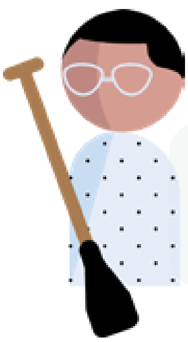
Year	Score
2021/22	Reducing – 11
2020/21	Increasing – 29
2019/20	Reducing – 20
2018/19	Increasing – 28

The results are based on Treasury data for preparing the Government's financial statements.

The bar graph shows that the frequency of instances fluctuated between 20 and 29 for six of the last seven years, with a significant decrease in 2020/21. The total unappropriated spending during 2020/21 ($133 million) equates to 0.09% of the expenditure authorised in the final, updated Budget.

Number of instances of unappropriated expenditure, from 2014/15 to 2020/21





Daisy is a keen waka ama competitor who helps prepare our auditors for their work in Niue (10 of 10).

Watching over Covid-19 spending

Given the scale and pace of spending on the Covid-19 response, we wanted to help ensure that Parliament and the public could see where the money was spent, how well it was administered, and, ultimately, what was achieved with it.

We have been watching the spending on the Covid-19 response since the World Health Organisation declared Covid-19 a pandemic. This year, we carried out further inquiry work and performance audits on different aspects of Covid-19 spending.

We also provided lines of inquiry about Covid-19 spending as part of our usual support to select committees in their scrutiny of Budget Estimates of appropriations and annual reviews. We particularly noted matters our appointed auditors raised in their annual audit work where Covid-19 had increased uncertainty. This included, for example, effects on operations and cash flow of many organisations and our review of forecasts to gain reasonable assurance that organisations could meet their obligations.

In May 2022, after our earlier criticism, we wrote to the Secretary to the Treasury acknowledging the Treasury's improvements in its public reporting about Covid-related spending.

We had been asking for greater transparency because of how much funding was set aside (just under $74 billion), the extraordinary circumstances in which funding decisions were made, and the potential implications for the Crown's financial position (and public debt) for years to come. The data, now published on the Treasury's website, addresses many of our concerns about the transparency and accessibility of the financial information related to Covid-19.

Covid-related inquiries work

During 2021/22, we published a report about our inquiry into the Strategic Tourism Assets Protection Programme. The Programme aimed to provide financial support for tourism assets that contribute significantly to their region and to New Zealand tourism.

We identified three aspects that could have been improved. First was the clarity of the Programme's funding criteria. Clear criteria create trust because people feel that they have been dealt with fairly and transparently. Criteria also need to be clear so that decision-makers can verify that they have been met.

Secondly, although the process for assessing applications was consistent, we did not see a documented consistent methodology for deciding the amount of funding awarded.

Thirdly, we saw limited evidence explaining the reasons for the funding decisions made. Without those records, those who have made the decisions cannot adequately explain why funding was provided. To ensure that the public can be confident in the integrity of the decisions made with public money, the reasons for decisions should be clearly explained and well documented.

Covid-related performance audit work

We wrote to the chairpersons of two parliamentary select committees to update them on the Ministry of Social Development's and the Ministry of Health's respective progress in implementing the recommendations in our two reports: *Management of the Wage Subsidy Scheme* and *Preparations for the nationwide roll-out of the Covid-19 vaccine*.

We told the Finance and Expenditure Committee that, overall, there had been good progress with implementing the recommendations from our Wage Subsidy Scheme report. However, officials need to continue carrying out post-payment assurance work until they can provide Parliament and the public with reasonable confidence that public funds have been paid only to businesses that met the Scheme's criteria and obligations. At the time, we noted that, in our view, officials were not there yet.

We advised the Health Committee that the Ministry of Health had taken action to implement all of our recommendations. However, its efforts to support the vaccination programme's equity objectives had not been wholly successful. When we wrote to the Health Committee, supporting equitable access to vaccinations continued to be an objective of the programme and a focus of the Ministry's work. In 2022/23, we will complete a final review of the vaccine roll-out that will focus on the range of equity initiatives that were implemented to support the roll-out.

We have additional work under way that we intend to publish in 2022/23 looking at the central response to Covid-19, the reset of the Provincial Growth Fund, and the significant investments the Government has made in the New Zealand Upgrade Programme and the "shovel-ready" projects.

Annual audits

To help the public sector improve, Audit New Zealand and private sector audit service providers send reports setting out audit findings and recommendations to the governors of public organisations. We measure the impact of our work by assessing large public organisations' implementation of our recommendations.

Because 2020/21 was the first year we assessed all large public organisations, the result for that year provided a benchmark for reporting. In 2021/22, we reduced the number of public organisations classified as "large".

We identify and report on how large public organisations have responded to our recommendations as part of our annual audits.

Indicator: Public organisations implement our annual audit recommendations in a timely manner

Target: Increasing (or at least maintained)

Year	Score
2021/22	43%*
2020/21	38%**
2019/20	46%***
2018/19	New indicator for 2019/20

* Due to a change in how we segment public organisations, the number of public organisations changed for the reporting. For 2021/22, this is 128 entities including all larger public organisations such as district health boards, tertiary education institutions, government departments, and councils.

** This is the same as the note above, however 195 public organisations were included in 2020/21.

*** In 2019/20, we only included tertiary education institutions.

Implementing recommendations helps public organisations to manage risks and realise additional benefits of the audit. In 2021/22, we assessed how 128 (2020/21: 195) large public organisations implemented the recommendations from our audits.

Of the 1565 recommendations we made at the beginning of 2021/22, 676 (43%) were effectively implemented by the end of that financial year. Of the 2490 recommendations we made at the beginning of 2020/21, 937 (38%) were effectively implemented. Given that public organisations are working in a challenging environment, we were pleased to see an increase in the percentage of recommendations implemented from 2020/21.

The value of an annual audit

Fundamentally, the value of an audit lies in the fact that an audit has been done. Someone independent with specialist skills and training has tested a public organisation's financial and performance information against robust standards and with a sceptical eye. They have provided their opinion and given the reader reasonable assurance that the information presented is fairly stated.

Beyond that intrinsic value, when auditors consider how fairly a public organisation has presented its financial position and its achievements, they also add value through reporting on:

- what could be improved;
- which controls could be stronger; and
- whether the performance reported fairly reflects what the organisation has achieved.

However, fundamentally a public sector audit is about reporting to the governors of public organisations, Councils, Parliament, and through them to the public about whether the information a public organisation has provided on their performance is fairly stated. This allows them to hold these organisations to account for their performance.

Performance audits

Our performance audit work helps public organisations improve their performance (effectiveness and efficiency) and accountability.

We continue to look for ways to increase the impact of our performance audit work. We provide more details about the effect of our performance audit work in *Service 5: Assess public sector performance and accountability*.

Indicator: Public organisations have improved aspects of their performance in response to our performance audits

Target: Increasing*

Year	Score
2021/22	Achieved
2020/21	Achieved*
2019/20	Results not available**
2018/19	Achieved

* We revised this target to "increasing" in 2020/21 to better reflect the work we carry out. Previously, the target was to report on one to two a year.

** We published the results from our follow up work on our website in 2020/21.

Following up implementation of our recommendations

Between 12 and 24 months after a performance audit report is published, we ask the audited organisation to self-assess their progress against each of the recommendations we made in the report. The public organisation's self-assessment informs decisions about whether we will carry out any further follow-up work and the extent of the work we might do.

In 2021/22, we requested self-assessments for six of our performance audits and published the responses from audited public organisations on our website.

We also carry out our own follow-up audits. This year we published two follow-up reports – *Management of the Wage Subsidy Scheme* and *Preparations for the nationwide roll-out of the Covid-19 vaccine*.

Inquiries

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

We identify and report on any effects from our inquiries.

Indicator: Public organisations have improved aspects of their performance in response to our inquiries

Target: Report on one to two each year

Year	Score
2021/22	Achieved
2020/21	Achieved
2019/20	Achieved
2018/19	Achieved

In 2021/22, we identified "effects" from our inquiry work. An effect is where the public organisation has taken, or is taking, action in response to the findings of our inquiry. In response to our inquiry into the Strategic Tourism Asset Protection Programme, the Minister of Tourism said that, as we recommended, there will be a formal review of the scheme's effectiveness against its goals. The Minister has also said that our work provides a roadmap for carrying out similar schemes in the future. It has also been reported that our work has been considered in a recent scheme for providing support to tourism providers. In response to our inquiry about a civic facility project by the Masterton District Council, the Mayor said improvements to processes suggested in our work were already being addressed, which included better documentation and conflicts of interest training for elected members and council staff.

Clint came over from South Africa in 2009 and now leads one of our most important audits – auditing the financial statements of the Government (6 of 10).

Our international work

We support work promoting the transparent, accountable, effective, and efficient use of public sector resources in the Pacific. This work contributes to strengthening good governance, accountability, transparency, and integrity in the region.

The Auditor-General of New Zealand is the Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI). He is responsible to the PASAI Governing Board for PASAI's operations and oversees the performance of PASAI's Chief Executive.

Supporting PASAI to be well governed and achieve its objectives

This year, PASAI delivered a programme that supported the ongoing achievement of its 2014-24 Strategic Plan.

To support the programme, we helped to deliver PASAI's programmes, oversaw administration of the Secretariat, and participated in PASAI's governance.

Our twinning partnerships

Our "twinning partnerships" with the Samoa Audit Office and the Cook Islands Audit Office support these Offices to improve their systems and processes, and enhance their skills.

In 2021/22, we worked closely with the Samoa Audit Office and the Cook Islands Audit Office to progress several programmes that were a priority for them. These included strategic planning, communications strategies, annual reporting, and building technical audit capabilities.

Border closures continued to limit face-to-face work. However, despite restrictions caused by the Covid-19 pandemic, we effectively connected and virtually delivered programmes to ensure that we continued our support.

Progressing audits for the governments of Niue and Tokelau

The Auditor-General of New Zealand is also the Auditor-General of the governments of Niue and Tokelau and their respective subsidiaries.

This year we supported efforts by the governments of Niue and Tokelau to bring their annual reporting up to date (including providing input to special legislation to support the work in Niue). We worked closely with relevant stakeholders to put in place an approach that aims to clear the backlog of annual reporting.

Our work will involve completing audits of a five-year annual report for Niue and a four-year annual report for Tokelau to bring the reporting up to 30 June 2021. Over the coming year, we will continue to progress this work.

Working with other New Zealand public organisations in the Pacific

We collaborated with other New Zealand public organisations working in the Pacific to support good governance in the Pacific, including the Public Service Commission Fale, Pacific Justice Sector Programme, the Office of the Ombudsman, the Serious Fraud Office, the Ministry of Foreign Affairs and Trade, the Electoral Commission, and the Office of the Clerk Inter-parliamentary Relations team.

We organised and facilitated six meetings with these organisations to share good practice and successes, and encourage collaboration.

Other international engagement

We were actively involved in bilateral, regional, and international co-operation with other Supreme Audit Institutions (SAIs) as part of our work to support PASAI and our twinning partners, and as part of SAI working groups. For example, we spoke at the INTOSAI Audit Impact global event and participated in a global peer-to-peer co-operation five workshop series, including leading a workshop.

Our services

In 2021/22, performance results for the services we provided were mixed. We have exceeded or met some performance targets and not others – much of this is due to the impact of the Covid-19 pandemic. In 2022/23, as we move through addressing the challenges in our current environment, we will aim to ensure that, where practical to do so, our performance for each service improves.

Five services contribute to our outcomes and impacts. We:

- provide advice and support for effective parliamentary scrutiny;
- monitor spending against parliamentary appropriations (our Controller function);
- audit information reported by public organisations about their performance;
- carry out inquiries into matters of public interest; and
- assess public sector performance and accountability.

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

Service 1: Provide advice and support for effective parliamentary scrutiny

What went well	What didn't go to plan
Despite Covid-19 and challenges for our auditors in completing audits, we worked closely with Parliament to ensure that our advice was given in keeping with select committee schedules. Select committees valued our briefings for their scrutiny of public organisations and the 2022 Budget. Our sector briefings assisted select committees in their focus on cross-agency work and identifying sector-level issues.	There were no specific issues in this area.

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 2021/22 was $6.210 million.

We provide advice and support to Parliament to assist their scrutiny of public sector performance. This includes their annual reviews and scrutiny of forecast spending through the Estimates of Appropriations examinations after the Government announces its Budget each year.

In 2021/22, the public sector continued to pursue a significant work programme, including implementing or preparing for fundamental reforms in the tertiary education and health sectors and in three waters services. These reforms challenged our efforts to build our knowledge of emerging trends and risks in the public sector.

We have put significant resource into understanding the effects of the Covid-19 pandemic on public organisations and on public spending. As part of this, we put emphasis on understanding how the public sector reported on performance and how Covid-19 affected this.

In 2021/22, we continued our emphasis on cross-agency and sector-level work in the public sector to reflect select committees' interest in this work. For example, we provided 20 sector briefs to select committees, 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.

We want our briefings for annual reviews and Estimates to be a valued source of advice for select committees in their scrutiny of public sector performance. Our 2022 stakeholder survey confirmed that we are achieving that objective.

Select committees asked us to provide 97 briefings in support of annual reviews and 64 briefings on Votes as part of Budget Estimates of Appropriations. We also provided 20 sector briefs for select committees and issued 169 letters to portfolio Ministers summarising the findings from our audits of public organisations.

Timeliness measures

Indicator: Percentage of briefing papers that are submitted to select committees by the agreed deadline

Target: 100%

Year	Result
2021/22	99%
2020/21	100%
2019/20	98%
2018/19	100% (Revised measure for 2019/20)

Note: 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".

Quality measures

Our services to parliamentary select committees during 2021/22 have continued to meet expectations.

