CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

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Annual report 2023/24

Photo acknowledgement:
Chris Tse, Office of the Auditor-General

Annual report 2023/24

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

About this annual report

This 2023/24 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 2023 to 30 June 2024. 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 | 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.

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 2024 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 2025 and its operations for the year ending on that date.

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

30 September 2024

Aaron Crookston
Chief Financial Officer

30 September 2024

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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 2023/24. This is my final annual report as Auditor-General.

The Auditor-General role is fundamental to supporting strong public sector governance, value in public spending, and transparency and accountability of government activities. In a world where trust in governments is increasingly challenged, the role of a watchdog independent of government and focused on ensuring that our system of public management operates with integrity is, in my view, as critical now as it has ever been – perhaps more so.

Ensuring that Parliament and the public have the information they need to understand what has been achieved through public spending and whether public organisations have operated with integrity is vital to trust. My Office plays a key role in assuring reporting done by public organisations and in helping Parliament and the public to understand whether those organisations are operating in a way that is effective, efficient, and accountable.

Although we maintain a public profile, much of what we do happens outside the public gaze. Every day my auditors will be in public organisations assessing systems and controls, considering reporting, and making recommendations for improvements. We look at questions of performance and value and look into matters where we have concerns about the use of public resources or integrity. We regularly brief select committees in both public and private sessions. We issue good practice, run seminars, and provide other guidance to help public organisations improve.

It is in this context that I reflect on our performance this year and the ongoing role of my Office in supporting trust in government.

This year's annual report shows that my Office is well positioned to deliver our work supporting the role of Parliament and the public to hold public organisations to account for their performance. Public sector audit is moving to a more sustainable footing. Our performance audits and inquiries continue to have significant impact on matters of importance to New Zealanders. Despite the pressures on public organisations, they are generally wanting to make improvements in response to our findings and recommendations. Our work continues to be held in high regard with Parliament, our stakeholders, and among the international audit community.

Public sector audits

Annual audits form over 85% of my Office's work. They give Parliament and the public assurance over public organisations' financial and performance information. Audits also help to improve public organisations' performance by considering their performance frameworks and reporting, and by providing recommendations to improve their systems and controls.

The impacts of Covid-19 on audit delivery have been extensively covered in my previous annual reports. I am pleased that we maintained audit quality through the challenging Covid-19 years and are now back on track with the timely completion of our larger audits. However, completing audits of small organisations on time, particularly school audits, is not yet where it should be and remains a challenge.

There have been a number of changes affecting the central government sector, including structural reforms in health and education that have affected the size and shape of some of the organisations we audit, and more recently the need for public organisations to adjust to a new government with new priorities. Although changes of these kinds can put organisations under pressure and risks them not being adequately prepared for the audit, I am pleased to say that we completed all our audits of critical central government organisations on time.

There is also considerable complexity and uncertainty in the local government sector. Many councils were challenged to meet community expectations for service delivery while managing difficult choices on rate and debt levels. Alongside our annual audit work, we worked closely with councils to audit their three-yearly long-term plans where councils engaged with their communities on these complex issues.

This year we completed a review of Audit New Zealand, my in-house audit service provider. This was to ensure that it remains a modern, sustainable, and resilient audit practice. Audit New Zealand's audit capacity has been rebuilt, including through international recruitment and the development of an international secondment programme. Financial performance is on track, and new technologies to support modern audit practices are being implemented. In the next year, we will continue this work and also reset Audit New Zealand's audit portfolio to best match its capability, particularly in core public sector audits.

Making a difference

As well as the hundreds of improvement recommendations that are implemented as a result of our annual audits, we have also highlighted wider areas for improvement.

For example, our performance audit on decision processes for the New Zealand Upgrade and Shovel-Ready programmes highlighted decision-making that was not transparent and inadequate public reporting, given the scale of the investments being made. Our inquiry into how Callaghan Innovation carried out a procurement process raised concerns about fairness and how a significant conflict of interest was managed.

Raising the profile of these issues is an important part of our work; so is influencing improvements. This requires Ministers, governors, and other public sector leaders to learn from our work and implement our recommendations as appropriate. Although we sometimes find recurring issues, we are also pleased that our follow-up work often identifies good progress against the recommendations we have made.

Many of our reports' recommendations are acted on almost immediately. For example, our review of vote counting errors in the 2023 General Election identified counting and control issues that the Electoral Commission is now addressing. Our performance audit of how importers of high-risk foods are monitored prompted the Ministry for Primary Industries to consult on a new food importer levy to support increased monitoring.

Although we can encourage organisations to act on our recommendations, it is ultimately up to Parliament's select committees to hold them to account. Changes to Standing Orders have strengthened select committees' ability to scrutinise the performance of the public sector. These are important changes and ones that I consider have the potential to lead to a substantial improvement in public sector accountability and performance over time. Alongside our regular advice to committees as part of the scrutiny process, we have also supported new initiatives such as structured hearing agendas, in-depth briefings, and scrutiny planning for the term of this Parliament.

We also continue to provide advice and submit on legislative matters that are relevant to audits and accountability, including the recently proposed Fast-track Approvals Bill.

Accountability to New Zealanders for performance

Over my term, I have put particular focus on performance reporting and on performance measurement more generally. Government spending is about one third of New Zealand's GDP, and New Zealanders have a right to know what is being achieved with their taxes.

In my view, the ability of the public sector to report clearly, honestly, and comprehensively on the issues that matter underpins trust in government. Although pressure from Parliament and the public can help improve the quality of reporting, I consider that legislative changes to the Public Finance Act are required to create substantive and enduring change. I was therefore pleased to see in the Finance and Expenditure Committee's scrutiny plan that it is planning an inquiry on this matter in 2025.

Outreach

While our annual audits look back at organisations' performance, another role of the Office is to share good practice to help organisations to make sound decisions and report accurately in the first place.

We continued to run regular seminars for audit and risk committee chairpersons, present publicly on our work, provide regular newsletters on topical issues, and brief management teams and governors. Our integrity framework and suite of integrity resources have been welcomed by public organisations, and we will continue to issue guidance and provide support in these and other areas in 2024/25.

We also hosted our first annual Integrity Day for public sector leaders. This day featured experts in integrity from New Zealand and overseas. Public sector leaders are often navigating in uncharted waters, especially during crises. Seminars such as these, together with our principles-based good practice material, are aimed at helping them navigate with integrity in the many ambiguous situations they face.

Supporting development in the Pacific region

The Auditor-General of New Zealand is also the Secretary-General of the Pacific Association of Supreme Audit Institutions. This group includes 30 auditors-general from across the Pacific. It plays an important role in developing capability in supreme audit institutions (SAIs) in the region.

There has been considerable progress in the Pacific, including in supporting collaborative performance audits on critical climate-related issues and progressing the financial statement audits of their governments. We also continue to support our twinned SAIs in Samoa and the Cook Islands through technical support and advocating for stronger audit independence.

The New Zealand Auditor-General is also the Auditor-General of Niue and Tokelau. I am pleased that after several years in arrears, substantial progress has been made this year to bring these audits up to date and regularise them for the future.

An Office of the Auditor-General for a 21st century New Zealand

To be relevant, my Office must ensure that it reflects the country it serves and that it is both effective and efficient.

We want both Treaty partners to trust the Office to help Parliament hold the public sector to account for its performance. I have established a rōpū Māori to provide advice to me, we have expanded our work that highlights matters of concern and interest for Māori communities, and we continue to develop our thinking on integrity in an ao Māori context. I see this as important foundational work for the Office.

A further foundation is ensuring that we have a modern technology environment. A new audit management tool is being implemented in Audit New Zealand, and all of our audit service providers are benefitting from a new audit management portal. Our data and analytics function is increasingly delivering new insights on public sector performance and identifying new tools to support more efficient audits. These investments are the foundation for more efficiency and insights from the Office.

Audit fees and the sustainability of public sector audits

Audit fees have been constrained for too long, despite significant price and regulatory pressures on audit firms. We have been taking the necessary steps to make sure that public sector audit fees recover the true costs of audits and allow for reinvestment in the capability and capacity of audit service providers. This is essential to maintaining the sustainability of public sector audits.

We have also been increasing the transparency of fees and working with public organisations on ways to increase audit efficiency. Although we recognise that both local and central government organisations are under various pressures, readiness of the audited organisation remains the key to an efficient audit.

Alongside audit fees, we will also need to confront the broader challenges facing the audit profession. Issues include fewer graduates in accounting-related disciplines from New Zealand universities, ethical failures internationally in the large firms which undermine the way the profession is perceived by the public, and finding ways to ensure that work-life balance can be provided to staff. As I said earlier, trust is fragile, and I am concerned that the profession risks losing its brand for quality and integrity because of these issues.

Continued failings in the profession will ultimately reduce trust in public sector audits. My Office will continue to reinforce the critical importance of independence to the integrity of public sector auditing.

Thank you

I thank my staff and audit service providers for delivering quality work that benefits Parliament and the public. New Zealand has a well-deserved international reputation for integrity in public life, and robust independent auditing protects that reputation.

I also acknowledge staff in all public organisations for their constructive engagement with my Office and their desire to improve performance for the public they serve, despite the many pressures and constraints they face.

Finally, I thank Parliament for its deep interest in and support for the Office's work.

Nāku noa, nā

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

30 September 2024

Our year in numbers

3140

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

40

Publications, including reports presented to Parliament, articles, letters, submissions, guides, and follow-up work.

148

Briefings given to select committees to help them scrutinise the performance of public organisations.

145

Letters on audit findings sent to Ministers.

542

Recommendations implemented by large public organisations to improve systems and processes.

32

Events hosted, including ARC chairperson forums and events for public sector leaders.

1712

Mentions of the Office and our work in mainstream media.

100%

Satisfaction of select committee chairpersons.

8 cents

Spent on assurance for every $100 spent by public organisations.