Indicator: Percentage of parliamentary select committees that rate our advice as at least "satisfactory" *

Target: 100%

Year	Result
2021/22	100%
2020/21	100%
2019/20	100%
2018/19	Revised measure for 2019/20

* Our surveys of select committee chairpersons are carried out every two years.

Indicator: Percentage of parliamentary select committees that rate our reports on performance audits, inquiries, and other studies as at least "satisfactory"

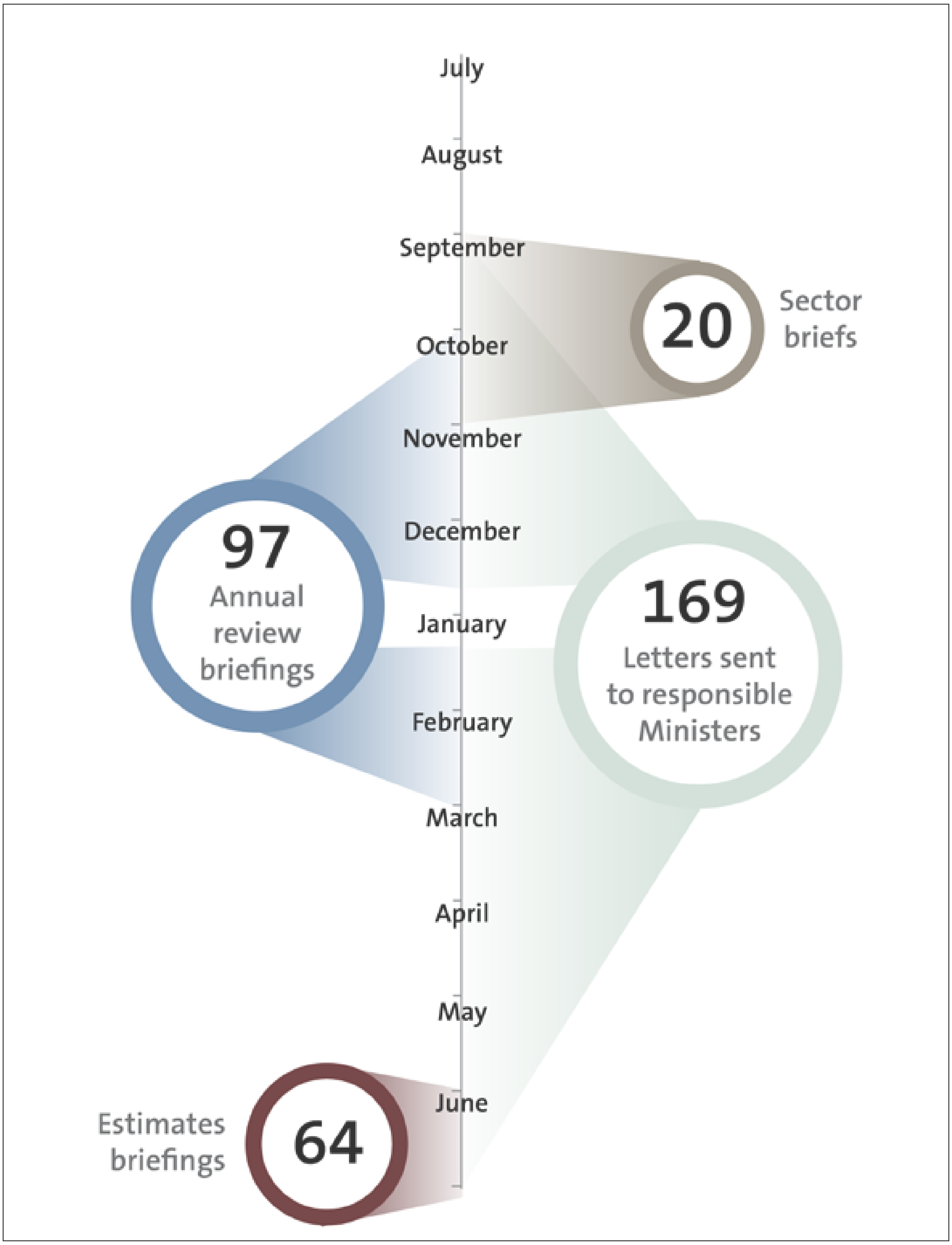
Target: 100%

Year	Result
2021/22	100%
2020/21	Not assessed (this survey is carried out every two years)
2019/20	100%
2018/19	New measure for 2019/20

The following diagram shows the workflow pattern of the support we provided to parliamentary select committees in 2021/22.

Our support for select committees happens throughout the year. We provided 20 sector briefs to support the sector-based approach that was encouraged in the 2020 Standing Orders Review. Our support also involves a series of high workload periods that reflect the cycle of scrutiny work for the select committees. These periods involve annual review briefings and Estimates briefings. In advance of annual reviews, we also send letters to Ministers about the results of annual audits of the public organisations they are responsible for.

Our support to Parliament and Ministers



Improving performance reporting

As taxpayers and ratepayers, the public has a right to know what they are getting for their taxes and rates. Performance reporting is about showing what has been achieved with this public money.

In 2021/22, we set out our views about the state of public sector performance reporting in two reports that were tabled in Parliament. The first report, *The problems, progress, and potential of performance reporting*, highlighted various issues with the relevance, accessibility, and usefulness of performance reporting in the public sector. The second report, *Observations from our central government audit: 2020/21*, looked at how the Government reports on its performance. These reports noted the opportunity and need to improve how the Government reports on its performance.

We also provided to Parliament a report that looked at the Government's preparedness to implement the sustainable development goals. We found that the Government needs to clearly communicate what these commitments mean, what action is required, and how it will measure progress. Being clear about targets and transparently reporting on progress will enable Parliament and the public to assess the Government's performance in implementing the sustainable development goals.

We worked with the Treasury to produce a good practice guide on performance reporting. We produced this guidance in response to frequent requests from public organisations to show them "what good looks like". The guidance provides insights and has good practice examples from more than 40 annual reports. In feedback about the guidance, more than 91% respondents found it useful and practical for practitioners. We will continue to build on this work in 2022/23.

We also know our own reporting can improve so we're following our own guidance. We've planned a phased approach to improving how we report on our performance in our annual report.

Service 2: Monitor spending against parliamentary appropriations (our Controller function)

What went well	What didn't go to plan
We issued all of our Controller reports on time.	There were no specific issues in this area.

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, which includes all mandatory audit work, in the Main Estimates for 2021/22 was $91.495 million.

The Government cannot spend, borrow, or impose a tax without Parliament's approval. Our Controller function provides independent assurance to Parliament that public money has been spent lawfully and within parliamentary authority.

Each month, from October to June, we monitor government expenditure against the authority provided by Parliament. We:

- receive a report from the Treasury along with financial data on government expenditure to date;
- examine the data and any expenditure issues arising;
- determine whether any expenditure has occurred without appropriation or other authority; and
- report our conclusions to the Treasury (through our monthly Controller reports).

Quantity measures

Indicator: We issue a report to Parliament and New Zealanders on the Auditor-General's exercise of the Controller function for each financial year

Target: At least annually

Year	Result
2021/22	We issued four public reports on the Controller function
2020/21	We issued five public reports on the Controller function
2019/20	We issued six public reports on the Controller function
2018/19	New measure for 2019/20

We report annually to Parliament and publish additional reports on our website.

Timeliness measures

Indicator: 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

Target: 100%; all nine reports

Year	Result	Report quantity result
2021/22	100%	All procedures were followed and agreed time frames were met for all nine reports
2020/21	100%	All procedures were followed and agreed time frames were met for all nine reports
2019/20	100%	All procedures were followed and agreed time frames were met for all nine reports
2018/19	100%	All procedures were followed and agreed time frames were met

Service 3: Audit information reported by public organisations about their performance

What went well	What didn't go to plan
93% of our auditors achieved a quality assurance grade of at least "satisfactory", which is higher than previous years.	The number of audits in arrears substantially increased (from 18% to 33%, as at 30 June). These were mostly school audits.

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 2021/22 was $91.495 million.

The core work of our Office is annual audits of public organisations. Our annual audits fundamentally support the integrity of the financial and performance reporting of public organisations. They account for 85% of our resources. Audit New Zealand and other audit service providers carry out this work.

We allocate annual audits to audit service providers. An annual independent review of our audit allocation model confirms the methods and processes we use to allocate audits and to monitor the reasonableness of audit fees (see Appendix 2).

Our audit service providers issue reports to those charged with governance with observations from our work on how they could improve their organisation's control environment and reporting.

Because annual audits are allocated to audit service providers, we carry out quality assurance reviews of appointed auditors, typically once every three years.

Our performance results show that the Covid-19 pandemic and a shortage of auditors affected the timeliness of our audits.

The commentaries for the following performance measures explain some of the circumstances affecting our achievement against the performance standards. We will look at how we can improve the factors that are within our control.

Quantity measures

Indicator: Number of annual audit reports signed and issued

Target: Not applicable

Year	Result
2021/22	2704
2020/21	3356
2019/20	2922
2018/19	New measure for 2019/20

We expect to sign and issue about 3300 audit reports each year (because this roughly equates to the number of public organisations within the Auditor-General's mandate). Since late February 2022, impacts from the Covid-19 pandemic have significantly affected the timely completion of audits. As at 30 June 2021, there were about 400 more audits outstanding than there typically would have been before the onset of Covid-19. As at 20 June 2022, there were about 1100 more audits outstanding than there typically would have been. This is mainly affecting the school portfolio, where about 900 school audits were outstanding. We expect these to be completed within the next few months.

Indicator: Number of council long-term plan audit reports signed and issued

Target: Not applicable

Year	Result
2021/22	Not assessed, because it was not a long-term plan year
2020/21	66*
2019/20	Not assessed, because it was not a long-term plan year
2018/19	Not assessed, because it was not a long-term plan year

* 12 councils did not adopt their audited 2021-31 long-term plans by 30 June, which is the statutory deadline for adopting a new plan. Those councils adopted their plans during 2021/22.

Timeliness measures

The Covid-19 pandemic has continued to have an adverse effect on audit timeliness and efficiency. The global auditor shortage has also continued to impact audit timeliness this year.

Indicator: Percentage of audit reports that are signed by the applicable statutory deadline

Target: At least 80%

Year	Result
2021/22	57%
2020/21*	71%
2019/20	63%
2018/19	81%

* Revised measure for 2020/21.

This target has not been achieved since the onset of Covid-19 in March 2020.

In 2021/22, 57% of audit reports were signed by applicable statutory deadlines. Disruptions related to Covid-19 have affected the timely completion of financial statements and audits. We have focused on completing the audits of large public organisations that are most critical to public accountability and parliamentary scrutiny. We are pleased to have completed most of the audits of large public organisations on time. However, for many smaller organisations, including schools, we completed only 54% of the audits on time.

Indicator: Percentage of public organisations with audit reports in arrears as at 30 June

Target: Less than 10%

Year	Result
2021/22	33%
2020/21*	18%
2019/20	25%
2018/19	New measure for 2019/20

* Revised measure for 2020/21. The wording of this indicator was revised for 202/21. Previously, it was "Percentage of entities with audit opinions in arrears as at 30 June".

This target has not been achieved since the onset of Covid-19 in March 2020. As at 30 June 2022, 33% of audit reports were in arrears. This was because of a sustained shortage of auditors and significant impacts of the Covid-19 pandemic on audit service providers and public organisations. More than 70% of the audit reports we are required to issue each year are for schools, which are required to have audited financial statements completed by 31 May. As noted above, only 54% of small organisations, including schools, had their audits completed on time and many of those not completed remained incomplete as at 30 June 2022. This accounted for 98% of the audits in arrears.

Indicator: 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

Target: 100%

Year	Result
2021/22	88%
2020/21	90%
2019/20	97%
2018/19	97%

This target was not achieved in 2021/22. This was because of a sustained shortage of auditors and significant impacts of the Covid-19 pandemic on audit service providers. It also impacted the additional work done in 2020/21 that delayed the start of some audits in 2021. We asked our auditors to prioritise the timely delivery of audits of large public organisations that are most critical to public accountability and parliamentary scrutiny to ensure that they met their statutory deadlines. In some cases, this meant that letters to governors were deferred in order to complete other audit work.

Indicator: Percentage of Ministerial letters on annual audits that are issued to Ministers and parliamentary select committees within the expected time period:
• 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

Target: 100%

Year	Result
2021/22	77%
2020/21	61%
2019/20	93%
2018/19	New measure for 2019/20

In 2021/22, we did not achieve our target. Similar to 2020, the statutory deadlines for some 2021 audits were extended because of the ongoing effects of the Covid-19 pandemic on public organisations and auditors. The extended statutory deadlines, ongoing effects of the Covid-19 pandemic, the shortage of auditors, and impact of the additional work done in 2020/21 delayed the reporting of some audits. This contributed to delays in the preparation and finalisation of some ministerial letters.

Quality measures

We are committed to maintaining high standards of auditing. We carry out a quality assurance review of appointed auditors (usually every three years) 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.

At 2021/22, 93% of our auditors achieved this target. We work with auditors who do not achieve a "satisfactory" grade to address any immediate concerns, and we carry out a follow-up review typically within a year. Where necessary, we make changes to auditors' audit portfolios.

Indicator: Percentage of appointed auditors with a quality assurance grade of at least "satisfactory" based on the most recent quality assurance review

Target: 100%

Year	Result
2021/22	93%
2020/21	90%
2019/20	93%
2018/19	94%

The rating of audit files subject to the quality assurance review influences the quality assurance grade of appointed auditors. The 7% of appointed auditors who were not graded at least "satisfactory" are required to improve the audit approach or audit evidence obtained. Despite the need for this improvement, we were satisfied that the conclusions reached by these audits and the opinions included in the audit reports were appropriate. Where an appointed auditor's performance does not meet a grade of at least "satisfactory", we monitor their quality improvement plan, which is prepared to address the deficiency.

Indicator: Percentage of audit files subject to quality assurance review during the year that achieve a rating of at least "satisfactory"

Target: 100%

Year	Result
2021/22	84%
2020/21	69%
2019/20	91%
2018/19	New measure for 2019/20

This year, 84% 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 95% (see Appendix 5).

Most of the small audits that did not achieve a rating of at least "satisfactory" had the same audit service provider. After our review, the audit service provider made changes to address our findings from the review. We performed a review of the changes implemented before the audit service provider issued any further audit reports. We concluded that the changes made addressed our findings.

We also ask appointed auditors to make the improvements needed to ensure that all future audit files are rated at least "satisfactory". We follow up to check that the improvements have been made.

Indicator: Number of audit opinions withdrawn

Target: No audit opinions withdrawn

Year	Result
2021/22	2
2020/21	1 (revised measure for 2020/21)
2019/20	New measure for 2019/20
2018/19	New measure for 2019/20

Two audit reports were withdrawn and new audit reports issued. After their audits were completed, two public organisations identified additional information, which meant there were errors in their financial statements. They wanted to correct the errors, which required reissuing both the financial statements and the audit reports. The audit opinions did not change.

Indicator: Percentage of public entities that are "satisfied" with the overall quality of their audit service (as determined by responses to our satisfaction survey)

Target: At least 85%

Year	Result
2021/22	71%
2020/21	71%
2019/20	82%
2018/19	76%

In 2021/22, overall client satisfaction remains at 71%. The most consistent issue identified was delays in completing audits because of disruptions from the Covid-19 pandemic.

Challenges for our school audits

The Auditor-General is responsible for carrying out the annual audits of more than 3300 public organisations. About 2420 of these organisations are state or "public" schools, including state-integrated schools, and kura kaupapa Māori.

Public schools must report each year on their financial performance by preparing a set of financial statements. Our Office audits those financial statements, to provide assurance that they fairly reflect the school's transactions for the year, and the school's financial position at the end of the year. As part of our audits, our auditors also consider whether schools are spending public money appropriately. The audited financial statements form part of the school's annual report, which it must make available to the public on its website.

Because New Zealand's schools are generally located in the communities they serve, we engage the services of audit firms across the country to carry out the annual school audits on behalf of the Auditor-General.

Ensuring that the school audits are completed within the time frames set out in legislation can be difficult at the best of times, due to the number of audits, and the different parties involved. Many schools engage financial service providers to prepare financial statements on their behalf, and information for some of the amounts in the financial statements is sourced from the Ministry of Education.

Unsurprisingly, the Covid-19 pandemic has presented additional challenges for both auditors and schools, and there have been delays in completing the school audits in the past few years. The lockdowns and alert level changes meant having to do more work remotely and being unable to visit some schools. This has affected the efficiency of audits.

Border closures and global mobility restrictions have contributed to a shortage of auditors in New Zealand to assist with carrying out the school audits. Normally, the audit profession relies on bringing in auditors from overseas to manage the workload at peak times. This is a wide-ranging issue that has affected the audits of many public organisations, not just schools, over the past two years.

Unfortunately, the audit delays have continued for our 2021 school audits. Although borders are now open, audit firms are recruiting from a competitive international market, and it takes time for people from overseas to get an approved visa and start arriving in New Zealand.

The Omicron outbreak also meant audit teams have dealt with greater than normal levels of sickness, as well as sickness affecting the ability of some schools to prepare financial statements and respond to audit queries.

We acknowledge the extraordinary efforts of schools and their financial service providers to produce their accountability documents and respond to their auditors under such difficult and unusual circumstances.

During 2021 there was also a change to the school payroll system, which meant auditors had to carry out additional and unplanned payroll work for many of the school audits. This also contributed to the delay in completing the 2021 school audits.

It's important that public organisations, including schools, are accountable for how they spend public money. We thank the schools, financial service providers, and our auditors for doing their part to ensure that schools can continue to be accountable to Parliament and their communities, despite the setbacks and challenges we have faced over the past few years.

Indicator: 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

Target: Confirmed

Year	Result
2021/22	Confirmed by annual independent review (see Appendix 2)
2020/21	Confirmed by annual independent review
2019/20	Confirmed by annual independent review
2018/19	Confirmed by annual independent review

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 Public Audit Act 2001. At 30 June 2022, arrangements had been entered into for audits of the following entities:

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

Changes to standards

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 this year.

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 services that are reasonable and appropriate for an auditor to carry out. In 2021/22, Audit New Zealand spent just under 3700 hours providing assurance services and issued final reports on 35 separate assurance engagements.

Assurance work helps public organisations comply with rules and guidelines and adopt good practice. Audit New Zealand measures client satisfaction after each engagement. In 2021/22, satisfaction was rated 4.94 out of 5.

Audit New Zealand and our other audit service providers also carry out other assurance engagements that are prescribed in legislation other 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. 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 public organisation within agreed parameters.

Historically, the audit fees of many public organisations have not kept pace with the increase in the hours needed to carry out the audits. We have, previously, limited audit fee increases to reflect the pressures public organisations face. However, to ensure the delivery of high-quality audits in the public sector, larger increases in audit fees have become necessary to recover the costs required to deliver quality audits. We have done this while ensuring that fee negotiations with public organisations result in audit fees that are fair and reasonable to both parties.

The table summarises changes in audit fees from 2020/21 to 2021/22. The figures exclude additional audit fees negotiated with public organisations because of unforeseen problems arising after audit fees were agreed.

2020/21 to 2021/22

Sector	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of organisations*
Central government	13.6%	7.8%	5.8%	311
Local government	6.4%	1.9%	4.5%	366
Schools	15.7%	6.3%	9.4%	2445
Total	**11.5%**	**5.6%**	**5.9%**	**3122**

2019/20 to 2020/21

Sector	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
Local government	5.3%	0.2%	5.1%	362
Schools	3.0%	0.3%	2.7%	2443
Total	**3.4%**	**0.3%**	**3.1%**	**3134**

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

Service 4: Carry out inquiries into matters of public interest

What went well	What didn't go to plan
We achieved our timeliness targets for our Category 1 and Category 2 inquiry work. We maintained the amount of work we were able to complete in a year of disruption from Covid-19. Our work on issues such as tourism funding, emergency housing grants, Covid-related procurement in the health sector, and the management of conflicts of interest in procurement processes contributed to the promotion of good practice in the public sector.	We did not achieve our timeliness target for our Category 3 work (one piece of work was completed outside the agreed time frame).

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 2021/22 was $11.875 million.

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 inquiry requests every year. Although we carefully consider all issues raised with us, 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** – we consider new potential inquiry work (either requested or self-initiated) and form an initial view about whether to proceed with further work. We expect to do this within four weeks.
- **Category 2: Assessment** – having decided under Category 1 to do more work, we carry out 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 this work within six months of the issue starting in Category 1.
- **Category 3: Major inquiries** – we carry out an in-depth investigation of the issues and prepare a detailed report on that investigation. We expect to complete major inquiries within an agreed time frame.

The Auditor-General also administers the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest matters in local government.

Inquiries

Quantity measures

Indicator: Number of requests for inquiry received (including protected disclosures)

Target: Not applicable

Year	Result
2021/22	49
2020/21	64
2019/20	48
2018/19	New measure for 2019/20

Indicator: Number of protected disclosures received (a subset of the number above)

Target: Not applicable

Year	Result
2021/22	4
2020/21	9
2019/20	6
2018/19	New measure for 2019/20

Indicator: Number of pieces of inquiry work (other than major inquiries) concluded during the year

Target: Not applicable

Year	Result
2021/22	56
2020/21	62
2019/20	42
2018/19	New measure for 2019/20

Indicator: Number of major inquiries concluded during the year

Target: Not applicable

Year	Result
2021/22	3
2020/21	4
2019/20	2
2018/19	New measure for 2019/20

Timeliness measures

This year, we did not achieve our timeliness targets for our three inquiry categories, with one inquiry not meeting our target. We balance the obligations of fairness and natural justice and the number and complexity of the issues we consider with being timely.

Indicator: Percentage of requests for inquiries or self-initiated issues that are considered and a view is reached within four weeks

Target: 90%

Year	Result
2021/22	96%
2020/21	94%
2019/20	100%
2018/19	New measure for 2019/20

Indicator: Percentage of pieces of inquiry work (except major inquiries) that are concluded within six months

Target: At least 90%

Year	Result
2021/22	94%
2020/21*	90%
2019/20	81%
2018/19	New measure for 2019/20

* Revised performance standard for 2020/21.

We concluded 48 pieces of inquiry work in this category within six months.

Indicator: Percentage of major inquiries that are concluded and their findings reported within the expected time period

Target: At least 75%

Year	Result
2021/22	66%
2020/21	75%

Year	Result
2019/20	50%
2018/19	New measure for 2019/20

We completed two out of three major inquiries within the expected period.

Quality measures

Indicator: Percentage of inquiries that meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)

Target: 100%

Year	Result
2021/22	Not assessed, as not a quality assurance review year
2020/21	100%
2019/20*	Not assessed, as not a quality assurance review year
2018/19	New measure for 2019/20

* 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 23 requests to approve contracts under the 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 100% of requests to approve contracts within our target of 21 days.

Quantity measures

Indicator: Number of Local Authorities (Members' Interests) Act 1968 approval requests received

Target: Not applicable

Year	Result
2021/22	23
2020/21*	33
2019/20**	96
2018/19	New measure for 2019/20

* Revised measure for 2020/21.

** 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.

Timeliness measures

Indicator: Percentage of requests under the Local Authorities (Members' Interests) Act 1968 for approval of contracts that are responded to within the expected time period

Target: At least 90%

Year	Result
2021/22	100%
2020/21	88%
2019/20	93%
2018/19	Revised measure for 2019/20

Service 5: Assess public sector performance and accountability

What went well	What didn't go to plan
We completed six performance audits. We published 15 other pieces of work. Audited public organisations continue to rate our performance as at least "satisfactory".	We didn't meet some of our timeliness targets for our performance audits because of the effects of the Covid-19 pandemic on our staff availability.

This service is funded through the appropriation *Statutory Auditor Function MCA, Performance Audits and Inquiries Category*. The amount appropriated for this category in the Main Estimates for 2021/22 was $11.875 million.

The Public Audit Act 2001 allows the Auditor-General to assess the performance and accountability of public organisations, particular sectors, and the entire public sector.

Performance audits, special studies, and other evaluation and assessment work we do are an important part of our work programme. Each year, we publish our planned work programme. This year's work programme was set out in our *Annual plan 2021/22*. Appendix 4 describes our progress on that work.

Performance audits form a critical 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 operating effectively and efficiently.

Performance audits allow us to examine areas that are not typically covered in our annual audits and to make recommendations to improve public sector performance. We also monitor the progress of public organisations in implementing our recommendations from these performance audits.

In 2021/22, we worked on 15 performance audits and completed six of these. We aim to complete eight of the remaining nine performance audits before December 2022. The remaining performance audit will be completed by March 2023. Appendix 3 details the six published performance audit reports and 15 other publications we published this year. These publications are on our website.

Improving public sector integrity

Integrity is at the heart of the public's trust in the public sector. We have a role in supporting the public sector to operate with integrity.

Integrity is not just about complying with the law – that's a given. It's about doing the right thing. A highly trusted public sector is one of New Zealand's greatest assets. To maintain that trust, public organisations need to demonstrate that they act and make decisions with integrity.

Integrity is important to public organisations because:

- it helps build and maintain trust and confidence;
- it enables public services and outcomes to be managed and delivered;
- it helps build meaningful relationships; and
- it supports long-term stewardship of an organisation's assets, knowledge, systems and processes, and any legislation it administers.

Integrity resources

This year we launched our integrity framework. The framework supports leaders and governors in the public sector to take a whole-of-organisation approach to building a culture of integrity. It aims to reduce the gap between the culture an organisation wants and its actual practice.

The framework provides an integrated approach to examining the values, systems, and norms in a workplace. It enables leaders and governors to identify the key activities and ways of working that will help build and sustain integrity across the whole organisation.

The framework was launched to more than 200 stakeholders in June. Next year we will be looking at how we fully integrate te ao Māori into the framework to provide further guidance where needed. We are also developing an audit methodology to assess the integrity culture more broadly in public organisations.

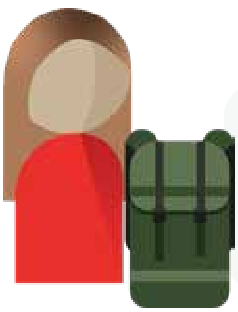
We will encourage chief executives, leadership teams, and those charged with governance to consider the framework in the context of their organisations. We hope it will assist them to identify areas where they can build on their existing culture, emphasise the importance of ethical leadership, and improve on their internal controls and business practices where needed.

Performance audits about integrity

In 2021/22, we looked at how four councils manage conflicts of interest. Conflicts of interest are inevitable – many council staff live and work in the same community. What matters is how councils manage these conflicts.

Our findings were published in an article that builds on our good practice guidance for conflicts of interest.

Next year we will continue our performance audit programme on integrity. We will look at how government agencies procure goods and services using direct procurement, including in emergency situations, and how they provide transparency of these procurements to the public.



Mau is now an auditor in our Christchurch office, but this keen backpacker has worked for organisations from Australia, Japan, and Korea while in the Philippines, and worked in the Cook Islands (2 of 10).