Our work through 2023/24

July

Submission on the Water Services Entities Amendment Bill

August

Commentary on Te Tai Waiora: Wellbeing in Aotearoa New Zealand

Leading New Zealand's approach to housing and urban development

Getting it right: Supporting integrity in emergency procurement

September

Financial Statements of Government audit completed

October

Reporting on the public sector's performance in Tāmaki Makaurau Auckland

Transport sector: A case study of sector-level performance

592 local and central government audits completed

November

December

Results of the 2022 school audits

Observations from our central government work in 2022/23

Inquiry into Callaghan Innovation's procurement process

Results of the 2021/22 council audits

Making infrastructure investment decisions quickly

145 letters to Ministers on the findings of our audits

January

Local government planning and reporting on performance

28 energy distribution board audits completed

February

Public Sector Integrity Day

Meeting the mental health needs of young New Zealanders

Monitoring importers of specified high-risk foods

March

38 tertiary education audits completed

85 annual review briefings

April

Submission on the Fast-track Approvals Bill

May

PASAI 10-year strategy

General Election 2023: Independent review of counting errors

Strengthening government procurement: Lessons from our recent work

Regional councils' relationships with iwi and hapū for freshwater management – a follow-up report

36 council long-term plan audits completed

June

Tertiary education institutions: 2022 audit results and what we saw in 2023

63 Estimates briefings

1705 school audits completed

What went well in 2023/24

We returned the timeliness of large audits to pre-pandemic levels

We are back to pre-pandemic timeliness levels with the annual audits of large public organisations, having completed 86% on time this year.

We audited council long-term plans

Amid significant uncertainty and challenges for the local government sector, which affected the content of councils' planning, the timing of some plans, and their readiness for audit, we completed audits of 36 council long-term plans.

We made significant progress on ensuring the sustainability of Audit New Zealand

We have positioned Audit New Zealand for the future by implementing a successful recruitment programme and a programme of audit practice management improvements. We also started to move to more sustainable audit fees. Audit New Zealand is on track financially, and will now start to increase its audit workload over the next three years through the allocation of new audits.

We helped Parliament implement its improvements to scrutiny

In response to changes to Standing Orders, we increased our support to select committees to help them improve their scrutiny of public organisations. Feedback indicates that our support and advice were valued highly by committee members.

We introduced new, improved ways of doing our work

We took a fresh approach to our work, including carrying out our first "rapid audit" (for which we received a Performance Audit Innovation Award from the Australasian Council of Auditors-General) and hosting our inaugural Public Sector Integrity Day.

We introduced new technologies

We introduced a new audit management tool for Audit New Zealand and a new audit management portal for managing our overall audit portfolio.

We increased our impact in the Pacific

We made a significant contribution to strengthening public sector accountability, transparency, and good governance in the Pacific region. This included working with the Pacific Association of Supreme Audit Institutions (PASAI) to develop a new 10-year strategy, supporting our twinned SAIs in the Cook Islands and Samoa, and making progress on regularising the audits in Niue and Tokelau.

What did not go well in 2023/24

Trust in public services has declined

Although New Zealand does well when compared globally on measures of trust, there are indications that trust in public services has declined. The results of the most recent Kiwis Count survey shows a decline in the levels of public trust in public services, and Māori, Pacific, and disabled respondents continue to have lower trust levels than other groups. In 2023, New Zealand scored its lowest score on the Corruption Perceptions Index since 1995. Although the Office does not directly control levels of trust and is only one of many organisations that seek to influence trust, this shift is one we will continue to monitor.

We did not complete all mandatory audits on time

Some audit opinions were signed late. The late signing of audit opinions for large organisations was mainly due to organisations not being ready for the audit. For smaller organisations, the late signing of audit opinions was mainly due to the availability of auditors. It remains a challenge to complete our audits of smaller organisations in a timely manner, including audits of schools.

Some of our discretionary work has been delayed

We did not meet our timeliness measures across our whole work programme, with 11 items of work originally planned to be completed this year moving into 2024/25 (see Appendix 3). Some of the deferrals were because of changes outside of our control, while others were due to our internal quality processes taking longer than planned.

Some of our letters to Ministers on annual audits were delivered later than normal

The flow-on effects of some audit delays, coupled with the delay in appointing new Ministers after the General Election, affected the timeliness of some of our letters to Ministers.

Our reporting still has some gaps

Although we reduced our carbon emissions, we did not establish reduction targets as we intended. We were also unable to develop an indicator for Outcome 2 (*A high-performing public sector*). In both cases we had concerns about the data underlying the work. We were also unable to establish a consistent approach to measuring our own integrity, mainly due to competing resource pressures. Work continues in these three areas.

Overview of our performance

We consider performance at three levels: outcomes (which are long-term, complex, and subject to many influences), impacts (which are the desired effects of our work), and services (which are what we deliver directly). This overview is structured according to the three levels and the assessments are based on the results of the set of indicators in each category. See Part 5 to read more about each individual indicator.

The outcomes we seek	2023/24	Change from 2022/23
1. Parliament and New Zealanders have trust and confidence in the public sector	**Not achieved**	↓
2. A high-performing public sector	**Not assessed**	–
3. An accountable public sector	**Not achieved**	↓

Our intended impacts	2023/24	Change from 2022/23
1. Parliament provides effective scrutiny of the public sector	**Achieved**	–
2. New Zealanders are better informed about the performance and accountability of the public sector	**Achieved**	–
3. The public sector improves its performance and accountability	**Partially achieved**	–

Our services	Measurement	2023/24	Change from 2022/23
1. Provide advice and support for effective parliamentary scrutiny	Timeliness	**Not achieved**	–
	Quality	**Achieved**	–
2. Monitor spending against parliamentary appropriations (our Controller function)	Quantity	**Achieved**	–
	Timeliness	**Achieved**	–
3. Audit information reported by public organisations about their performance	Quantity	**Increased**	↑
	Timeliness	**Not achieved**	–
	Quality	**Partially achieved**	–
4. Carry out inquiries into matters of public interest	Quantity	**Decreased**	↓
	Timeliness	**Achieved**	–
	Quality	**Not assessed**	–
5. Assess public sector performance and accountability	Quantity	**Increased**	↑
	Timeliness	**Partially achieved**	–
	Quality	**Achieved**	–

Notes: For indicators that have targets, the assessments are: *Achieved* – all targets are met / *Partially achieved* – some targets are met, some are not met / *Not achieved* – no targets are met / *Not assessed* – the indicators are not required to be assessed or the relevant information is not available.
For quantity indicators that do not have targets, the actual quantities are compared with the previous year and the assessments are: *Increased / Maintained / Decreased*.
The change for each category is assessed by comparing the previous year's achievement against targets. For quantity indicators without targets, the change is change in quantity.

Our strategic direction

In 2023, we published *The Auditor-General's strategic intentions to 2028*. It sets out what we want to achieve and the outcomes we are working towards. Our strategic intentions are informed by the *Auditor-General's mid-term review* and build on the foundations set out in the *Auditor-General's strategic intentions to 2025*.

Our focus over the next four years is to:

- strengthen our core assurance role to ensure that the public audit system is sustainable over the long term;
- increase our impact with public organisations by influencing positive change in their performance and accountability practices;
- enhance our impact in te ao Māori to help Parliament and the public hold public organisations to account in a way that iwi, hapū, and whānau Māori, as well as Parliament and the wider public, have trust and confidence in; and
- build on our reputation as a source of trusted information about public sector performance and accountability.

The progress we have made on our strategic priorities is described in the performance results for the services we deliver (see *Our services* in Part 5). We also describe the main areas we have focused on to improve our organisational capability.

Our *Annual plan 2023/24* set out our discretionary programme of work for the year. In this report, we describe our progress against that annual plan (see Appendix 3).

The key strategic risks we manage

Our key strategic risks are:

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

We actively manage these risks through the processes that support our work. This includes having an Audit and Risk Committee, which provides advice on risk and how to mitigate it. See Appendix 1 for the Committee's report for the year ended 30 June 2024.

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Our core assurance functions

Audit delivery

Annual audits play a crucial role in enhancing trust in how public organisations spend money and what they achieve with that money.

The Auditor-General is responsible for auditing every public organisation in New Zealand (about 3300) each year. These annual audits represent over 85% of the Office's work, and they are generally funded by fees charged to the organisations we audit. There are 131 organisations that spend more than $750 million every year or have assets of more than $500 million, which we call large organisations.

Completing annual audits on time is a longstanding challenge that was exacerbated by the Covid-19 pandemic, which both limited the supply of auditors and reduced the readiness of many organisations for the audit.

Timely completion of audits is getting back on track but is still a challenge. For example, 22 out of 78 councils did not have their 2022/23 audit opinions signed by the deadline. This is an improvement on 2021/22, where 35 councils were late despite a two-month extension to the deadline. Similarly, 79% of central government organisations had their 2022/23 audits completed on time, compared to 65% of their 2021/22 audits.

We are improving our timeliness with large public organisations (86% completed on time this year, up from 74% in 2022/23), with delays in audit completion largely due to the organisation not being ready for the audit. As noted above, audit readiness was a particular issue for councils, even some large councils. We also reduced the number of audit reports in arrears at 30 June 2024 by 151 compared to previous years, and this is a sign of progress.

However, overall timeliness is at 59%, an improvement from last year's 55% but still below our target. This is because completing the annual audits of smaller organisations remains challenging.

Within the group of smaller organisations, schools are particularly affected. Addressing the challenge with the timely completion of school audits will require increasing the number of school auditors and ensuring that those auditors are appropriately remunerated. We have discussed with the Ministry of Education the possibility of changing the scope or other requirements in the long term, but work on this has not yet started.

The quality of our audit work remains high. Public organisations' satisfaction has increased to 76% in 2023/24, up from 69% in 2022/23. Most (90%) of our auditors are currently assessed as at least satisfactory in our quality assurance reviews. Of the other 10%, our concerns relate to audit file documentation rather than the appropriateness of the audit opinion, and we were satisfied that the conclusions and opinions included in the audit reports were appropriate. No audit opinions were withdrawn in 2023/24.

Our audit work also continues to have impact, with public organisations implementing 542 of our audit recommendations in 2023/24.

Auditing long-term plans

Uncertainties faced by councils (especially the implications of the Water Services Repeal Act 2024) added complexity to the audits of councils' 2024-34 long-term plans. Territorial and unitary councils had the option to extend the deadlines for adopting their long-term plans to give them more time to respond to the changes made by the Act.

We communicated regularly with councils and auditors on how to approach the various issues involved in preparing and auditing consultation documents and long-term plans. This year, we also updated our audit methodology, trained auditors, and briefed audit and risk committee chairpersons and council staff.

In 2023/24, we completed 36 council long-term plan audits. For the councils that took the extension option, their long-term plan audit will be completed in 2024/25. There were also eight cyclone-impacted councils that were exempt from producing long-term plans.

Audits in the health sector

In 2023/24, we completed our first full audit of Te Whatu Ora, which is the largest public organisation in New Zealand. Te Whatu Ora is one of the most critical contributors to the government's overall financial position and to the well-being of New Zealanders. Our work on Te Whatu Ora is correspondingly our largest audit, requiring about 22,000 hours to complete.

We also planned to start work on the audit of the first complete New Zealand Health Plan, and committed significant effort to designing a suitable audit methodology. However, work by the Ministry of Health and Te Whatu Ora that is needed to complete the New Zealand Health Plan was deferred, and our audit work will now be mainly in 2024/25.

Controller function

Under New Zealand's constitutional and legal system, the Government needs Parliament's approval to make laws, impose taxes, borrow money, or spend public money.

The Controller function supports the fundamental principle of parliamentary control over the elected government's expenditure. Through this function, we provide independent assurance about whether the Government has incurred expenditure lawfully and within the authority provided by Parliament. We also provide assurance that any spending without authority has been identified and accurately reported to Parliament and the public, and that it has been remedied. In this way, the Auditor-General, in his Controller role, helps maintain the legitimacy and transparency of the public finance system.

In 2023/24 we met all our commitments to advise the Treasury of potential breaches and to report to Parliament on what we observed. We also produced several reports to help the public understand the importance of appropriations and form their own views about how well government departments are meeting their obligation to incur expenditure in keeping with the authority given by Parliament.

Insight on multi-year appropriations

As an Officer of Parliament, we are interested in ensuring that the system and arrangements by which Parliament authorises spending continue to operate in a way that preserves Parliament's control.

During 2023/24, we examined the increasing use of multi-year appropriations (MYAs). Because MYAs authorise expenditure over multiple years, they provide more flexibility and are an exception to the usual way of authorising expenditure. However, they also reduce Parliament's control over expenditure.

Our work in 2023/24 showed there has been a marked increase in the use of MYAs, with the number more than doubling in the six years to 2023. We noted examples of expenditure under MYAs that, in our opinion, should have instead been authorised under annual appropriations.

We published our findings on our website in May 2024 and called for the Government to review the use of MYAs to ensure that they are being used appropriately and in line with the Treasury's guidelines.

Climate reporting

We are well positioned to carry out the mandatory assurance work on greenhouse gas metrics in the climate statements of climate reporting organisations next year. We have been preparing for these new audit requirements and gaining experience in auditing climate-related information as part of our audits of organisations' performance reports.

Given the public interest in climate change, evolving reporting requirements, new standards, and risks like "greenwashing",[1] we are continually improving our climate reporting capabilities. During the year we communicated with our auditors, standard-setters, regulators, and public organisations to help resolve climate reporting challenges, influence the requirements in proposed standards, answer questions, and promote co-ordination and co-operation. We provided guidance to auditors and public organisations on the reporting of carbon targets and carbon status disclosures.

1 Greenwashing refers to organisations making misleading statements about their environmental impacts.

The impact of our work

To maintain our reputation as a source of trusted information, it is important that our work influences improvements in the public sector. Our work in 2023/24 made a significant contribution to improving how public organisations perform, act, and make themselves accountable to others.

The impact of our performance audits

We published five new performance audits in 2023/24, covering topics from housing to infrastructure (see Appendix 3 for the full list of publications). We also followed up on progress on our recommendations from six past performance audits.

Our findings and recommendations have resulted in a number of improvements to public sector performance. Some of these improvements have been immediate and others have taken longer to be realised. Longer-term change is usually identified through follow-up reports which revisit a particular aspect of public sector performance, usually within two years of our initial report.

Immediate responses to our reports in 2023/24

New Zealand Food Safety (part of the Ministry for Primary Industries) broadly agreed with the recommendations in our report on **monitoring importers of high-risk foods.** Since the report was published, regulations have been approved to permit a new food importer levy, which the Ministry for Primary Industries will use to maintain and improve New Zealand Food Safety's monitoring and education services, as recommended by our review.

Following our briefing to the Finance and Expenditure Committee on our ***Making infrastructure investment decisions quickly*** report, the Committee called for public submissions on our recommendations, how the process for and public reporting on infrastructure investment could be improved, and how to improve the Infrastructure Management System.

Our follow-up work in 2023/24

We regularly follow up with audited organisations to establish how they have responded to our performance audits. These updates are published on our website to provide transparency on progress. We published six follow-ups in 2023/24.

In our follow-up work about **regional councils' relationships with iwi and hapū for freshwater management**, we found that all four regional councils we looked at have carried out work to further understand iwi and hapū aspirations and have taken steps to involve tangata whenua in their governance structures. Many of the iwi and hapū representatives we spoke with highlighted increasingly stronger relationships with their respective regional councils and council staff.

When we followed up on our 2021 report ***Strategic suppliers: Understanding and managing the risks of service disruption***, the Ministry of Business, Innovation and Employment told us it is providing comprehensive guidance and regularly engaging with organisations to help them identify their strategic suppliers and manage those risks and relationships well. However, we found that the data used to identify strategic suppliers for public organisations does not provide a full picture, making it difficult to actively manage the risks of service disruption. We will continue to monitor the Ministry's progress in this area.

When we followed up on our 2022 report ***Improving value through better Crown entity monitoring,*** we found that some monitoring departments had invested in proactive working relationships with their Crown entities, leading to improved communication and collaboration. In those cases, they reported good progress in addressing our recommendations, including the development of agreed monitoring frameworks that reflect the operating context of Crown entities and a more collaborative approach to preparing accountability documents.

When we followed up on our 2022 report ***Co-ordination of the all-of-government response to the Covid-19 pandemic in 2020***, we found that all four organisations involved in that work reported progress towards improved co-ordination and clearer roles and responsibilities. There had also been collaboration to prepare and maintain workforce plans.

In 2022, our report ***Governance of the City Rail Link project*** made four recommendations to help ensure that the City Rail Link project is successfully completed alongside wider network improvements, operates effectively from opening day, and achieves its intended benefits over the long term. Since then, responsible organisations report that they have established a new governance group to provide collective oversight of the programme and better integration between the organisations, and have made improvements to their Benefits Realisation Plan. We will continue to monitor this progress into 2024/25.

Our work does not always lead to the change we recommend or change at the pace we would expect. In 2021, we assessed **the government's preparedness to implement the sustainable development goals**, and this year we followed up on its response to our recommendations. It is difficult to see whether any progress has been made. New Zealand signed up to the 2030 Agenda almost 10 years ago – this should have been enough time to have established a foundation from which to achieve the sustainable development goals. We have continued to raise these matters with public organisations and have been told that those decisions sit with Ministers.

The impact of our inquiries

In 2023/24, our inquiries team looked at some important issues in the public sector and influenced a range of improvement work.

In December 2023, we published our inquiry into a **procurement process run by Callaghan Innovation**, which focused on how Callaghan Innovation carried out due diligence on potential providers for its Founder and Start-up Support Programme. The inquiry found processes for due diligence checks were not transparent or fair, risks of bias were not properly managed, and Callaghan Innovation did not meet its confidentiality obligations during the procurement.

Callaghan Innovation is making several changes in response to our inquiry, including writing a new code of conduct for providers in the Start-up Programme, improving how it manages conflicts of interest, and reviewing its processes for procurement, due diligence, and managing confidential information.

After the official results of the 2023 General Election were published, the Electoral Commission became aware of **problems with the counting of votes**. Although these errors had no effect on the election results, the Electoral Commission asked us to independently review the effectiveness of its controls and checks for counting votes and to recommend any improvements needed.

We identified how the errors occurred and suggested improvements to the Commission's processes. We also provided some observations about the Commission's challenges, such as the limited flexibility and manual nature of its processes (set by the Electoral Act), and how the Commission is funded. The Electoral Commission welcomed our report and accepted the recommendations we made.

Enhancing our impact in te ao Māori

The public sector needs to perform well for all New Zealanders. We know that Māori experience poorer social and economic outcomes and generally have lower levels of trust in government compared to other populations. It is essential not only to influence the public sector to improve on how it delivers for Māori, but also to be seen by Māori as a relevant and trusted organisation.

We have worked with our rōpū Māori and have drawn on members' advice to enhance the Office's understanding of the work that is most important for Māori.

In 2023/24, we published a follow-up report about regional councils' relationships with iwi and hapū for freshwater management. The iwi and hapū we spoke to highlighted their strengthening relationships with their respective regional councils, but also noted that councils could do more to support enduring and meaningful relationships.

We have continued to examine how well the public sector is supporting improved outcomes for Māori and how it is held accountable to Māori communities. As part of this work, we have begun a performance audit on how well prepared public organisations are to meet their Treaty settlement commitments.

Strengthening parliamentary scrutiny

We ran several information sessions with select committee chairpersons and members of Parliament to help them understand our work and to share our insights. We also provided briefings on our findings from particular performance audits, inquiries, and sector reports to aid their scrutiny of public sector spending and performance, focusing on the quality of performance reporting.

We survey select committees every two years to determine whether the quality of our advice and reports are meeting their expectations. In our 2023/24 survey, 100% of select committees rated our advice, and our reports on performance audits, inquiries, and other studies as at least "satisfactory".

Our work to support select committees increased in response to changes to Parliament's Standing Orders. Those changes have meant a significant increase in the time we spent supporting committees. This year, we supported:

- committees' longer annual review hearings (almost double the time allocated in the previous year), including developing structured agendas for in-depth reviews;
- the preparation of committees' scrutiny plans to cover the full parliamentary term, including a focus on scrutiny priorities and our priority organisations; and
- longer Estimates hearings (double the time allocated in the previous year) during the inaugural Scrutiny Week in June 2024.

We will continue to work closely with committees and the Office of the Clerk of the House of Representatives to support the changes under the new Standing Orders.

Our work in local government

We work with stakeholders in the local government sector (including councils, Local Government New Zealand, Taituarā, and professional bodies), reporting the findings from our audits and sharing good practice.

Councils are facing rising debt and costs, the impacts of climate change, and the increasing need to deal with severe weather events. Many councils are facing challenges in balancing what they and their communities can afford with the various complex issues they face. Changes to water reforms in 2024 meant councils were given the option to extend their deadline for adopting their long-term plans. As a result, 36 long-term plans were audited in 2023/24.

We worked closely with councils to support the preparation of their 2024-34 long-term plans by:

- briefing local government audit and risk chairpersons, chief executives, management, and staff on the focus areas for our long-term plan audits;
- publishing a good practice guide on performance information in long-term plans; and
- carrying out a consistency review of the audit reports we issued on 2024-34 long-term plans.

Our Local Government Group briefed the Governance and Administration Committee on the insights from our audits of councils' 2020/21 and 2021/22 annual reports. We delivered induction sessions to newly elected council members about the role of the Office, public accountability, integrity, conflicts of interest, and improving the effectiveness of audit and risk committees. We also hosted our regular forums for Audit and Risk Committee chairpersons, which focused on local government matters and were well attended.