Quantity measures

Indicator: Number of performance audit reports issued during the year

Target: Not applicable

Year	Result
2021/22	6
2020/21	9
2019/20	4
2018/19	New measure for 2019/20

Indicator: Number of other publications issued during the year

Target: Not applicable

Year	Result
2021/22	15
2020/21	9
2019/20	14
2018/19	New measure for 2019/20

"Other publications" are our research reports, sector reports and letters, good practice guides, and any other publications that have been published on our website but have not been reported elsewhere.

Indicator: Number of audit and risk committee chair forums facilitated

Target: At least eight (two per quarter)

Year	Result
2021/22	9 audit and risk committee chair forums
2020/21	New measure for 2021/22

This is a new measure for 2021/22 as part of our focus on supporting effective governance, accountability, and transparency of public organisations. This year, we facilitated nine audit and risk committee chair forums to raise matters of mutual interest and discuss good practice.

Quality measures

Indicator: Percentage of performance audits that substantially meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)

Target: 100%

Year	Result
2021/22	100% (Australian National Audit Office external review)
2020/21	100% when last assessed in 2019/20
2019/20	100% (Quality Assurance team internal review)
2018/19	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 2021/22. Our Quality Assurance team carries out an internal peer review of our performance audit function every three years. The most recent internal review was in 2019/20.

Indicator: Percentage of audited entities that rate our performance audits as at least "satisfactory"

Target: At least 85%

Year	Result
2021/22	100%
2020/21	93%
2019/20	88%
2018/19	Revised measure for 2019/20

We surveyed the eight public organisations that participated in the six performance audits we completed in 2021/22. We received seven responses. All seven responses rated our performance audits as at least "satisfactory".

We used a five-point survey scale, ranging from "strongly disagree" to "strongly agree". We assess that the responses were at least "satisfactory" if the public organisation responded with agree or strongly agree.

Timeliness measures

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

In 2021/22, we completed 75% of our performance audits within 10 months and 67% within six months.

Indicator: Percentage of performance audits that are concluded and their findings reported within six months

Target: At least 10%

Year	Result
2021/22	67%
2020/21	11%
2019/20	New measure for 2020/21
2018/19	New measure for 2020/21

Indicator: Percentage of performance audits that are concluded and their findings reported within 10 months

Target: At least 70%

Year	Result
2021/22	75%
2020/21	56%
2019/20	New measure for 2020/21
2018/19	New measure for 2020/21

Indicator: Percentage of performance audits that are concluded and their findings reported within 12 months

Target: 100%

Year	Result
2021/22	75%
2020/21	89%
2019/20	New measure for 2020/21
2018/19	New measure for 2020/21

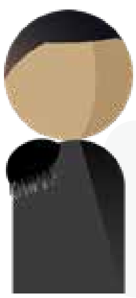
We revised our timeliness measure in 2020/21 to provide more transparency. The previous measure assessed the timeliness of performance audits against expected time frames. The methodology we now apply excludes periods where work is delayed because of matters beyond our control – for example, a slow response from an organisation for an information request. Follow-up work is included in our timeliness measures, which can include entity self-assessments or full follow-up reports.

Indicator: Percentage of other publications concluded, and their findings reported within the expected time-period**

Target: At least 75%

Year	Result
2021/22	60%
2020/21	88%
2019/20	New measure for 2020/21
2018/19	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.



Chris, New Zealand's poet laureate, helped form a Rainbow Network across our offices (3 of 10).

Listening to Parliament and New Zealanders

Understanding what is important to Parliament and New Zealanders is critical to achieving our outcomes and to planning how we use our resources most effectively. To achieve this, we asked Parliament and New Zealanders to consider our proposed work plan and comment on it.

Testing topics with the public

We commissioned a survey to find out whether our discretionary work programme included topics that mattered most to New Zealanders.

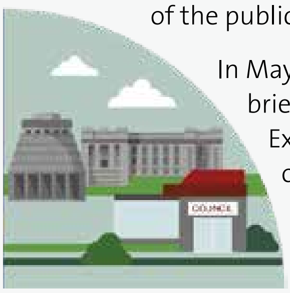
The survey results largely confirmed that the areas of focus we included in our draft annual plan were important to New Zealanders. One topic of interest to the respondents in the performance area of "reducing inequalities in New Zealand society" was child poverty. In response, we added a performance audit into our planned work programme for 2022/23 that will look at the Government's work on reducing child poverty.

We will continue to consider ways we can collect views from New Zealanders to inform our work.

Getting feedback from Parliament and the public sector

At the end of April each year, we submit our draft annual plan to the Speaker of the House of Representatives and distribute it widely to the public sector and beyond. We also publish the draft annual plan on our website and share it on our social media platforms so that members of the public can provide feedback.

In May, the Auditor-General briefed the Finance and Expenditure Committee on the draft annual plan. The Committee confirmed their support for our plan when they reported on our draft plan to Parliament.



We use the feedback to refine our selection of topics and the timing of our work.

Getting feedback from select committees and local government

In the last year, we have met with the Speaker of the House together with select committee chairpersons every six months to discuss our work supporting parliamentary scrutiny. These meetings, which are in addition to the regular meetings we have with select committee chairpersons and select committees, provide the opportunity to share views and receive feedback on our work. They are focused more broadly on what else we can do to support parliamentary scrutiny.

Every two years, we survey and interview chairpersons of select committees and leaders in local government. We ask them to rate the value and quality of our work and our effectiveness in helping Parliament hold public organisations to account through our select committee briefings.

This year, we heard that our work is of a high quality and highly valued.

The survey respondents stressed the valuable working relationships and trust that they have in their contacts in the Office. Three main factors were highlighted:

- the patience and approachability of our staff;
- our independence; and
- the quality of our advice.

Committees see our advice as frank, honest, and thorough. Interviewees stressed the value of our reports as reference points for their scrutiny work, noting that the concise structure of our reports helps draw their attention to key concerns and themes.

3

Our capability

Our independence and reputation

Our independence and reputation are critical to maintaining Parliament's and the public's trust and confidence in our work and our position as a pillar in New Zealand's national integrity system (according to Transparency International New Zealand).

We continued to:

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

Our people

We supported our people by focusing on:

- culture and well-being;
- Māori capability;
- capability and career development;
- leadership;
- recruitment;
- retention and remuneration; and
- equal employment opportunities.

We had several staff celebrating significant years of service with the Office, ranging from 25 years to 50 years.

Culture and well-being

The well-being of our people and a strong and supportive Office culture are central to our people-related initiatives. We:

- implemented a resilience and well-being plan, including providing support during lockdowns and changing work environments because of Covid-19;
- supported employee-led networks, including He Tāngata, a Pasifika Network, a Rainbow Network, and our Women's network; and
- maintained a dedicated Covid-19 response team, including a welfare stream set up to help support the well-being and safety of our staff. This included regular check-ins, resources to support well-being and effective remote working, and up-to-date guidance on the application of the evolving health measures and Covid-19 frameworks.

Māori capability

In 2021/22, we:

- partnered with a cultural capability-building organisation TupuToa to maximise Māori and Pacific potential in the workplace and build pathways for Māori and Pacific leaders;
- continued increasing our capability in te ao Māori as we developed our Te Ao Māori strategy;
- recruited an Establishment Director, Māori Capability and Engagement to work with our leadership team to guide our capability strategy and related streams of work;
- continued to build capability and competence in engaging with Māori by supporting more employees to learn te reo Māori; and
- continued to deliver 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 and provided 67 learners with a coaching-based programme, Te Hāpaitanga.

Capability development

We created a framework to support the professional development of our people. We:

- implemented a refreshed competency framework that sets out the requirements for all roles in the OAG, the Corporate Services Group, and parts of Audit New Zealand. The framework will help our people to understand the competencies needed for their role and to develop their capability and career;
- created training programmes that take account of our role, purpose, and vision and ensure that the learning is appropriate for the types of work our people carry out;
- supported the development and career aspirations of our people in the OAG and the Corporate Services Group through our career board process; and
- 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

Developing our leaders continues to be a priority.

Initiatives included:

- embedding our OAG and Corporate Services Group people leaders' forum to support the development of our people;
- facilitating leadership programmes for those who aspire to leadership roles or are relatively new in a leadership role;
- developing a People Leaders online hub and associated leadership resources that are aligned to our competency framework;
- facilitating sessions with senior leadership to foster improved trust and feedback as a leadership group and build awareness of different leadership styles; and
- coaching and training for our leaders, including leading virtual teams and leading in a world of change.

Recruitment, retention, and remuneration

In a highly competitive job market, we have concentrated efforts to recruit and retain staff by:

- establishing a new and more transparent remuneration framework;
- continuing to implement a modern remuneration and reward system that is in line with market best practice and attracts and retains top talent;
- building relationships with international audit institutions, including audit institutions from Australia, Canada, and the United Kingdom, to meet the immediate auditor shortage needs and building future reciprocal secondment opportunities; and
- creating a dedicated auditor shortage recruitment project team that involves significant international recruitment and supports inducting auditors from overseas.

Equal employment opportunities

Under the Public Audit Act 2001, the Auditor-General must develop and publish an equal employment opportunities programme, comply with it, and describe in the annual report how it was met. In our view, the quality of employment opportunity is critical to creating a workplace that enables our people to reach 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 and consider diversity an asset to the Office and the work we do.

Our remuneration system ensures that, for like-for-like roles, gender pay gaps are minimal and often show negative gaps (that is, women paid more than men). The particular challenge for our organisation is in addressing vertical segregation (where there are more men than women in senior positions) and occupational drivers (where traditionally higher-paid roles are held by men). This is not an issue in all parts of the organisation but is particularly an issue in Audit New Zealand.

Bringing more women into senior levels in Audit New Zealand is clearly a matter to address and there is work under way to do this. There is more turnover at higher levels in the Office of the Auditor-General and the Corporate Services Group, where the pay gap has reduced from 11% to 9% during the last three years. Over the entire organisation, the pay gap is currently 17%.

We publish information about our staff numbers and staff diversity in the "About us | Our people" section of our website.

Our knowledge, information, and methods

In Budget 2020, Parliament invested in the Office to modernise our infrastructure, enhance our data and information technology capability, and address vulnerabilities through implementing our Information Systems Strategic Plan.

We have made a significant change to our foundational infrastructure through adopting, and transitioning to, cloud-first services. This included major improvements to our operating systems and security. The build phase for selected core systems started 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 client portal will make audits more efficient, better support remote working for our auditors, and reduce travel. As at 30 June, there were 353 public organisations that were either actively using or had been trained to use the client portal.

We have selected providers for developing and delivering key systems. These include our next-generation Audit Management Tool, Audit Contract Management and Self-Service Portal for external audit service providers, and our document management capability. To ensure fit-for-purpose solutions we have delivered new project management and architecture practices.

We also invested in tools and support processes to continue to enable remote working. After the lockdowns in response to Covid-19, our Information Services Group identified improvements to customer service, operational standards, practices, and processes. These changes will support advancements in the Office's operating model.

Our relationships

We are here to support Parliament. However, we also have a wide range of other stakeholders. Our ability to manage our relationships well is important to our ability to influence and have impact.

Understanding what Parliament and our other stakeholders are concerned about and where risks might arise helps to inform our work. It also allows 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 events for public organisations and their audit and risk committees about governance and accountability, good practice, accounting and auditing developments, and other topics of interest. However, Covid-19 continued to place restrictions on in-person gatherings. Although some events were cancelled, such as our Audit New Zealand client updates, we held other events online and shared recordings of them. We make these available for governors, managers, finance teams, and other public sector staff.

We also:

- established six-monthly meetings with the Speaker of the House of Representatives and all select committee chairpersons to discuss our work to support parliamentary scrutiny;
- strengthened our relationships with Parliament, the 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 online;
- continued to provide briefings for members of Parliament on reports and briefings for select committees to aid their scrutiny of public sector spending and performance; and
- continued to host events with Transparency International New Zealand in Wellington and Auckland, in person and online, that focused on strengthening public sector integrity and transparency.

Our challenge is to improve how we build relationships and connect our work with a wider range of New Zealanders, such as iwi, hapū, whānau Māori, and community organisations.

To better understand what parliamentary select committees and other stakeholders consider we do well, and where we need to improve, we surveyed select committee chairpersons and local government leaders. Our 2022 survey results showed that our trusted advisor capability is highly regarded. Interviewees spoke highly of our investment in working relationships.

We also worked on the way our sector teams work and report to better target our efforts, improve our impact, and support performance in the public sector.

Our International team co-ordinates activities to strengthen accountability, transparency, and good governance in the Pacific region. This work provides opportunities for staff from across the organisation to contribute their expertise for the benefit of our Pacific counterparts. The International team also co-ordinates activities with other similar teams in the New Zealand public sector.

Our financial and physical resources

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

Covid-19 has had a significant impact on the fee-funded functions of the Office, particularly Audit New Zealand. This, along with the challenges the auditing profession is facing, has resulted in audits taking significantly longer than usual to complete.

The Covid-19 pandemic, planned investment in essential technology upgrades, remuneration increases to support recruitment and retention of skilled staff, and other initiatives to support further enhancements to audit quality and efficiency have led to forecast deficits in the *Audit and Assurance Services* memorandum account in 2022/23 and beyond.

After a decade of restraint, increases in audit fees are now essential to address rising costs in the audit profession and to invest for the future. Audit New Zealand and other audit service providers typically negotiate contracts with public organisations once every three years. We have raised fees by more than 8% on recently negotiated contracts and expect to make similar increases in the next 12 months as we review audit fees for the local government sector.

We sought, and received in Budget 2022, a capital injection of $11.4 million to address increased costs arising from Covid-19 for various 2020 and 2021 audits that could not be recovered through fees. For example, we incurred additional travel costs to ensure that audit teams across the country had appropriate capacity in the required audit locations.