Our work on influencing better performance reporting

In 2023/24, we continued to support improvements to how the public sector reports on its performance.

Our publications on this topic included:

- setting out the need for consolidated reporting that allows Parliament and the public to understand a programme's costs, scope, and performance as a whole (as part of our performance audit of the Shovel-Ready and New Zealand Upgrade programmes);
- a case study on performance reporting in the transport sector, which showed how a sector can set clearly defined and meaningful indicators and provide consolidated and integrated reporting on a key outcome (such as road safety) and a key programme (such as the Rail Network Investment Programme); and
- a good practice guide for councils to help them establish more meaningful performance frameworks in their long-term plans and better performance reporting in their annual reports.

We also we strengthened our advice on performance reporting to select committees to help support Parliament's changes to Standing Orders. Most committees have noted an intention to focus on this for the rest of this parliamentary term. We also enhanced our advice to individual organisations to help improve their performance reporting.

Our latest central government report highlighted the need to review system settings and legislation for public accountability and reporting, given the issues in the quality of performance reporting at different levels of government. An inquiry into performance reporting and public accountability led and overseen by Parliament would provide the opportunity to reform the public accountability system and make it fit for the 21st century. The Finance and Expenditure Committee has indicated that it intends to conduct such an inquiry.

Our work on promoting integrity

Our audit work underpins integrity practices in the public sector, and integrity issues can be part of the scope of a public sector audit.

In February 2024, we launched our inaugural Public Sector Integrity Day to promote the importance of integrity in the public sector and encourage conversations about integrity. We also continued to support Transparency International New Zealand's regular leaders integrity forums.

We also published our procurement reflections report. This report confirms the extensive guidance on good procurement practice, and the repeated examples of disappointing weaknesses in some of the most fundamental elements of procurement – planning, managing conflicts of interest, transparency, contract management, and safeguarding strategic supply chains. We will continue to monitor this area closely.

We continued our work to more fully understand what the concept of integrity means and looks like for Māori and how that could be applied in the public sector. This will lead to an updated integrity framework and accompanying guidance that better integrates te ao Māori concepts. We expect to publish this in 2024/25.

Our international work

Each year, we make a significant contribution to strengthening public sector accountability, transparency, and good governance in the Pacific region, both as Auditor-General of the governments of Niue and Tokelau and through the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is funded by the Ministry of Foreign Affairs and Trade.

We also work with the global auditing community through the International Organisation of Supreme Audit Institutions to share and develop best practice and tackle common problems faced by supreme audit institutions (SAIs).

Progressing audits for the governments of Niue and Tokelau

Work progressed to bring the audits of the financial statements of the governments of Niue and Tokelau up to date. These audits have been in arrears for several years. All the Niue subsidiary entity audits for the year ended 30 June 2022 were completed, and significant progress was made on the consolidated group audit for the year ended 2022 and subsidiary audits for the year ended 30 June 2023. The audit of the financial statements of the government of Tokelau for the year ended 30 June 2017 was completed.

This year we also reached an agreement with the Ministry of Foreign Affairs and Trade to enable us to provide support to improve accountability processes in Niue and Tokelau over the next five years. Our support will focus on enhancing the use of audit findings to hold their governments to account.

Working collaboratively to improve public sector accountability and integrity in the Pacific

In 2023/24, we supported the development of the next 10-year strategy for PASAI, and we also supported PASAI to secure development partner funding to implement the strategy. The new strategy focuses on increased technical support for PASAI's programmes through greater collaboration with development partners and other SAIs in the Pacific region.

We have continued to provide support and technical expertise through our twinning partnerships with the Controller and Auditor-General of Samoa and the Director of Audit of the Cook Islands. This year, we focused our support on improving financial audit quality and addressing the backlog of their financial statements of government.

We also supported a number of improvement initiatives:

- We supported the SAI of the Cook Islands to advocate for strengthened SAI independence.
- We hosted a webinar series for SAIs, Ombudsmen, Public Service Commissioners, other public organisations, and civil society organisations in the Pacific region, promoting topics to support good governance, transparency, and accountability for effective national integrity systems.
- We supported nine SAIs in the Pacific region to take part in a global co-ordinated audit looking at climate change adaptation actions, which will be completed in 2024/25.
- We supported the use of International Organization of Supreme Audit tools by SAIs in the Pacific, including an integrity self-assessment tool and a climate scanner tool for assessing countries' responses to climate change.

4

Our capability

Our independence and reputation

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

For 2023/24, we were satisfied that we upheld our independence and complied with the Auditor-General's independence standards. To achieve this, we monitored and managed potential conflicts of interest for our staff, appointed auditors, and the audit service providers carrying out audits on behalf of the Auditor-General.

Improving our culture of integrity

Although integrity has always been critical to our work, we recognise that we can take a more deliberate approach to our own integrity systems and processes. We want to be able to monitor how well our values, staff behaviour, and internal controls are aligned.

In 2023/24, we:

- assessed the Office's performance against our integrity framework for the public sector;[2]
- established a new Protected Disclosures Policy and provided training for all staff to improve understanding of all the ways they can raise issues and concerns;
- continued to embed our core values in our internal policies and guidance,[3] including reviewing policies on sensitive expenditure; and
- started work to monitor and report on our own integrity.

All these actions enable and support our people to act with integrity as they carry out their work.

Developing our capability in te ao Māori

We audit a range of kaupapa Māori organisations, including departments, Crown entities, and schools. This year we continued to develop our te ao Māori strategy, *Kia Tika*. The strategy's priorities are to:

- build meaningful relationships with iwi, Māori organisations, and individuals;
- actively seek Māori perspectives on public accountability and seek Māori input into our annual planning;
- increase our capability to engage with and respond to Māori, both by supporting the development and aspirations of staff and by attracting people with the right skills and experience at all levels of the Office;
- consider how our work can best influence the delivery of public services to support the desired outcomes of iwi, hapū, and whānau Māori;
- adapt our working styles and practices to enable effective and respectful engagement on matters of importance to iwi, hapū, and whānau Māori; and
- ensure that we are transparent about our use of Māori data, and feed back to Māori communities and organisations we have engaged with about how we have used their data.

2 See Controller and Auditor-General (2022), *Putting integrity at the core of how public organisations operate: An integrity framework for the public sector*, at oag.parliament.nz.

3 Our four core values are *People matter*, *Our independence is critical*, *We act with integrity and courage*, and *We're here to make a difference*.

Helping our people to thrive

We aim to provide a working environment that supports our people in a range of domains, from physical safety to career development.

Health, safety, and well-being

In 2023/24, we provided specialist support to our staff working on sensitive audits (including on youth mental health and on harmful behaviour in the New Zealand Defence Force). We also started a review of our practices and policies about health, safety, and well-being.

Training and internships

Audit New Zealand is a Recognised Training Employer – we provide our staff with the professional study programme and support needed to gain a chartered accountant qualification, as well as providing ongoing development. In 2023/24, the pass rate of our staff in the Chartered Accountants Programme was 89%, including 10 High Distinction Merit passes (awarded to the top 5% of all New Zealand and overseas candidates who sit the same exam).

We also support people with similar qualifications from other international accounting bodies. As a core part of its training role, Audit New Zealand welcomed 30 recent graduates in January 2024.

Each year we dedicate significant time and resources to our nine-week summer internship programme. In November 2023, we welcomed eight auditing interns to Audit New Zealand for a programme of formal training, mentoring, and guided on-the-job experience with a range of clients.

This year, as part of a partnership with Auckland University of Technology, we hosted our first Pasifika student intern for an eight-week placement in our Wellington office. We also hosted a student from the Whitireia Publishing Programme for work experience in our Publications team.

Leadership

Our audit directors are well respected in the auditing profession. In 2023, Chartered Accountants Australia New Zealand awarded five new Fellowships to leaders at the Office. Our new Fellows join other colleagues who have been recognised for their contributions to their profession and communities.

In 2023/24, we continued to develop our leaders by offering training opportunities for people in different stages of their leadership journey, from aspiring leaders to experienced leaders, and by providing coaching programmes to further develop our leaders' skills.

Recruitment, retention, and remuneration

We strive to recruit the best talent, create a culture where our people thrive, and provide appropriate remuneration. This year we have actively managed workloads and other pressures to support staff well-being, and provided varied and engaging work to help lift employee engagement.

We have also built and maintained strong relationships with international audit institutions to create a reciprocal international secondment pathway, which both helps us to meet some capacity needs and provides additional career development opportunities. This year, we supported six of our staff on international secondments and welcomed seven international secondees into the Office.

Capability development

We continued to increase capability across the Office by offering a wide range of development opportunities, including:

- organisation-wide training to promote diversity and culture;
- group-specific programmes tailored to specific roles, aligned to our competency framework;
- our Careers Board process, which helps identify strengths and interests and offers tailored opportunities for participants to increase their skills and gain experience; and
- continuing professional development for staff, including our legal and accounting staff.

Diversity and equal employment opportunities

Under the Public Audit Act 2001, the Auditor-General must prepare and publish an equal employment opportunities programme, comply with it, and describe in the annual report how it was met. Equal employment opportunities are critical to creating a workplace where employees can reach their full potential. Creating a culture where diversity is valued and people can thrive ensures that the Office can do its best work. The principles of equal employment opportunities are embedded in our people policies and practice. We provide equality of opportunity throughout the employee life cycle.

We have recently collected more information on the make-up of our workforce to better understand and report on broader diversity indicators and identify any ethnicity-based pay gaps, alongside our work to understand our gender pay gap.