Despite implementing the above initiatives, the outlook is still uncertain. It is likely that Covid-19 variants will cause further disruption and inefficiencies. We expect to update the Officers of Parliament Committee in 2022/23 on our forecasts and further mitigation actions that might be required.

Our use of natural resources

Public organisations need to use their resources wisely – including the natural resources they consume – and minimise their impact on the environment. 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;
- worked on developing an internal environmental impact reporting dashboard, using the data we have gathered from suppliers;
- increased our technology capability in the last few years, which has allowed our staff to work more remotely and helped reduce our emissions from travel; and
- committed to reporting on our greenhouse gas emissions and reduction targets and plans from 2022/23, as a voluntary contribution to the Government's Carbon Neutral Government Programme.

As part of our commitment to reporting on our greenhouse gas emissions, we have started measuring emission sources that we have sufficient historical data on. This means the results in the table below do not reflect our entire carbon footprint and currently exclude some significant sources of emissions (such as our outsourced audits to other audit service providers and certain products and services that we use).

We will continue to review our systems to provide a more complete carbon footprint over time.

We chose 2018/19 as our base year to measure those emission sources. This is because our reduction efforts are best represented in a year before the onset of Covid-19, when our main sources of emissions were from auditors travelling to client sites.

Our emissions inventory complies with the ISO 14064-1:2018 standard and reflects a financial control consolidation approach to determine the scope of our emissions reporting. This means we have included all the Auditor-General's business units in the emissions reporting boundary.

Inventory summary

We are working to establish emissions reductions targets and a plan to reduce our emissions. This plan will include projects to improve our emissions data quality and projects to reduce our overall emissions. We will look for other opportunities to reduce our overall environmental impact.

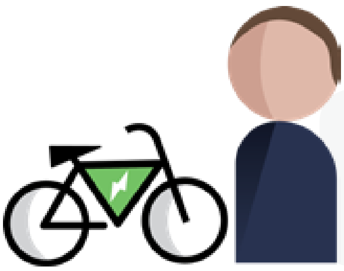
Based on the sources we are currently able to measure, our emissions for 2018/19 are in the table below. We will use this as our baseline for measuring emissions.

Category (ISO 14064-1:2018)	**Scopes (ISO 14064-1:2006)**	**2018/19 tCO_2e**
Category 1: Direct emissions and removals	Scope 1	104
Category 2: Indirect emissions from imported energy	Scope 2	47
Category 3: Indirect emissions from transportation	Scope 3	663
Category 4: Indirect emissions from products used by organisation	Scope 3	44
Category 5: Indirect emissions associated with the use of products from the organisation	Scope 3	0
Category 6: Indirect emissions from other sources	Scope 3	0
Total direct emissions		**104**
Total indirect emissions		**754**
Total gross and net emissions		**858**

Inherent uncertainty

There is some uncertainty associated with preparing a greenhouse gas emissions inventory. To minimise this uncertainty, source data has been obtained directly from suppliers where possible. In some instances, information has also been estimated or extrapolated, such as emissions from employee mileage claims. This estimation process increases the level of uncertainty.

We have calculated our emissions based on the most up-to-date emissions factors available from the Ministry for the Environment and supplier sources at the time our inventory was produced and independently verified. Subsequent to this, the Ministry for the Environment has updated a small number of emissions factors. We have assessed the impact of the changes as not material to our reported performance and have not recalculated our result using the updated factors.



Sector manager Hamish often rides his e-bike to get to meetings in Wellington (4 of 10).

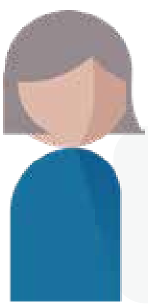
4

Our finances

Our appropriations

Our services are funded through the appropriations for Vote Audit 2021/22. In the table, we show the links between the appropriations and our services.

Our services	Our appropriations
Provide advice and support for effective parliamentary scrutiny Our advice to select committees, and our support for the international public sector auditing community.	*Statutory Auditor Function MCA* MCA means multi-category appropriation – more than one aspect of our work is covered by this appropriation.
Monitor spending against parliamentary appropriations Our Controller function.	*Statutory Auditor Function MCA*
Audit information reported by public organisations about their performance Our annual audits of public organisations and our audits of councils' long-term plans and other assurance services.	Our annual audits are funded by the following two appropriations: *Audit and Assurance Services RDA* RDA means revenue-dependent appropriation – the amount of money depends on the audit fees charged for audits of public organisations. *Audit and Assurance Services* Some audits of small public organisations are funded by the Crown because they have limited resources.
Carry out inquiries into matters of public interest Our inquiries work and our work on sharing good practice.	*Statutory Auditor Function MCA*
Assess public sector performance and accountability Our performance audits and special studies.	*Statutory Auditor Function MCA*



In June, we celebrated Colleen's contribution as a sector manager and her 50+ years of public service (7 of 10).

Appropriation statements

Statement of budgeted versus actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2022

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Output expenses					
*Audit and Assurance Services RDA***	93,468	95,011	89,345	92,652	93,900
Audit and Assurance Services	5,078	150	2,150	7,131	11,626
Total appropriations for output expenses	**98,546**	**95,161**	**91,495**	**99,783**	**105,526**
Other expenses					
Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority)***	**1,099**	**1,011**	**1,099**	**1,099**	**1,099**
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	8,612	9,319	11,875	12,975	12,419
Supporting Accountability to Parliament	7,461	6,934	6,210	6,330	6,459
Total *Statutory Auditor Function MCA*	**16,073**	**16,253**	**18,085**	**19,305**	**18,878**
Total appropriations for operating expenditure	**115,718**	**112,425**	**110,679**	**120,187**	**125,503**
Capital expenditure					
*Controller and Auditor-General Capital Expenditure PLA*****	2,283	1,389	4,393	3,974	4,257
Total annual and permanent appropriations	**118,001**	**113,814**	**115,072**	**124,161**	**129,760**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2021/22, revenue under this appropriation was $93,468 million – see Financial performance for *Audit and Assurance Services RDA*.

*** Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

**** 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 2022

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 2022 (2021: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2022

The Office did not receive any capital injections without, or in excess of, appropriation or other authority in the year ended 30 June 2022 (2021: Nil).

Statutory Auditor Function MCA

MCA means multi-category appropriation – more than one aspect of our work is covered by this appropriation.

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 of 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 improvements could be made.

Financial performance for *Statutory Auditor Function MCA*

	Actual 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Income					
Crown	18,744	17,219	17,644	18,744	18,508
Other	437	631	441	561	370
Total income	**19,181**	**17,850**	**18,085**	**19,305**	**18,878**
Expenditure	**(16,073)**	**(16,253)**	**(18,085)**	**(19,305)**	**(18,878)**
Surplus	**3,108**	**1,597**	**-**	**-**	**-**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

Statutory Auditor Function MCA costs were $2.012 million lower than in the Main Estimates. This was mainly due to the deferral of some projects to 2021/22. These projects were related to the Office's Information Systems Strategic Plan and some performance audits that were delayed by the Covid-19 pandemic.

The surplus of $3.108 million is subject to an In-Principle Expense Transfer (IPET) of $2.000 million approved by the Officers of Parliament Committee (OPC) in February 2022. OPC will be requested to confirm or approve an amended amount in October 2022. IPET currently allows the Office to increase the available budget in 2022/23 by up to $2.000 million for the deferral of projects that were not completed in 2021/22.

Audit and Assurance Services RDA

RDA means revenue-dependent appropriation – the amount of money depends on the audit fees charged for audits of public organisations.

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Income from third parties	93,468	95,395	89,345	92,652	93,900
Expenditure	(93,468)	(95,011)	(89,345)	(92,652)	(93,900)
Surplus**	-	**384**	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** 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 in 2021/22 compared to the Main Estimates primarily arose because contracted audit service provides completed more work on the audits of public organisations. This additional work was partially offset by a lower level of work completed by Audit New Zealand on audit engagements with a 30 June 2022 balance date because of 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.

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Income	150	150	150	150	150
Expenditure	(5,078)	(150)	(2,150)	(7,131)	(11,626)
(Deficit)**	**(4,928)**	-	**(2,000)**	**(6,981)**	**(11,476)**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** 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 table below shows a combined view of the financial performance for the two appropriations.

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

	Actual 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Income from Crown	150	150	150	150	150
Income from third parties	93,468	95,395	89,345	92,652	93,900
Total income	**93,618**	**95,545**	**89,495**	**92,802**	**94,050**
Expenditure	(98,546)	(95,161)	(91,495)	(99,783)	(105,526)
Surplus/(Deficit)**	**(4,928)**	**384**	**(2,000)**	**(6,981)**	**(11,476)**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report. The figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** 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

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Income	1,099	1,011	1,099	1,099	1,099
Expenditure	(1,099)	(1,011)	(1,099)	(1,099)	(1,099)
Surplus	-	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

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 current year and Main Estimates reflect the pay reduction taken by the Auditor-General and Deputy Auditor-General in response to the Covid-19 pandemic.

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Property, plant, and equipment	1,989	1,060	1,850	2,559	1,978
Intangible assets	146	21	2,467	1,039	1,937
Other	148	308	76	376	342
Total capital expenditure	**2,283**	**1,389**	**4,393**	**3,974**	**4,257**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

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. This was because we deferred the implementation of several software projects related to our Information Systems Strategic Plan until 2022/23 while we negotiated significant contracts with suppliers and addressed the impacts of the Covid-19 pandemic.

We also spent less on hardware replacements due to supply chain delays caused by the Covid-19 pandemic.

Our financial results

Overview of our financial results

Operating result

For 2021/22, our Office had a deficit of $1.820 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	93,618	19,181	1,099	113,898
Costs	(98,546)	(16,073)	(1,099)	(115,718)
Surplus/(Deficit)*	**(4,928)**	**3,108**	-	**(1,820)**

* The operating deficit excludes gain on sale of assets, which was $7,000 for the year.

The deficit of $4.928 million relating to our Audit and Assurance Services reflects the limited capacity and availability of auditors, arising from Covid- 19, which has affected our progress to complete annual audits. The deficit amount 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 $3.108 million on the Statutory Auditor Function arose from the deferral of some projects to 2022/23 largely as a result of delays caused by Covid-19 and longer contract negotiations in relation to systems implementations. The surplus is subject to an In-Principle Expense Transfer (IPET) of $2.000 million approved by the Officers of Parliament Committee (OPC) in February 2022. OPC will be asked to confirm or approve an amended amount in October 2022. The IPET currently lets us increase the available budget in 2022/23 by up to $2.000 million for the deferral of projects that were not completed in 2021/22.

Memorandum account

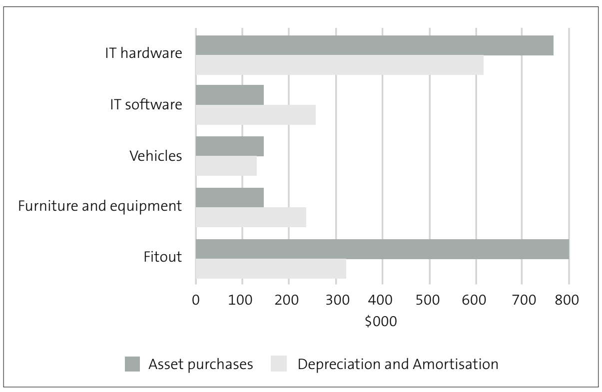
The deficit for the year was more than initially planned, mainly due to capacity constraints affecting progress on the completion of annual audits. The deficit was offset by capital contributions from the Crown to address the increased time and non-recoverable costs of audits arising from Covid-19.

Audit and Assurance Services memorandum account	$000
Opening balance at 1 July 2021	(2,282)*
Audit and Assurance Services deficit	(4,928)
Capital contribution	6,800
Closing balance at 30 June 2022	**(410)**

* The opening balance was restated (see Note 1 for more information).

Investment in our assets

In 2021/22, we continued our replacement programme for IT hardware, furniture, and vehicles. We also continued implementing our Information Systems Strategic Plan, which covers a five-year programme of work to improve our information systems and services across the Office. Due to delays in contract negotiations we did not spend as much as we anticipated on IT software and system implementations. Supply chain issues also reduced the amount we spent on IT hardware.



The significant fitout costs related to the relocation of our Auckland office.

Statement of comprehensive revenue and expense

for the year ended 30 June 2022

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 in the section on Our appropriations.