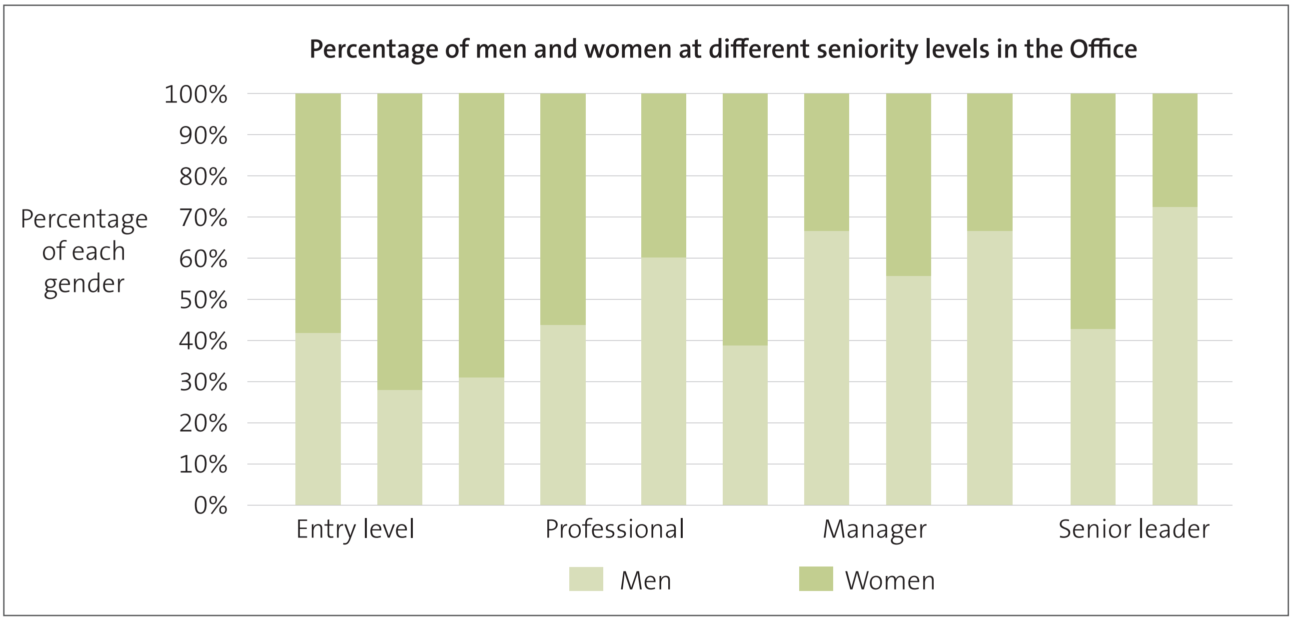
We publish information about our staff numbers and staff diversity in the "About us | Our people" section of our website.

Gender pay gap

Our overall gender pay gap sits at 17%. This is 11.4% within the Office of the Auditor-General and Corporate Services Group, and 18.9% in Audit New Zealand. Gender pay gaps can be both horizontal (different pay for comparable roles) and vertical (different gender balance at different levels of the organisation). The Office has small horizontal gaps but more significant vertical gaps.

The graph below shows the Office's horizontal pay gaps at different remuneration bands (excluding the Auditor-General and Deputy Auditor-General). A negative gap means that women are paid more than men doing a similar role. The highest gender pay gap is 7.3% and the lowest is -5.2%, with an average of 1.1%.

Our vertical gaps are due to the Office generally having more women in entry-level and administrative roles and more men in more senior roles, as shown in the graph below (which includes the Auditor-General and Deputy Auditor-General).



The main vertical gaps are:

- in Audit New Zealand, where we still need more women in director roles – 70% of our audit directors are men (64% of equity partners in New Zealand accounting firms are men), and the pace of change is limited by a low turnover of 3.6%. However, we have increased the percentage of women in manager and director roles from 33% in 2019 to 48.5% in 2024; and
- in our leadership team, where new appointments to senior leader roles have seen the gender imbalance worsen (27% of the senior leaders in the Combined Leadership Team are women).

According to a recent survey by Chartered Accountants Australia and New Zealand, the national accounting industry gender pay gap is 22%. This means we are doing better than many employers offering similar work. However, we have more to do and will continue to take opportunities to reduce these gaps over time.

We place a strong importance on balanced recruitment panels and consider different perspectives throughout the recruitment process. We continue to improve our flexible and hybrid working arrangements to support those with family and commitments outside of work. We want women to see career progression in Audit New Zealand as achievable.

Our staff networks

We have several employee-led groups – the Te Ao Māori Champions Network, Pasifika Network, Rainbow Network, and Women's Network. These staff networks support diversity and well-being through a mix of social support, peer learning, providing feedback on internal policies and strategies, and organising cultural events. Some highlights for 2023/24 are:

- The Te Ao Māori Champions Network had input into several cross-office projects to improve the Office's impact for Māori, including *Tū Ko Taikākā* (our te ao Māori conceptual framework), *Kia Tika*, and our Integrity Framework.
- The Te Ao Māori Champions Network supported Office events to celebrate Matariki, including organising hāngī for those working in Wellington and sharing Matariki resources and waiata across our different offices.
- The Pasifika Network briefed new auditors and staff travelling to the Pacific for the first time and provided support to the Office's international work programme, in particular PASAI events and international delegations.
- The Pasifika network championed the placement of a Pasifika student intern.
- To celebrate Pasifika languages, the Pasifika Network prepared intranet articles and staff activities for each language week.
- The Women's Network organised events, including an International Women's Day panel and regular networking sessions, and co-ordinated online events such as the Southern Government Women's Network event, 'Empowerment through self-discovery'.
- The Women's Network submitted feedback on organisational policies and worked to improve the Office's gender pay gap reporting.

Our technology

We have continued to modernise our information technology infrastructure through our *Information Systems Strategic Plan*, which is part of our long-term plan to modernise the Office.

The focus in 2023/24 has been on building a more modern, more secure, and more resilient technology environment underpinned by a sound technology infrastructure:

- The Office's on-site support systems have been updated, and work is under way to move to a network that supports Cloud-first services and a Zero Trust security model. We also continued to strengthen our remote working tools and processes so that staff can work flexibly and securely anywhere.
- In 2023, we implemented a new Cloud-based audit management tool (Auvenir) for Audit New Zealand's audit and assurance work. This will progressively replace the previous system, which is more than 20 years old. During 2023/24, Audit New Zealand began training staff and moving audits over to the new tool as part of a phased implementation. More than a hundred audits are now being carried out using Auvenir.
- A new audit management portal for our audit service providers went live in 2024.
- We are currently implementing our new information management system, Raranga. This will move the Office's files to the Cloud and allow staff to better collaborate, as well as setting the foundation for the secure use of artificial intelligence tools.

Our future focus will shift towards systems that support enhanced insight and engagement, with work in early stages on a digital strategy and redevelopment of our website, as well as work on tools to enhance data analysis.

Our financial and physical resources

We are mostly funded through charging fees to recover our costs for the audit and assurance services we provide to public organisations. We manage these fees through our Audit and Assurance Services memorandum account. We also receive Crown funding for aspects of our work that directly support accountability to Parliament, such as advising select committees and reporting to Parliament and the public on our performance audits and inquiries.

As part of our response to reduce delivery pressures caused in part by the Covid-19 pandemic, in 2021/22 we reallocated 80,000 hours of audits across our portfolio. We also increased the size of Audit New Zealand's workforce to help manage deferred audits and progress current audits. These actions, along with rising costs, higher inflation, and limiting fee increases before and during the pandemic, led to financial pressures on Audit New Zealand.

To put Audit New Zealand in a sustainable financial position in the medium term, we have put several initiatives in place, including:

- a capital injection to address increased audit costs caused by Covid-19 that could not be recovered through fees;
- resetting our fees to better recover our costs and appropriately scope our audits;
- implementing a programme of work to improve Audit New Zealand's practice management, work more efficiently, and invest for the future; and
- preparing to reallocate audits back to Audit New Zealand from 2025 to 2027.

In 2023/24, Audit New Zealand returned a small surplus for the first time in three years. We are on track to achieve our plan of ensuring that Audit New Zealand is self-sufficient and a strong benchmark provider of public sector audits.

Our use of natural resources

Public organisations are expected to use their resources wisely, including the natural resources they consume, and to strive to minimise their environmental impacts as much as possible. We have assessed the environmental impact of our activities for the past few years, looking for ways to reduce or mitigate it.

Our main sources of emissions are from business-related air and road travel, staff commuting, and fuel for our vehicle fleet.

In 2023/24, we have:

- improved the accuracy of our emissions data and prepared a greenhouse gas emissions inventory for a third year; and
- completed a "pilot" programme to record emissions from three audit service providers (included in our inventory), and rolled this out for all our outsourced audits starting 1 July 2024.

Our overall emissions have decreased by 49 tCO_2e in the past year, due mainly to a significant reduction in international travel.

We had planned to set emissions targets, but without emissions data from external audit service providers, it is difficult to establish accurate baseline data and set an overall meaningful reduction target. We plan to set emissions targets in 2025/26, after collecting relevant emissions data for 2024/25 from all external audit service providers that carry out public sector audits on behalf of the Auditor-General.

Our emissions inventory is set out in Appendix 6.

5

Our performance

Our purpose

Our purpose is to improve trust and promote value in the public sector. We do this by influencing improvements in public sector performance and accountability. We aim for our work to be relevant, make a positive difference to the way the public sector operates, and help Parliament and New Zealanders to have trust and confidence in public organisations.

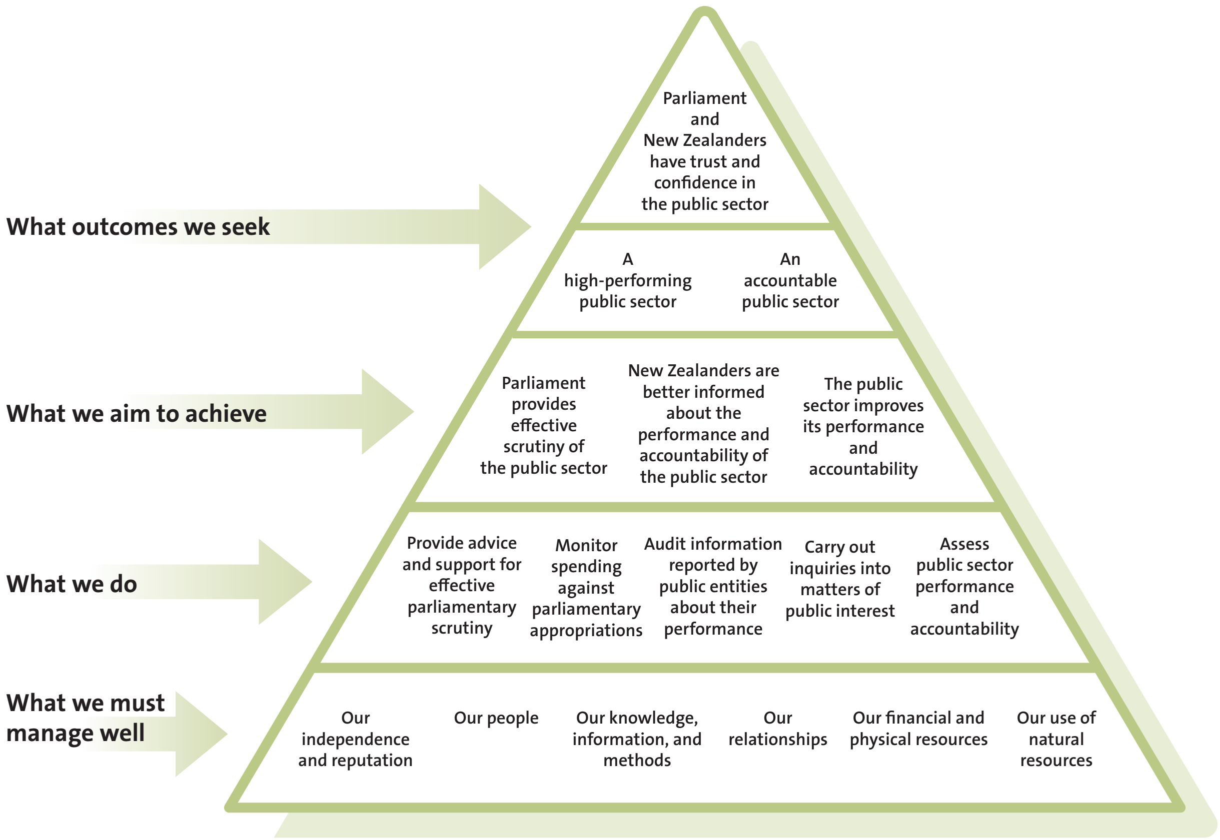
The ultimate outcome we seek is that Parliament and New Zealanders have trust and confidence in the public sector. For this to happen, the public sector needs to perform well and provide reliable, meaningful, and timely information so that public organisations can be held to account for their spending and performance.