	Notes	Actual 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Revenue						
Crown funding	2	19,993	18,380	18,906	19,993	19,757
Audit fee revenue	3	93,468	95,382	89,556	92,983	94,040
Other revenue		437	644	230	230	230
Gain on sale of plant and equipment		7	20	-	-	-
Total revenue		**113,905**	**114,426**	**108,692**	**113,206**	**114,027**
Expenditure						
Personnel costs	4	57,276	58,170	59,651	58,356	61,774
Other operating costs	5	56,552	52,674	48,363	53,777	54,423
Depreciation and amortisation expense	10, 11	1,569	1,270	1,527	1,733	2,365
Capital charge	6	321	311	419	321	941
Total expenditure		**115,718**	**112,425**	**109,960**	**114,187**	**119,503**
Surplus/(Deficit)		**(1,813)**	**2,001**	**(1,268)**	**(981)**	**(5,476)**
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		**(1,813)**	**2,001**	**(1,268)**	**(981)**	**(5,476)**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

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

Statement of financial position

as at 30 June 2022

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

	Notes	Actual 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Assets						
Current assets						
Cash and cash equivalents	7	8,623	3,884	2,657	1,319	10,721
Receivables	8	11,055	9,938	7,598	8,000	8,200
Prepayments		872	932	637	822	822
Work in progress	9	2,285	2,747	1,499	7,500	2,046
Total current assets		***22,835***	***17,501***	***12,391***	***17,641***	***21,789***
Non-current assets						
Plant and equipment	10	4,520	3,768	4,464	5,074	5,423
Intangible assets	11	721	835	3,249	1,748	3,155
Total non-current assets		***5,241***	***4,603***	***7,713***	***6,822***	***8,578***
Total assets		**28,076**	**22,104**	**20,104**	**24,463**	**30,367**
Liabilities						
Current liabilities						
Payables and deferred revenue**	12	9,172	8,688	5,818	3,984	7,308
Repayment of surplus due to the Crown	13	3,115	1,617	-	-	-
Employee entitlements	14	7,159	7,064	5,411	7,021	7,437
Total current liabilities		***19,446***	***17,369***	***11,229***	***11,005***	***14,745***
Non-current liabilities						
Payables and deferred revenue	12	289	-	-	-	-
Employee entitlements	14	530	596	600	592	628
Total non-current liabilities		***819***	***596***	***600***	***592***	***628***
Total liabilities		**20,265**	**17,965**	**11,829**	**11,597**	**15,373**
Net assets		**7,811**	**4,139**	**8,275**	**12,866**	**14,994**
Taxpayers' funds		8,221	6,421	6,221	8,221	8,325
Memorandum account**	15	(410)	(2,282)	2,054	4,645	6,669
Total equity		**7,811**	**4,139**	**8,275**	**12,866**	**14,994**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** The comparative balances have been restated to reflect a previous period adjustment (see Note 1 for more information).

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

Statement of changes in equity

for the year ended 30 June 2022

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Taxpayers' funds						
Balance at 1 July		**6,421**	**6,221**	**6,221**	**6,421**	**6,421**
Total comprehensive revenue and expense		(1,813)	2,001	(1,268)	(981)	(5,476)
Transfer of memorandum account net (surplus)/deficit for the year		4,928	(384)	1,268	981	5,476
Capital contribution		1,800	200	2,900	1,800	1,904
Surplus repayment due to the Crown		(3,115)	(1,617)	-	-	-
Balance at 30 June		**8,221**	**6,421**	**9,121**	**8,221**	**8,325**
Memorandum account						
Balance at 1 July**		**(2,282)**	**(2,666)**	**422**	**(1,174)**	**6,445**
Memorandum account net surplus/(deficit) for the year		(4,928)	384	(1,268)	(981)	(5,476)
Capital contribution		6,800	-	-	6,800	5,700
Balance at 30 June**	15	**(410)**	**(2,282)**	**(846)**	**4,645**	**6,669**
Total equity						
Balance at 1 July**		4,139	3,555	6,643	5,247	12,866
Balance at 30 June		**7,811**	**4,139**	**8,275**	**12,866**	**14,994**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** The comparative balances have been restated to reflect a previous period adjustment (see Note 1 for more information).

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

Statement of cash flows

for the year ended 30 June 2022

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 2021/22 $000	Actual 2020/21 $000	Main Estimates 2021/22 $000*	Supplementary Estimates 2021/22 $000*	Main Estimates 2022/23 $000*
Cash flows from operating activities						
Receipts from the Crown		19,993	18,380	18,906	19,993	19,757
Receipts from public entities**		48,660	52,425	57,659	47,570	62,268
Payments to suppliers**		(13,693)	(13,770)	(17,465)	(16,251)	(15,631)
Payments to employees		(54,947)	(55,037)	(58,375)	(56,654)	(59,534)
Net GST received/(paid)***		285	(55)	(88)	65	-
Capital charge paid		(321)	(311)	(419)	(321)	(941)
Net cash flow from (used in) operating activities	16	***(23)***	***1,632***	***218***	***(5,598)***	***5,919***
Cash flows from investing activities						
Receipts from sale of plant and equipment		63	113	25	24	136
Purchase of plant and equipment		(2,137)	(1,368)	(1,926)	(2,935)	(2,320)
Purchase of intangible assets		(147)	(20)	(2,467)	(1,039)	(1,937)
Net cash flow from (used in) investing activities		***(2,221)***	***(1,275)***	***(4,368)***	***(3,950)***	***(4,121)***
Cash flows from financing activities						
Capital contributions		8,600	200	2,900	8,600	7,604
Surplus repayment to the Crown		(1,617)	(1,750)	-	(1,617)	-
Net cash flow from (used in) financing activities		***6,983***	***(1,550)***	***2,900***	***6,983***	***7,604***
Total net increase (decrease) in cash and cash equivalents		**4,739**	**(1,193)**	**(1,250)**	**(2,565)**	**9,402**
Cash and cash equivalents at the beginning of the year		3,884	5,077	3,907	3,884	1,319
Cash and cash equivalents at the end of the year		**8,623**	**3,884**	**2,657**	**1,319**	**10,721**

* All Estimates information is unaudited. The figures under Main Estimates 2021/22 reflect the forecasts published in Budget 2021 and in the Office's 2020/21 annual report, and the figures under Supplementary Estimates 2021/22 reflect the updated forecasts published in Budget 2022.

** 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.

*** 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 2022

This statement records expenditure to which the Office is contractually committed at 30 June 2022.

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 2021/22 $000	Actual 2020/21 $000
Non-cancellable operating lease commitments		
Not later than one year	697	2,230
Later than one year and not later than five years	1,696	305
Later than five years	185	-
Total non-cancellable operating lease commitments*	***2,578***	***2,535***
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	**2,578**	**2,535**

* Before 30 June 2022, we provided the landlord of our Wellington office a notice of our intention to renew the existing lease to 2028. However, the contract was not signed before these financial statements were published. Therefore, the future commitment for our Wellington office has been excluded from this statement of commitments.

Statement of contingent liabilities and contingent assets

as at 30 June 2022

This statement discloses situations that existed at 30 June 2022, 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 2022 (2021: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2022 (2021: Nil).

Notes to the financial statements

for the year ended 30 June 2022

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 the Office as a public benefit entity (PBE) for financial reporting purposes.

Our financial statements are for the year ended 30 June 2022 and were authorised for issue by the Controller and Auditor-General on 29 September 2022.

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).

Prior period adjustment

In 2021/22, we identified that fee revenue for audit standards and quality support services collected by third party audit service providers on behalf of the Office had not been consistently recognised on a stage of completion basis in accordance with our audit fee revenue accounting policy.

To address this inconsistency we have recognised a prior period error. As the error occurred before 2020/21, the earliest period presented in these financial statements, we have adjusted the opening balances of our liabilities and equity for 2020/21 in accordance with PBE IPSAS 3: *Accounting Policies, Changes in Accounting Estimates and Errors*.

The following table summarises the impact of the prior period error on these financial statements.

	Actual 2020/21 $000
Statement of financial position	
Increase in payables and deferred revenue	1,107
Decrease in equity, memorandum account	(1,107)
Statement of change in equity	
Decrease in memorandum account balance at 1 July 2020	(1,107)

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:

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 2022/23) 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.

2021/22 Main Estimates and Supplementary Estimates

The 2021/22 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2021, and in the Office's 2020/21 annual report.

The 2021/22 Supplementary Estimates forecast financial statements are based on the updated forecasts published in Budget 2022.

2022/23 Main Estimates

The 2022/23 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2022. They have been prepared in keeping with PBE FRS 42: *Prospective Financial Statements* and comply with that standard.

The 2022/23 forecast financial statements were approved for issue by the Auditor-General on 12 April 2022. 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 2023 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 2022/23. 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 12 April 2022, 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 2022/23 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 increase the expenditure in 2022/23.

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.

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 has 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 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. This mirrored similar legislation passed in August 2020 for those entities with June 2020 balance dates.

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.

In 2021/22 our auditors also experienced extended high workloads from deferrals of audits in 2020 and 2021 due to Covid-19.

The above factors affected Audit New Zealand's ability to progress the 2022 June audits. This resulted in a larger deficit in the Audit and Assurance Services Revenue Dependent Appropriation than budgeted.

The Office continued to monitor the cash position and cash injections from the Crown of $6.8 million were drawn down to help manage the impact of Covid-19 on the Audits and Assurance Services memorandum account.

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 2021/22 $000	Actual 2020/21 $000
Fee revenue generated by the Office for audit and assurance services	49,234	54,455
Fee revenue generated by contracted audit service providers for audits of public entities*	44,234	40,927
Total audit fee revenue	**93,468**	**95,382**

* 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 2021/22 $000	Actual 2020/21 $000
Salaries and wages	54,608	54,489
Other employee-related costs	1,234	1,475
Employer contributions to defined contribution plans	1,546	1,542
Increase/(decrease) in employee entitlements	(112)	664
Total personnel costs	**57,276**	**58,170**

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 2021/22 $000	Actual 2020/21 $000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	104	100
Operating lease payments	3,010	2,748
Fees for audits of public entities carried out by contracted audit service providers*	44,234	40,927
Other expenses	9,204	8,899
Total other operating costs	**56,552**	**52,674**

* 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 2022 was 5% (2021: 5%).

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 (2021: 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 2022 and 30 June 2021 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 2022 and 30 June 2021 was determined as 0%.

Breakdown of receivables and further information

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

30 June 2022	Gross $000	Estimates of losses %	Expected credit losses $000	Impaired credit losses $000	Net $000
Not past due	8,843	0	-	-	8,843
Past due 1-30 days	1,310	0	-	-	1,310
Past due 31-60 days	480	0	-	-	480
Past due 61-90 days	213	0	-	-	213
Past due over 90 days	209	0	-	-	209
Carrying amount	**11,055**		**-**	**-**	**11,055**

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**

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

	Actual 2021/22 $000	Actual 2020/21 $000
Balance at 1 July	**13**	**13**
Additional provisions made during the year	-	-
Receivables written off during the year	(13)	-
Balance at 30 June	**-**	**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 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***
Additions	144	4	1,075	766	148	2,137
Disposals	-	-	-	(576)	(169)	(745)
Balance at 30 June 2022	***2,108***	***690***	***4,459***	***3,705***	***1,046***	***12,008***
Accumulated depreciation and impairment losses						
Balance at 1 July 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***
Depreciation expense	168	71	322	617	131	1,309
Elimination on disposal	-	-	-	(576)	(93)	(669)
Balance at 30 June 2022	**1,763**	**579**	**2,208**	**2,568**	**370**	**7,488**
Carrying amounts						
Balance at 1 July 2020	328	48	1,741	725	660	3,502
Balance at 30 June 2021	369	178	1,498	988	735	3,768
Balance at 30 June 2022	**345**	**111**	**2,251**	**1,137**	**676**	**4,520**

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 2020	***4,273***	***1,225***	***5,498***
Additions	20	-	20
Disposals	-	-	-
Balance at 30 June 2021	***4,293***	***1,225***	***5,518***
Additions	-	147	147
Disposals	-	-	-
Balance at 30 June 2022	**4,293**	**1,372**	**5,665**
Accumulated amortisation and impairment losses			
Balance at 1 July 2020	***4,129***	***269***	***4,398***
Amortisation expense	95	190	285
Elimination on disposal	-	-	-
Balance at 30 June 2021	***4,224***	***459***	***4,683***
Amortisation expense	10	250	260
Elimination on disposal	-	-	-
Balance at 30 June 2022	**4,234**	**709**	**4,943**
Carrying amounts			
Balance at 1 July 2020	144	956	1,100
Balance at 30 June 2021	69	766	835
Balance at 30 June 2022	**59**	**663**	**722**

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 2021/22 $000	Actual 2020/21 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,811	1,790
Income in advance	5,290	5,563
Accrued expenses	1,069	618
Total payables under exchange transactions	***8,170***	***7,971***
Current payables and deferred revenue under non-exchange transactions		
GST payable	1,002	717
Total payables and deferred revenue under non-exchange transactions	***1,002***	***717***
Total current payables and deferred revenue	**9,172**	**8,688**
Non-current payables and deferred revenue under exchange transactions		
Other payables	289	-
Total non-current payables and deferred revenue	**289**	**-**

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 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 2021/22 $000	Actual 2020/21 $000
Surplus/(Deficit) current year		(1,813)	2,001
Less: Surplus/(Deficit) transferred to/from memorandum account	15	(4,928)	384
Total provision for payment to the Crown		**3,115**	**1,617**

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, 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 2022. The salary inflation factor has been determined after considering Consumer Price Index.

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 $23,620 lower and $25,522 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 $30,035 higher and $28,264 lower respectively.

Breakdown of employee entitlements

	Actual 2021/22 $000	Actual 2020/21 $000
Current employee entitlements		
Salary and other accruals	2,394	2,253
Annual leave	4,369	4,252
Time off in lieu of overtime worked	156	295
Retiring leave	108	145
Sick leave	132	119
Total current employee entitlements	***7,159***	***7,064***
Non-current employee entitlements comprise:		
Retiring leave	530	596
Total non-current employee entitlements	***530***	***596***
Total employee entitlements	**7,689**	**7,660**

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 2021/22 $000	Actual 2020/21 $000
Audit and assurance services		
Balance at 1 July*	**(2,282)**	**(2,666)**
Revenue	93,618	95,545
Expenses	(98,546)	(95,161)
Surplus/(Deficit) for the year	***(4,928)***	***384***
Capital contribution	6,800	-
Balance at 30 June	**(410)**	**(2,282)**

* The opening balance at 1 July 2020/21 has been restated. See Note 1 for more information.

In 2021/22 we drew down capital contributions from the Crown of $6.800 million. $5.700 million was a non-repayable capital injection approved in Budget 2022 to address the increased time and non-recoverable costs of audits arising from Covid-19. $1.100 million was a repayable capital injection approved in Budget 2021.