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 2023/24.



The outcomes we seek

Trust and confidence are at the heart of everything we do. To maintain trust and confidence, 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.

What went well	What didn't go to plan
Results from the Kiwis Count survey shows 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. We completed most audits of large public organisations on time.	New Zealand's ranking in the Transparency International Corruption Perceptions Index dropped from second to third place. The timeliness of audits of schools and smaller public organisations remains a challenge.

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

New Zealand does well when compared globally on measures of trust. For example, the OECD's 2023 survey on trust in public institutions (published in 2024) found that general trust in government was 46% in New Zealand, compared to the OECD average of 39%, and that satisfaction with administrative services was 70% in New Zealand, compared to the OECD average of 66%.[4] The survey also observed a lower level of trust among women than among men; at 18%, this gap was greater than the 7% OECD average gender gap in trust.

The OECD's survey results also highlight that satisfaction with services provided by public institutions tends to be rated higher than general trust, both in New Zealand and in the OECD. This pattern suggests that the underlying quality of services provided by public organisations does make a difference to trust.

The Kiwis Count survey results are similar to those of the OECD survey of trust in public institutions, showing a higher level of reported trust when people think about the interactions they have had with public organisations (experience-based trust) than when they think about government in more general terms (perception-based trust).

The 2023/24 survey shows that New Zealanders' level of **experience-based** trust has remained relatively stable since 2020/21. However, **perception-based trust** has declined to its lowest since pre-Covid times.

Our indicators use the overall results of the Kiwis Count survey. However, levels of trust in public services vary between communities. Māori, Pacific, and disabled respondents tend to have lower trust levels than other groups, while Asian respondents tend to have higher trust levels than other groups.[5]

The Transparency International Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption. In 2023, New Zealand scored its lowest score since the index was established in 1995, at 85, and dropped in global ranking from second to third. Transparency International's reporting on New Zealand attributed this drop to reduced business leader confidence in government integrity systems. However, New Zealand's ranking at third of 180 countries remains an indicator of strong transparency.

4 See "OECD Survey on Drivers of Trust in Public Institutions 2024 Results - Country Notes: New Zealand" at oecd.org.

5 See "Kiwis Count" at publicservice.govt.nz.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Experience-based trust	**80%**	**-2%**	82%	81%	81%	79%
Perception-based trust	**56%**	**-2%**	58%	62%	69%	49%
Target: Improving trend, or at least maintained	**Not achieved**					

Source: Te Kawa Mataaho Public Service Commission.

In our *2022/23 Annual Report*, we reported the Quarter 3 data for experience-based trust and perception-based trust results of the Kiwis Count survey. The 2022/23 results in this report have been updated to provide the Quarter 4 data for that year.

Indicator: Transparency International Corruption Perception score

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Transparency International Corruption Perception score	**85 (3rd place)**	**-2 (-1 place)**	87 (2nd equal)	88 (1st equal)	88 (1st equal)	87 (1st equal)
Target: Improving trend, or at least maintained	**Not achieved**					

Source: "CPI 2023: Highlights and Insights" at transparency.org.

Outcome 2: A high-performing public sector

We have not reported an indicator for this outcome since the quality of public services measure was removed from the Public Service Commission's Kiwis Count survey methodology.

In 2023/24, we worked on an alternative indicator of overall public sector performance, focusing on aggregate analysis of performance measurement across public organisations. That work shows that the public organisations regularly scrutinised by Parliament achieved 55% of their performance targets, while councils achieved 64% of their performance targets. For public organisations scrutinised by Parliament, this was 12% higher than the average result for the previous four years. For councils, this aggregate level of performance has been relatively consistent since 2020/21.

Our analysis gave us some insight into patterns of performance but it also highlighted our publicly stated concern that the reporting of individual public organisations does not always meet our expectations for meaningfulness and relevance.

We were not confident that aggregating this reporting results in a meaningful and relevant assessment of the overall performance of public organisations in New Zealand. We were also unable to draw firm conclusions about how well services are meeting the needs of different communities, because this is not systematically reported. For these reasons we did not establish a new indicator based on this information in 2023/24. We will continue to explore options for a suitable indicator in 2024/25.

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. This means timely and reliable information about their spending and performance must be available.

We assess how **reliable** reported information is based on the percentage of unmodified audit opinions from our annual audits. That percentage remains high at 96%, indicating that overall, public organisations are providing reliable information (noting that we consider there remains room for improvement in the meaningfulness and relevance of non-financial performance reporting).

We assess how **timely** the reporting of financial and non-financial performance information is by examining the extent to which we have been able to complete our annual audits in keeping with statutory deadlines. Timeliness has been lower than target since the onset of Covid-19. We are gradually improving completion rates but are not yet back to pre-Covid timeliness. The reasons for this are discussed in more detail under our results for *Service 3: Audit information reported by public organisations about their performance*.

Although the overall timeliness of audited information is lower than it should be, audited information is available on time for most large organisations. In addition, the audited financial statements of the government, an essential document contributing to overall accountability, was published in a timely manner. Some audits were late but still completed before the end of the financial year, ensuring that reliable information about public organisations is available.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number and percentage of unmodified audit opinions from our annual audits	**3018 (96%)**	**+42 (-1%)**	2976 (97%)	2595 (96%)	3356 (97%)	2836 (97%)
Target: Improving trend, or at least maintained	**Not achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of audit reports that are signed by the applicable statutory deadline	**59%**	**+4%**	55%	57%	71%	63%
Target: At least 80%	**Not achieved**					

Indicator: Number of public entities with audit reports in arrears, as at 30 June 2024

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of public entities with audit reports in arrears, as at 30 June 2024	**938**	**-151**	1089	1078	600	848
Target: Fewer than 495	**Not achieved**					

"In arrears" means not completed within statutory timeframes and remaining outstanding as at 30 June 2024.

This measure has been changed from "decreasing" to "fewer than 495". This figure represents about 15% of the organisations we audit each year and is a more accurate reflection of the performance we want to achieve for this measure. It also takes into account the high volume of school audit reports with a statutory deadline at the end of May.

Our intended impacts

Our impacts are the overall public sector improvements we contribute to. Our annual audit and inquiry reports and recommendations and our performance audits help public organisations to improve. Encouraging public organisations to implement our recommendations is an important way we can help improve public sector performance and accountability.

What went well	What didn't go to plan
Our survey of select committees showed that our advice is effective in helping them scrutinise the public sector. Public organisations responded positively to the findings and recommendations we made in our performance audits and inquiry work. Our work had a strong public profile and media coverage.	Instances of unappropriated expenditure increased slightly.

Impact 1: Parliament provides effective scrutiny of the public sector

Our advice and reports to parliamentary select committees help them to hold the public sector to account. The information we provide must be relevant, reliable, and timely. We formally and informally assess feedback. Both confirm that our reports and advice to Parliament are effective and support Parliament in its scrutiny of public organisations.

We formally measure this by surveying parliamentary select committee chairpersons every two years on whether our advice and reports were helpful. Satisfaction with our advice and reports has been consistently high. The survey results reported here pre-date the Office's support to select committees for the first Scrutiny Week in June 2024, but informal feedback since Scrutiny Week indicates continued high satisfaction.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Our advice and reports help select committees scrutinise the public sector more effectively	**100%**	**-**	Not assessed	100%	Not assessed	100%
Target: 100%	**Achieved**					
Source: Our surveys of select committee chairpersons, which are carried out every two years. The most recent survey was completed in 2023/24.						

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 media about our work. The number of citations was virtually identical to 2022/23 (1712 compared to 1710).

This year we saw substantial media coverage of several pieces of our work. The highest-profiled pieces included our submission on the Fast-track Approvals Bill; our inquiry work on conflicts of interest at Callaghan Innovation, procurement at the University of Waikato, and the 2023 election results; our performance audit work on the New Zealand Upgrade and Shovel-Ready programmes and youth mental health; and our assurance work on councils' long-term plans.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
New Zealand media provides increased coverage of our reports and letters	**Increasing 1712**	**+2**	Increasing 1710	Decreasing 1487	Increasing 1621	Increasing 1454
Target: Increasing	**Achieved**					

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 determine whether government departments are incurring expenditure only within the authority provided by Parliament. We also assess whether public organisations have improved aspects of their performance in response to our performance audits and inquiries, and assess whether they have implemented our annual audit recommendations.

Controller function

The 2023/24 result shows how many times unappropriated expenditure occurred in 2022/23. There has been a steady increase in the number of instances of unappropriated expenditure since 2020/21, with 16 instances reported in the Government's financial statements for 2022/23.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Government departments reduce the instances of public spending without parliamentary authority	**16 (Increasing)**	**+2**	14 (Increasing)	12 (Reducing)	30 (Increasing)	19 (Increasing)
Target: Reducing	**Not achieved**					

Each reported figure represents the instances of unauthorised expenditure for the previous financial year. This is because finalised current-year figures are not available when we prepare our annual report.

We have revised the 2022/23 figure from 12 to 14 because two additional instances of unauthorised expenditure were identified after we prepared our 2022/23 annual report.