Note 16: Reconciliation of cash flow statement 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 2021/22 $000	Actual 2020/21 $000
Net Surplus/(Deficit)	**(2,920)**	**2,001**
Add/(Less) non-cash items		
Depreciation and amortisation	1,569	1,270
Total non-cash items	***1,569***	***1,270***
Add/(Less) movements in working capital items		
(Increase)/Decrease in prepayments	61	(35)
(Increase)/Decrease in receivables	(1,117)	(1,745)
(Increase)/Decrease in work in progress	1,296	(1,355)
Increase in payables	1,046	248
Increase in employee entitlements	29	1,244
Total movements in working capital items	***1,315***	***(1,643)***
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	13	4
Total items classified as investing activities	***13***	***4***
Net cash flow from operating activities	**(23)**	**1,632**

Reconciliation of liabilities arising from financial activities

	2020/21	Cash flows	Non-cash changes	2021/22
Repayment of surplus to the Crown	1,617	(1,617)	3,115	3,115

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 2021/22 $000	Actual 2020/21 $000
Key management personnel remuneration ($000)	4,007	3,911
Full-time equivalent key management personnel	13	12

Key management personnel at 30 June 2022 comprised the Controller and Auditor-General, the Deputy Controller and Auditor-General, and the other 11 members of the OAG and Audit New Zealand Leadership Teams.

The other 11 members include a newly established position in 2021/22 of General Manager, Specialist Services. The new position leads the new Specialist Services Group, comprising our existing Information Systems Audit and Assurance and Specialist Audit and Assurance Services teams. An appointment to the position was made on 13 June 2022.

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 (2021: 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. Current creditors and other payables 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 2021/22 $000	Actual 2020/21 $000
Loans and receivables			
Cash and cash equivalents	7	8,623	3,884
Receivables	8	11,055	9,938
Total loans and receivables		**19,678**	**13,822**
Financial liabilities measured at amortised cost			
Payables		9,461	8,688
Total creditors and other payables	12	**9,461**	**8,688**

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 2021/22 budget figures (2021/22 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The overall deficit for 2021/22 was $1.813 million, compared to a deficit of $1.268 million budgeted in the Main Estimates. Revenue was $5.213 million higher than the Main Estimates and expenditure was $5.758 million higher. These increases primarily reflect more work completed and more fees earned 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 2022 were $0.464 million less than the Main Estimates. This reflects higher levels of annual leave and deferred revenue due to capacity constraints and the deferral of audits due to Covid-19. The increases in liabilities were offset by the receipt of capital contributions received during the year to address the deficit in the Audit and Assurance Services memorandum account plus a further contribution of $1.800 million for future investment in our Information Systems Strategic Plan.

Assets at 30 June 2022 were $7.972 million higher than the Main Estimates. This reflects higher cash levels from the receipt of the capital contributions noted above 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 2022 were $8.436 million higher than the Main Estimates. This reflects higher levels of income received in advance (including the repayment of surplus to the Crown) 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

There were no significant events after the balance date that required adjustment or disclosure in the financial statements.

(2021: 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.)

Independent auditor's report

PKF Goldsmith Fox
Audit
Chartered Accountants

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022

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) in the section *Our financial results* that comprise the statement of financial position, statement of commitments, and statement of contingent liabilities and contingent assets as at 30 June 2022, 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 2022 in the section *Our work*; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2022 in the section *Our appropriations*.

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 2022;
    - 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 2022:
    - 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 2022, 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 29 September 2022. 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 in the sections *Overview*, *Highlights*, *Our Capability* and the Appendices, but does not include the information we audited, and our auditor's report thereon.

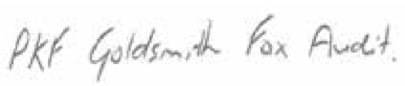
Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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 Limited
Christchurch, New Zealand

Dated: 29 September 2022

Appendices

Appendix 1
Report of the Audit and Risk Committee

The Audit and Risk Committee is an independent committee established by, and reporting directly to, the Auditor-General.

Members (1 July 2021 to 31 December 2021)	Members (1 January 2022 to 30 June 2022)
Warren Allen FCA, FCIS, MinstD, Chair Susie Johnstone BComm, FCA, CFInstD, CPP Greg Schollum, BMS, FCA Deputy Controller and Auditor-General	Warren Allen FCA, FCIS, MinstD, Chair Linda Robertson BComm, Dp.Bank, GAICD, INFINZ, FGNZ, CFInstD, CS, CGP Howard Fancy MComm(Hons), BSc(Hons) Chemistry 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 New Zealand);
- audit functions (both internal and external audit) 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 five 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 Te Ao Māori strategy;

- reviewed the various portfolio (team) updates;
- considered the Auditor-General's strategic priorities to the end of 2022, the Draft Annual Plan 2022/23, and investment (budget bid) update; and
- hosted online sessions with OAG to explain the role and the work of the Committee, and introduce the new members.

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

Warren Allen
Chair, Audit and Risk Committee

16 September 2022

Appendix 2
Report of the independent reviewer

1st July 2022.

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 2022

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 fix the fee payable 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 3,830 public entities in New Zealand, of which approximately 3,320 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 sector 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 seventh year that I have carried out this review.

This is my report on that review for the year ending 30 June 2022. I am a former partner and chairman of law firm DLA Piper New Zealand, and currently am a director of various entities, none of which are public entities. I consider that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit service providers (ASP).

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
> Fix and 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 service providers used by your Office.

The review undertaken for this report was not an audit of every decision made of which there are many. My review is based on a consideration of all the material issues which arose during the year based on a list made available by your Office. In addition to that I reviewed a random selection of other files and met with and received comments from two private sector audit service providers.

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.

COVID 19 impacts.

The year under review was dominated by the continuing impact of Covid 19 on the ability of all auditors, both in the public and private sector, to complete all audits on time. This was due to a combination of factors including the increased audit issues which arose as a result of Covid 19, the strain on entities themselves with additional work pressures, the absence of staff and the unavailability of off shore resources to assist in audit work. This led to a greater than usual workload over the sector in general coupled with a smaller work force to complete all audits in a timely way. This impacted on the audit resources of Audit New Zealand in a material way. The filling of positions for auditors to the school sector was also strained with many firms not having spare capacity to take on more work. It also led to the requirement to allocate a large number of audits from Audit New Zealand but in circumstances where the audit resources of the private sector ASPs was also limited. Overall I consider that your office has performed with credit to ensure that a credible audit performance was delivered over the public sector with no material objection to your new and changed appointments which were largely accepted by all entities.

Appointments for new entities.

In the last financial year, the Auditor-General appointed auditors for 29 new public entities including 8 schools and 21 non schools.

All of these appointments were made following the principles set out in the 'Allocation Model'. I reviewed a sample of 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.

Existing auditors were re-appointed during the last financial year to audit 2,370 public entities and their subsidiaries, (2,134 schools and 236 non schools), 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 in the non school sector.

In the year under review there were 59 new appointments made for existing entities in the non-school sector. This was a very significant increase from previous years and included those new appointments made as a consequence of the re-allocation of audits from Audit New Zealand. This was largely driven by the need to free up resources in Audit New Zealand by the re-allocation of some of its current audits to private sector providers to ensure that all public sector audits could be completed in a timely manner.

Following the identification of those audits of Audit New Zealand that could be best re-allocated, all major private sector providers were invited to express interest in taking on additional audits and were asked to confirm both availability of resource and independence.

Applying the principles of the Allocation Model, and considering the available resources of the private sector ASP's, recommendations were then made for new appointments by you. This was a dynamic and evolving process and took place in several tranches. Limited consultation was possible with the entities concerned.

There was no tender process undertaken.

I have reviewed the processes undertaken and the explanation given for each appointment. Nothing has come to my attention which would suggest that either the process undertaken or the decisions made were other than reasonable and appropriate in the circumstances. When the affected entities having a change of auditor were advised, the vast majority expressed no objection. In respect of the very small number who questioned the proposed change, I am satisfied that reasonable consideration was taken in confirming those appointments.

Appointment of school auditors.

The appointment of auditors to the school sector for the three year cycle for audits for the period ending December 2021 was completed in the current year. This is a very major project with approximately 2,450 schools and school related entities having to have an audit undertaken.

Completion of the appointments in the school sector was impacted by the overall pressures of Covid-19 referred to earlier, and was also made harder by the withdrawal from the sector of some existing ASPs and the request of some others for a reduced number of audits. Audit New Zealand does not currently undertake any school audits and it did not have the capacity to take any on.

There was no tender process undertaken.

Both existing and possible new ASPs were asked to record interest in taking audits and also to express a view as to appropriate audit fees. In general, material increases in audit fees were requested with several ASPs advising that if fees could not be increased, they would not be available to audit.

This led your Office to carry out a comprehensive review of what was a reasonable fee for a school audit. This was conducted on a general basis, a geographic basis and an individual basis for all schools. The end result of the review lead to your approval of significant fee increases. This amounted to about 12% for schools in the North Island and a 31% increase for schools in the South Island. I consider that these increases were both necessary and reasonable.

The appointment of auditors to all schools has now been completed. I have concluded from my review that the processes undertaken were appropriate and reasonable and were determined having due regard to the Allocation Model. I did not encounter any significant objection from schools either to the appointments made or to the new fees.

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-O-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, there continues to be consideration given to the practical application of those principles. I would encourage that work be completed soon and that the public document currently available, be updated.

I continue to support the use of the Allocation Model as an appropriate 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. I understand that the contestable process will continue to be used in individual cases where appropriate. I consider that with the work on the principles and practical application being 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 set the 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 and include 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 the 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.

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 there were a number of requests from auditors for an additional fee due to additional work requirements often as a result of Covid 19 but also other factors. You have given permission for auditors to directly discuss increases with the entities within certain limits without the need to first obtain your consent. I consider that this additional flexibility to be reasonable.

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.

Other issues.

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 processes of the OAG regarding both appointments and fee setting and monitoring. On the basis of that review and the explanations provided, nothing has come to my attention which would impact on my conclusion 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
Work published in 2021/22

During 2021/22, we published 50 products. That is about 40% higher than the previous year.

Major inquiries
Inquiry into management fees paid by South Auckland Middle School and Middle School West Auckland in 2018
Inquiry into the Ministry of Social Development's funding of private rental properties for emergency housing
Inquiry into the Strategic Tourism Assets Protection Programme
Other inquiry work
Decision to fund Kahukura Rehabilitation Programme from the Proceeds of Crime Fund
Koha from the Chief Human Rights Commissioner to the Waikato Mongrel Mob
The Ministry of Health's procurement of a national immunisation system
Response to concerns about the Ministry of Health's procurement for Covid-19 saliva testing services
Analysis of activity on the Prime Minister's Facebook page
Queenstown Lakes District Council – Development of Lakeview land
Masterton Civic Facility Project
Response to letter about Rapid Antigen Tests
Letter to Hon Jacqui Dean MP about Jobs for Nature reporting
Performance audit work
Getting it right: Managing conflicts of interest involving council employees
The Government's preparedness to implement the sustainable development goals
Implementation of recommendations – Management of the Wage Subsidy Scheme
Implementation of recommendations – Preparations for the nationwide roll-out of the Covid-19 vaccine
Governance of the City Rail Link project
Improving value through better Crown entity monitoring
Other published work
Results of our 2019/20 audits of port companies
District health boards: Main findings from the 2019/20 audits
Experiences of the family violence system in Aotearoa: An overview of research 2010 to early 2020
Controller update: What do you know about Supplementary Estimates?
Setting and administering fees and levies for cost recovery: Good practice guide
Controller update: September 2021
Building a stronger public accountability system for New Zealanders
Our observations on local government risk management practices
The problems, progress, and potential of performance reporting

Other published work
Completeness of Budget estimates information
Submission on the Local Government (Pecuniary Interests Register) Amendment Bill
Results of the 2020 school audits
Consulting matters: Observations on the 2021-31 consultation documents
Observations from our central government audits: 2020/21
Tertiary education institutions: Main findings from our 2020 audits
Budget announcement on infrastructure spending
No financial interests in Hood Aerodrome decision
Commentary on He Tirohanga Mokopuna 2021
Controller update: July to December 2021
Submission on the Pae Ora (Healthy Futures) Bill
Submission on amendments to the Code of Ethics for Non-Assurance Services
Tertiary education institutions: What we saw in 2021
Response to a letter about spending on mental health and addiction services
Managing conflicts of interest in procurement
Good practice in reporting about performance
Enhancing public reporting on Covid-19 related funding and expenditure
Council communications during the 2022 pre-election period
Setting rates: Potential issues for councils to watch for
Putting integrity at the core of how public organisations operate: An integrity framework for the public sector
Corporate publications
Annual report 2020/21
Draft annual plan 2022/23
Annual plan 2022/23
Published on our website – responses to our recommendations from audited organisations
Responses to our recommendations about monitoring water used for irrigation
Follow-up on audit of Benefits Management for the Business Transformation Programme
Response to our recommendations about maintaining state highways
Response to our recommendations about implementing the firearms buy-back and amnesty scheme

Appendix 4
Progress against our 2021/22 work programme

For each item listed in Appendix 3 of our Annual plan 2021/22, we provide the published title and publication date or provide an update.