Annual audits

To help the public sector improve, at the end of each audit the governors of public organisations receive a report setting out audit findings and recommendations. Implementing recommendations helps public organisations to manage issues, reduce risks, and realise additional benefits of the audit.

Part of our annual audit includes identifying and reporting on how public organisations have responded to past recommendations.

We measure the impact of our work by assessing large public organisations' implementation of our recommendations. A number of factors affect whether a public organisation implements our recommendations. Timeliness of delivering management reports (including recommendations), the scale of change recommended, and the capacity and willingness of the organisation to make change all affect the implementation speed.

In 2023/24, we assessed how 131 large public organisations implemented the recommendations from our audits. Of the 1455 recommendations we had made at the beginning of 2023/24, 542 (37%) were implemented by the end of the financial year.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Proportion of large public entities that implement our annual audit recommendations in a timely manner	**37%**	**+1%**	36%	43%	38%	46%
Target: Increasing (or at least maintained)	**Achieved**					
The number of large public organisations can vary. For 2023/24, 131 were considered large organisations (they included tertiary education institutions, government departments, and councils). The number was 116 in 2022/23, 128 in 2021/22, and 195 in 2020/21.						

Performance audits

We carry out performance audits to help public organisations improve their effectiveness and efficiency. We provide more details of our performance audit work in *Service 5: Assess public sector performance and accountability*.

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 2023/24, we followed up on how public organisations had responded to six performance audits. We published the responses from the audited organisations on our website. Highlights of the impacts achieved as reported in our follow-up work are set out in Part 3 of this report. We assess this indicator as "achieved" if there is evidence of public organisations making changes in response to our recommendations in at least two of our follow-ups.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Public organisations have improved aspects of their performance in response to our performance audits	**Achieved**	**-**	Achieved	Achieved	Achieved	Results not available
Target: Report on one to two follow-ups a year	**Achieved**					

Inquiries

The Auditor-General decides whether to inquire into issues of concern that are raised with us or that we identify through our intelligence-gathering and other 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*.

In 2023/24, we conducted two major inquiries: one into Callaghan Innovation's procurement process for its Start Up programme, and one into errors in counting votes in the 2023 General Election.[6] Part 3 of this report sets out highlights of the steps taken in response to our inquiries.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Public entities have improved aspects of their performance in response to our inquiries	**Achieved**	-	Achieved	Achieved	Achieved	Achieved
Target: Report on one to two each year	**Achieved**					

6 Our independent review of counting errors done for the Electoral Commission had the characteristics of an inquiry under section 18 of the Public Audit Act 2001, except that we carried out the work as a service under section 17 of the same Act and recovered our costs.

Our services

Service 1: Provide advice and support for effective parliamentary scrutiny

What went well	What didn't go to plan
Select committees doubled the amount of time they allocated to scrutiny under new Standing Orders. We increased our support in response with enhanced content and analysis, particularly on performance reporting. We received positive feedback from select committees about the support and advice we provided to them.	At times we found it difficult to resource the increased workload.

This service is funded primarily from the Statutory Auditor Function multi-category appropriation, Supporting Accountability to Parliament category. The amount appropriated for this category in the Supplementary Estimates for 2023/24 was $7.150 million.

We assist Parliament's scrutiny of public sector performance by providing advice and support. This includes giving advice to select committees to assist their annual reviews of public organisations and their scrutiny of Estimates of Appropriations.

We provided select committees with 85 briefings for annual reviews and 63 briefings for Estimates of Appropriations. We provided 12 introductory briefings to newly established select committees. We also issued 145 letters to portfolio Ministers summarising the findings from our audits of public organisations.

We will continue to work closely with committees and the Office of the Clerk of the House of Representatives to support the enhancements to scrutiny under new Standing Orders.

Timeliness measures

All but five briefings were on time. The five late briefings were sent on the due date but after the specified time.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of briefing papers that are submitted to select committees by the agreed deadline	**97%**	**-2%**	99%	99%	100%	98%
Target: 100%	**Not achieved**					

Quality measures

Our services to parliamentary select committees during 2023/24 have continued to meet quality expectations.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of parliamentary select committees that rate our advice as at least "satisfactory"	**100%**	-	Not assessed	100%	Not assessed	100%
Target: 100%	**Achieved**					
Our surveys of select committee chairpersons are carried out every two years. The most recent survey was completed in 2023/24.						

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of parliamentary select committees that rate our reports on performance audits, inquiries, and other studies as at least "satisfactory"	**100%**	-	Not assessed	100%	Not assessed	100%
Target: 100%	**Achieved**					
Our surveys of select committee chairpersons are carried out every two years. The most recent survey was completed in 2023/24.						

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 primarily from the Statutory Auditor Function multi-category appropriation, Supporting Accountability to Parliament category. The amount appropriated for this category in the Supplementary Estimates for 2023/24 was $7.150 million.

Performance for monitoring spending against parliamentary appropriations

The Government cannot spend, borrow, or impose a tax without Parliament's approval. Our Controller function provides independent assurance to Parliament that public expenditure has been incurred lawfully and within parliamentary authority. 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 been incurred without appropriation or other authority; and
- report our conclusions to the Treasury (through our monthly Controller reports).

We report annually to Parliament on the Controller function, usually as part of our report on our observations from our central government audits. We also publish reports and articles on our observations relating to the Controller function (typically two each year). For example, in 2023/24 we published an article about the increasing number of multi-year appropriations we have seen. The article raised awareness of the risks to effective parliamentary control from introducing more multi-year appropriations, especially outside the annual budget process.

Quantity measures

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
We issue a report to Parliament on the Auditor-General's exercise of the Controller function for each financial year	**1**	**-**	1	1	1	1
Target: At least one	**Achieved**					

Indicator: We issue reports to the public on the Auditor-General's exercise of the Controller function for each financial year

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
We issue reports to the public on the Auditor-General's exercise of the Controller function for each financial year	**3**	**+1**	2	4	5	6
Target: Two	**Achieved**					

Timeliness measures

Indicator: The monthly Controller reports (for September to May) are provided to the Treasury within five working days of receiving the Treasury's monthly reports and statements

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
The monthly Controller reports (for September to May) are provided to the Treasury within five working days of receiving the Treasury's monthly reports and statements	**100%**	-	100%	100%	100%	100%
Target: 100%; all nine reports	**Achieved**					
All procedures were followed and agreed timeframes were met for all nine reports.						

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

What went well	What didn't go to plan
We are back on track with the majority of audits of large public organisations, which are being completed within the normal statutory timeliness. An independent review confirmed the probity and objectivity of our methods and processes for allocating audits and monitoring the reasonableness of audit fees.	Timely completion of the audits of smaller public organisations remains a challenge. Private sector auditors of schools have a significant number of delayed audits to bring up to date. Timeliness of reporting to governors remains a challenge. We did not meet our timeliness targets for letters issued to Ministers and select committees on annual audits. This was partly due to delays in appointing new Ministers and establishing select committees after the 2023 General Election. Time and resource pressures are affecting the quality of the audit files we reviewed during the year.

This service is funded primarily from the Audit and Assurance Services revenue-dependent appropriation and the Audit and Assurance Services appropriation. The amount appropriated for this category in the Supplementary Estimates for 2023/24 was $137.546 million.

The core work of our Office is annual audits of public organisations. Our annual audits provide assurance about the reliability of financial and performance information reported by public organisations. Annual audits account for about 85% of the Office's work. Audit New Zealand and private sector auditors carry out this work on the Auditor-General's behalf.

We allocate annual audits to auditors. 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 auditors issue reports to those charged with governance with observations from our work and how they could improve their organisation's control environment and reporting.

We routinely carry out quality assurance reviews of appointed auditors.

Quantity measures

We expect to sign and issue about 3300 audit reports each year (which roughly equates to the number of public organisations within the Auditor-General's mandate). The audits falling due in 2023/24 and the previous years' outstanding audits mean we had a total of 4538 audits to complete.

The timing of long-term plan audits was affected by Government decisions about water reforms. Legislation was changed to give councils options for when to complete long-term plans in 2023/24. Twenty-one councils chose to defer their adoption of the long-term plan until 30 September 2024 and a further 12 councils have deferred until 30 June 2025. Also, as a result of severe weather events, eight councils were exempt from producing a long-term plan. This meant 37 long-term plan audits were due for completion in 2023/24, with 36 completed on time.

Indicator: Number of annual audit reports signed and issued

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of annual audit reports signed and issued	**3140**	**+66**	3074	2704	3356	2922
Target: Not applicable	-					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of council long-term plan audit reports signed and issued	**36**	**-**	Not assessed (not a long-term plan year)	Not assessed (not a long-term plan year)	66	Not assessed (not a long-term plan year)
Target: Not applicable	-					

Timeliness measures

Completing annual audits on time has been an issue since the onset of Covid-19. The pandemic exacerbated various factors that affect our ability to complete audits on time, including the capacity of the audit profession overall, the capacity and readiness of public organisations to support timely audits, and changing risk profiles arising from the disruption and uncertainty that come with sector reforms. Also, audits in arrears in one year must be added to the workload for the following year, and in 2023/24 we had additional audit work on councils' long-term plans. These audits are complex, and the current economic situation and uncertainties faced by councils added to the complexity of the audits of long-term plans.

We maintained our focus on large organisations that contribute significantly to the financial statements of the government, and completed 86% of those audits on time. However, across all audits in our portfolio we completed only 59% on time.

Although this is an improved result on 2022/23, timeliness issues arising from or exacerbated by Covid-19 have a long "tail", and we remain some way from our pre-Covid performance.

We were able to complete some audits late but before the end of the financial year. As at 30 June 2024, 41% of audits not completed by the applicable deadline reduced to about 28% of audit reports in arrears.

School audits remain a core challenge for achieving our timeliness targets. School audits have a 31 May statutory deadline, which leaves little room to catch up before the end of the financial year. Because schools make up 75% of our audits by number, the limited opportunity to catch up can be a significant contributor to arrears.

Of the audits in arrears as at 30 June 2024, 83% are audits of schools. However, we have made significant progress: only 56% of school audits were completed by the 31 May deadline, but at the time of compiling this annual report about 85% of school audits had been completed.

School audits are carried out by private sector auditors, but it is difficult to find enough private sector auditors to complete the audits on time, partly because the audits are small and the fees are too low to make these audits commercially attractive compared to other audit work available.

Delays in completing audits, coupled with the general workload pressures on auditors, had flow-on consequences for timely completion of reports to governors and letters to Ministers. In the case of letters to Ministers, another contributing factor was that after the 2023 General Election, new Ministers were not appointed in time for us to issue some letters within our target timeframes.