Planned work	Published title or current state	Publication date
Understanding the all-of-government response to Covid-19	Planned to be completed in 2022/23	
Case studies on public sector business continuity planning in response to Covid-19	Cancelled We intended to do this work if there was capacity. The impact of Covid-19 meant we cancelled this work to divert our resources to other priorities	
Further work on the Government's roll-out of the national Covid-19 vaccination programme	Planned to be completed in 2022/23	
Wage Subsidy Scheme follow-up	*Implementation of recommendations – Management of the Wage Subsidy Scheme*	21/12/21
Vaccine roll-out follow up	*Implementation of recommendations – Preparations for the nationwide roll-out of the Covid-19 vaccine*	10/03/22
Understanding how well the public sector is delivering the outcomes that matter for Māori	Planned to be completed in 2022/23	
Māori perspectives on public accountability	*Commissioned report: Māori perspectives on public accountability*	21/07/22
Whānau Ora: What has been achieved?	Planned to be completed in 2022/23	
Family violence and sexual violence: How well are agencies working together and with the non-government sector to deliver services to address family violence and sexual violence?	Planned to be completed in 2022/23	
Effectiveness of Te Tūāpapa Kura Kāinga Ministry of Housing and Urban Development's leadership of the housing and urban development system	Planned to be completed in 2022/23	
Planning of significant housing and urban development projects	Planned to be completed in 2023/24	
How the Ministry of Education is using information to address educational disparities	Planned to be completed in 2022/23	

Planned work	Published title or current state	Publication date
Effectiveness of investment in mental health services	Planned to be completed in 2022/23	
Health system leadership and sustainability	*District health boards: Main findings from the 2019/20 audits*	20/07/21
Making performance reporting more effective	*The problems, progress, and potential of performance reporting*	28/10/21
Landscape of the public accountability system: Second report	*Building a stronger public accountability system for New Zealanders*	21/10/21
Commentary on the Treasury's statement on the government's long-term fiscal position and insights briefing	*Commentary on He Tirohanga Mokopuna 2021*	15/03/22
Progress towards implementing the United Nations' 17 sustainable development goals	*The Government's preparedness to implement the sustainable development goals*	31/08/21
Local government risk management: Stocktake of approach and reporting results	*Our observations on local government risk management practices*	26/10/21
Climate change and local government	Rescoped, now planned to be completed in 2023/24	
Completion of integrity framework and guidance	*Putting integrity at the core of how public organisations operate: An integrity framework for the public sector*	22/06/22
Looking at integrity processes in central government	Planned to be completed in 2022/23	
Monitoring progress: Operation Respect (New Zealand Defence Force)	Planned to be completed in 2022/23	
Getting it right – Managing conflicts of interest involving council employees	*Getting it right: Managing conflicts of interest involving council employees*	05/08/21
Governance of the Auckland City Rail Link programme	*Governance of the City Rail Link project*	28/06/22
Provincial Growth Fund: Reset of the Provincial Growth Fund and reprioritisation of investments	Planned to be completed in 2022/23	
Systems and processes underpinning government decisions on major infrastructure investment	Planned to be completed in 2022/23	
Public sector accountability to communities	Planned to be completed in 2022/23	
Central government: Results of the 2020/21 audits	*Observations from our central government audits: 2020/21*	14/12/21
Auditor-General's quarterly updates for chief executives and Audit and Risk Committee Chairs	Completed The quarter 4 update was published in July 2022	N/A

Planned work	Published title or current state	Publication date
Results of the 2020 school audits	*Results of the 2020 school audits*	06/12/21
Results of the 2020 audits of tertiary education institutions	*Tertiary education institutions: Main findings from our 2020 audits*	15/12/21
Results of the 2020 audits of tertiary education institutions	*Tertiary education institutions: What we saw in 2021*	14/04/22
Results of the 2020/21 district health board audits	Completed Letter to the Chief Executive of Te Whatu Ora Health New Zealand summarising the 2020/21 audits of District Health Boards	19/07/22
Local government: Results of the 2020/21 audits	Planned to be completed in 2022/23	
Main matters arising from our audits of councils' 2021-31 long-term plan consultation documents	*Consulting matters: Observations on the 2021-31 consultation documents*	08/12/21
Main matters arising from our audits of councils' 2021-31 long-term plans	*Matters arising from our audits of the 2021-31 long-term plans*	27/07/22
Half-year Controller update	*Controller update: July to December 2021*	17/03/22
Auckland landscape scan	Planned to be completed in 2022/23	
Auckland Council review of service performance (topic to be confirmed)	Planned to be completed in 2023/24	
Auckland Council review of service performance – disaster resilience and preparedness	Planned to be completed in 2022/23	
Helping to support the effectiveness of audit and risk committees	Completed We supported audit and risk committees by providing four central government forums, three local government forums, and one joint local government/central government forum	N/A
Support material for new audit and risk committee chairpersons	Completed We engaged more extensively with audit and risk committees during 2021/22, including 64 briefings to audit and risk committees with material outlining the Office's key areas of interest and good practice guidance – for example, performance reporting. We intend to issue new audit and risk committee chairpersons with our updated audit and risk guidance material once it is finalised	N/A
Review of good practice guidance: Audit and risk committees	Planned to be completed in 2022/23	
Review of good practice guidance: Public sector purchases, grants and gifts: Managing funding arrangements with external parties	Review has been deferred A high-level review of the guidance found the principles were still relevant. Therefore, carrying out this work was no longer considered a priority	N/A

Planned work	Published title or current state	Publication date
Review of good practice guidance: Charging fees for public sector goods and services	*Setting and administering fees and levies for cost recovery: Good practice guide*	26/08/21
Sharing good practice: Performance reporting	*Good practice in reporting about performance*	26/04/22
Sharing good practice speaker series	Completed We hosted three good practice speaker events	N/A
Understanding performance and supporting the role of monitoring agencies	*Improving value through better Crown entity monitoring*	29/06/22

Murray makes his own guitars and plays one when he leads our waiata group (1 of 10).

Appendix 5
Report on the quality of annual audits

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 on his behalf. These auditors are appointed from Audit New Zealand (the Auditor-General's in-house audit service provider) and about 25 private sector audit firms. There are about 150 auditors with the authority to audit and issue audit reports for the public organisations they are appointed to audit.

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

- the independence of auditors appointed to carry out audits;
- the application of the Auditor-General's auditing standards by auditors;[1] and
- the quality of the work that auditors carry out.

Our system of quality

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

- Leadership responsibilities.
- Ethical requirements.
- Human resources.
- Carrying out audit work.
- Monitoring the quality of audit work.

We report on the processes, policies, and procedures that support each element of audit quality as it applies to the Office of the Auditor-General, Audit New Zealand, and other audit service providers that carry out audits on behalf of the Auditor-General. We also include quality indicators, which measure performance for 2021/22.

Leadership responsibilities

Our governance and reporting structure contributes to audit quality

The Auditor-General is responsible for the system of quality for all audits carried out on his 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 normally meets six times each year and its remit includes:

- monitoring the strategic and operational risks associated with audit quality;
- monitoring the operating effectiveness and efficiency of the quality framework against the audit quality indicators;

1 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 professional and ethical standards specific to independence and audit quality.

- monitoring the findings of internal and external reviews of audit quality; and
- monitoring progress in addressing the findings and recommendations made in internal and external reviews.

The committee met five times in 2021/22, due to one meeting being cancelled.

Our Audit and Risk Committee also provides independent assurance and advice to the Auditor-General. See Appendix 1 for a report from the Committee.

Our values emphasise audit quality

Our values guide us to carry out our audit work objectively and impartially. We have systems, processes, and controls that set high standards of independence and quality. These work together to ensure accountability for quality is clear throughout our organisation.

We obtain independent views about audit quality

As well as our internal monitoring of audit quality, we obtain external independent views about audit quality. The Financial Markets Authority reviews audit files of public organisations operating in capital markets, including some public sector organisations audited by private sector audit firms. We also periodically invite the Financial Markets Authority and the New Zealand Institute of Chartered Accountants Practice Review Group to carry out quality reviews of Audit New Zealand. Both organisations were invited to carry out their reviews of Audit New Zealand in 2022.

The Financial Markets Authority reviewed both the system of quality control and a sample of audit files. The report identified only low-rated findings about the system of quality control. It also identified medium and low-rated findings for the sample of audit files – this means that there is nothing that would change the audit reports that were issued. However, there are matters where we can continue to improve our systems and processes.

The New Zealand Institute of Chartered Accountants Practice Review Group reviewed a sample of audit files. We are awaiting their final report.

All findings and comments in the reports will be assessed in detail to identify improvements that can be made to our system of quality control and to the training provided to auditors.

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. Professional and ethical standards require auditors to be independent of the organisation they are auditing. The Auditor-General’s auditing standards, which incorporate these professional and ethical standards, set a high standard for independence (both of mind and 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 issued by the External Reporting Board to the extent there is not a conflict with the Auditor-General’s legislated mandate and responsibilities. The Auditor-General’s standard goes further than the External Reporting Board's standard by restricting the work auditors can carry out for an organisation they audit to work of an assurance nature. This reflects the Auditor-General’s view that independence is fundamental to a high-quality public sector audit.

We monitor compliance with audit independence requirements

We monitor compliance with the Auditor-General’s auditing standard on independence in several ways.

For staff, including Audit New Zealand, the work that can be done is limited by the Public Audit Act 2001. The independence of those involved in annual audits is closely monitored, 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 public organisations they audit on behalf of the Auditor-General. We also pre-approve or decline work they propose carrying out that could cause people to question their independence. We consider independence as part of our quality assurance review program for annual audits.

For 2021/22, we were satisfied that independence standards were upheld.

We monitor how long key staff audit the same public organisation

The Auditor-General's auditing standards limit the number of years that key audit staff can carry out the annual audit on the same public organisation. This is to safeguard against the threat to independence that might 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 before being taken off that audit.

For 2021/22, we complied with the Auditor-General's standard.

Human resources

All audits are allocated either to Directors in Audit New Zealand or to partners in private sector audit firms. Therefore, recruiting, hiring, retaining, and promoting qualified audit staff is performed by audit service providers. 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.

Based on our quality assurance reviews for 2021/22, we were satisfied with the skills and experience of staff allocated to audits.

Carrying out 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. This typically results in multiple levels of review of audit files. Auditors carry out audits based on the Auditor-General's auditing standards and requirements and guidance provided by the Office in an audit brief.

In 2021/22, we revised our standard for when we require an engagement quality review. The changes were made to reflect new quality standards. We require our auditor service providers to consider a wide range of quality risk factors as part of assessing whether to appoint an engagement quality reviewer. The intent of these changes is to better assess and respond to risks to quality.

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

The Auditor-General's auditing standards require auditors to consult with the Office on specific matters that could result in a non-standard 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 opinions and other matters to be highlighted in audit reports. For 2021/22, the Committee met 40 times.

We analyse the matters considered by the Committee and communicate them to auditors so they can be aware of them during 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 previous year's financial statements or performance information. If known at the time, this would have resulted in changes to the financial statements or performance information or a qualification of the 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 in financial information 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.

During the past year, there were 48 errors reported to us. This is compared with 31 in 2020/21. This represents 1.7% of the total number of audit reports issued in 2021/22, compared with 0.9% in 2020/21. Most of the errors were for local authorities, council-controlled organisations, and State-owned enterprises. Most of the previous period adjustments related to differences in accounting policies between the group entity and the parent entity.

We investigate these matters to establish why the error was not identified during the audit and whether improvements can be made for future audits.

The errors included misclassification between financial statement line items, which did not affect the reported surplus or deficit, as well as non-compliance with generally accepted accounting practice. There was no common theme in non-compliance.

We also incorporate the findings of our analysis in our future quality assurance reviews.

We have engagement quality review for complex and high-risk audits

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

An engagement quality review provides an objective evaluation of the significant judgements made by the auditor and the conclusions reached before the auditor signs the audit opinion.

We assess compliance of an engagement quality review as part of our quality assurance reviews, including evidence that the review met the requirements of the standard. For 2021/22, we were satisfied, based on our quality reviews, that all audits that required an engagement quality review had one.

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 ethical standards.

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

In 2021/22, we monitored 34 auditors (2020/21: 44 auditors). 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 2021/22 included:

- annual quality assurance reviews of 79 completed audits; and
- real-time quality assurance reviews of six in-process audits.

Of the 85 audit files reviewed, we identified 14 that required improvement. There were no issues that put into question the appropriateness of the opinion included in the audit report. We will monitor the remediation of the issues found or perform further quality assurance reviews of audits carried out by that auditor.

A high number of findings from quality assurance 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 any repetitive issues. We ask our auditors to carry out root cause analysis for repetitive issues to understand the underlying drivers of quality issues and address them with targeted action plans.

Issues for which we want audit improvement include procedures to test fair value and other estimates, evaluate the design of internal controls for information technology systems, assess completeness of revenue, and test performance information.

How we determine the cause of quality assurance review findings

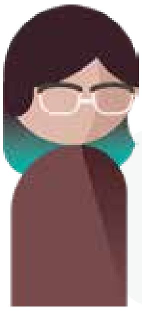
We ask audit service providers to perform root cause analysis for the significant findings from our quality assurance reviews. Such analysis provides a deeper understanding of improvements that are needed, including improvements to audit methodologies. By gaining a deeper understanding of the drivers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

We are monitoring the planned interventions that audit firms are implementing to help prevent these recurring.

How we assess timely and effective remediation of quality assurance review findings

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

We require our auditors to remediate all significant issues and, where necessary, make changes to the audit approach for subsequent audits. For 2021/22, auditors are responding to our quality assurance review findings and remediating where necessary. Our follow-up to assess remediation will also occur as part of our 2022/23 quality assurance review programme.



As well as being a great Executive Co-ordinator, Eden is a qualified special effects and makeup artist for award-winning films (8 of 10).

About our publications

All available on our website

The Auditor-General's reports are available in HTML and PDF format on our website – www.oag.govt.nz. We also group reports (for example, by sector, by topic, and by year) to make it easier for you to find content of interest to you.

Our staff are also blogging about our work – see blog.oag.govt.nz.

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