Indicator: Percentage of audit reports that are signed by the applicable statutory deadline[7]

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of audit reports that are signed by the applicable statutory deadline	**59%**	**+4%**	55%	57%	71%	63%
Target: At least 80%	**Not achieved**					

Indicator: Number of public entities with audit reports in arrears as at 30 June 2024[8]

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of public entities with audit reports in arrears as at 30 June 2024	**938**	**-151**	1089	1078	600	848
Target: Fewer than 495	**Not achieved**					
"In arrears" means not completed within statutory timeframes and remaining outstanding as at 30 June 2024. This measure has been changed from "decreasing" to "fewer than 495". This figure represents about 15% of the organisations we audit each year and is a more accurate reflection of the performance we want to achieve for this measure. It also takes into account the high volume of school audit reports with a statutory deadline at the end of May.						

7 This measure also appears under Outcome 3.

8 This measure also appears under Outcome 3.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
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	**88%**	**-**	88%	88%	90%	97%
Target: 100%	**Not achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of ministerial letters on annual audits that are issued to Ministers and parliamentary select committees within the expected time period	**43%**	**-33%**	76%	77%	61%	93%
Target: 100%	**Not achieved**					
Where the audit report statutory deadline is 31 October, the expected time period is within 15 weeks of signing the audit report. For all other audits, the expected time period is within 10 weeks of signing the audit report.						

Quality measures

We are committed to maintaining high standards of auditing. We use our quality assurance reviews of audit files and appointed auditors, our client satisfaction survey results, and independent assessment of the appropriateness of audit fees to provide indicators of overall audit quality.

We routinely carry out quality assurance reviews of completed audits and appointed auditors to assess compliance with the Auditor-General's auditing standards. The assessment of audit files subject to the quality assurance review influences the assessment of appointed auditors. We expect all our auditors to be assessed as at least "satisfactory". We work with auditors assessed as "not satisfactory" to address any immediate concerns, create improvement plans, and carry out a follow-up review. A report on the quality of annual audits is in Appendix 4 of this report.

We have assessed 90% of our auditors as at least satisfactory. Where auditors were assessed as not satisfactory, our concerns related to the audit file documentation rather than the appropriateness of audit opinions. We were satisfied that the conclusions reached and the opinions included in the audit reports were appropriate. No audit opinions were withdrawn in 2023/24.

In 2023/24 overall client satisfaction increased to 76%, up from 69% in 2022/23. However, the response rate to our survey reduced by 10%, mainly due to fewer responses from local government organisations.

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 high-quality audits, and that their audit fees are reasonable. The annual independent review confirmed the probity and objectivity of the methods and processes we use to allocate audits and to monitor whether fees are reasonable (see Appendix 2).

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of appointed auditors with a quality assurance grade of at least "satisfactory" based on the most recent quality assurance review	**90% (120 of 134)**	**+2%**	88% (122 of 139)	92% (120 of 131)	90% (123 of 136)	93% (115 of 123)
Target: 100%	**Not achieved**					
We include both the percentage and number of appointed auditors reviewed. The number of auditors reviewed varies because we do not review auditors when they are new and have not completed an audit yet, or when they have no audits allocated to them, and because we take a risk-based approach to prioritising quality assurance reviews.						

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of audit files subject to quality assurance review during the year that achieve a rating of at least "satisfactory"	**84%**	**+10%**	74%	84%	69%	91%
Target: 100%	**Not achieved**					

Indicator: Number of audit reports withdrawn

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of audit reports withdrawn	**0**	**-**	0	2	1	-
Target: No audit reports withdrawn	**Achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of public entities that are "satisfied" with the overall quality of their audit service (as determined by responses to our satisfaction survey)	**76%**	**+7%**	69%	71%	71%	82%
Target: At least 85%	**Not achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits and to monitor the reasonableness of audit fees	**Confirmed by annual independent review**	-	Confirmed by annual independent review	Confirmed by annual independent review	Confirmed by annual independent review	Confirmed by annual independent review
Target: Confirmed	**Achieved**					

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, Category 2, and Category 3 inquiry work and for our work under the Local Authorities (Members' Interests) Act 1968.	We were not able to complete the scheduled quality assurance due to resource constraints.

This service is funded primarily from the Statutory Auditor Function multi-category appropriation, Performance Audits and Inquiries category. The amount appropriated for this category in the Supplementary Estimates for 2023/24 was $13.426 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 several 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 issues and whether to 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 timeframe.

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

Inquiries

Quantity measures

Our inquiry work is partly driven by demand (requests for inquiry or issues we identify ourselves) but is also limited by our capacity. In 2023/24 we received a comparable number of requests for inquiry to 2022/23, but completed two major inquiries (compared to three in 2022/23) and concluded fewer pieces of inquiry work during the year.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of requests for inquiry received (including protected disclosures)	**46**	**-1**	47	49	64	48
Target: Not applicable	-					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of protected disclosures received (a subset of the number above)	**7**	**+1**	6	4	9	6
Target: Not applicable	-					
In our 2022/23 annual report we incorrectly reported a total of 1. This table shows the correct figure of 6 for 2022/23.						

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of pieces of inquiry work (other than major inquiries) concluded during the year	**38**	**-8**	46	56	62	42
Target: Not applicable	-					

Indicator: Number of major inquiries concluded during the year

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of major inquiries concluded during the year	**2**	**-1**	3	3	4	2
Target: Not applicable	-					
The two major inquiries for 2023/24 included the independent review of counting errors done for the Electoral Commission, which had the characteristics of an inquiry under section 18 of the Public Audit Act 2001, except that we carried out the work as a service under section 17 of the same Act and recovered our costs.						

Timeliness measures

This year, we achieved our timeliness targets for our three inquiry categories. We balance being timely with obligations of fairness and natural justice and the number and complexity of the issues.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of requests for inquiries or self-initiated issues that are considered and a view is reached within four weeks	**91%**	**-4%**	95%	96%	94%	100%
Target: At least 90%	**Achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of pieces of inquiry work (except major inquiries) that are concluded within six months	**92%**	**+1%**	91%	94%	90%	81%
Target: At least 90%	**Achieved**					
This performance standard was revised in 2020/21. We concluded 38 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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of major inquiries that are concluded and their findings reported within the expected time period	**100%**	**-**	100%	66%	75%	-
Target: At least 75%	**Achieved**					
We completed both major inquiries within the expected time period.						

Quality measures

We assess quality of inquiries through our internal quality assurance reviews. This indicator was not assessed for 2023/24 because the quality assurance review was deferred to 2024/25 due to resource constraints.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of inquiries that meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)	**Not assessed**	**-**	Not assessed (not a review year)	Not assessed (not a review year)	100%	Not assessed (not a review year)
Target: 100%	**-**					
The next quality assurance review is scheduled for 2024/25.						

Local Authorities (Members' Interests) Act 1968

Quantity measures

This year, we received 29 requests to approve contracts under the Act.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of Local Authorities (Members' Interests) Act 1968 approval requests received	**29**	**+5**	24	23	33	96
Target: Not applicable	-					

Timeliness measures

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.

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of requests under the Local Authorities (Members' Interests) Act 1968 for approval of contracts that are responded to within the expected time period	**100%**	-	100%	100%	88%	93%
Target: At least 90%	**Achieved**					

Service 5: Assess public sector performance and accountability

What went well	What didn't go to plan
We completed 11 pieces of performance audit work in 2023/24: five performance audits and six follow-ups. We also published 10 other pieces of work. Audited public organisations continue to rate our performance as at least "satisfactory".	We did not achieve our target of reporting on 100% of our performance audits within 12 months of starting our work, and only 50% of our other publications in the service category were completed within the expected timeframe.

This service is funded primarily from the Statutory Auditor Function multi-category appropriation, Performance Audits and Inquiries category, and the amount appropriated for this category in the Supplementary Estimates for 2023/24 was $13.426 million.

Performance audits form a significant part of the work programme we publish in our annual plan. Appendix 3 sets out our progress against our work programme.

As noted in Part 3, performance audits help public organisations improve their 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 the recommendations from our performance audits.

Along with our performance audit work, we publish a range of reports and articles that support public sector performance by providing insight and guidance. These include special studies, research reports, observations from our audits in various sectors, good practice guidance, and other types of information and commentary.

We also engaged with public organisations, governing boards, and audit and risk committees to help them to apply our insights and guidance to improve performance and accountability.

Quantity measures

In 2023/24, we completed 11 pieces of performance audit work and 10 other publications. Appendix 3 lists the publications we completed during 2023/24. We also facilitated nine audit and risk committee chairpersons' forums.

Indicator: Number of pieces of performance audit work issued during the year

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of pieces of performance audit work issued during the year	**11**	**-**	11	6	9	4
Target: Not applicable	**-**					
"Performance audit work" includes performance audits, performance audit follow-up reports, and performance audit follow-up self-assessments. In 2023/24, we completed five performance audits and six follow-ups, together making 11 pieces of performance audit work.						

Indicator: Number of other publications issued during the year

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of other publications issued during the year	**10**	**-2**	12	15	9	14
Target: Not applicable	**-**					
"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 chairperson forums facilitated

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Number of audit and risk committee chairperson forums facilitated	**9**	**+3**	6	9	-	-
Target: At least eight (two each quarter)	**Achieved**					
This year, we facilitated nine audit and risk committee chairperson forums. The forums bring together audit and risk committee chairpersons from the public sector to raise matters of mutual interest and discuss good practice.						

Timeliness measures

Our performance audits can be complex and involve managing many dependencies that can affect timeliness. In 2023/24, we completed 11 pieces of performance audit work. This included our first full rapid audit, completed in 13 weeks. Six pieces of work were completed within six months, seven within 10 months, and eight within 12 months. Three performance audits were completed outside of the target 12-month timeframe. We will continue to look at how we set performance audit timeframes, better manage dependencies, and make our work available in a timely way.

Timeliness of our other publications was below target.

Indicator: Percentage of performance audit work that was concluded and had findings reported within six months

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of performance audit work that was concluded and had findings reported within six months	**55%**	**+19%**	36%	67%	11%	-
Target: At least 10%	**Achieved**					

Indicator: Percentage of performance audit work that was concluded and had findings reported within 10 months

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of performance audit work that was concluded and had findings reported within 10 months	**64%**	**+28%**	36%	75%	56%	-
Target: At least 70%	**Not achieved**					

Indicator: Percentage of performance audit work that was concluded and reported on within 12 months

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of performance audit work that was concluded and reported on within 12 months	**73%**	**+28%**	45%	75%	89%	-
Target: 100%	**Not achieved**					

Indicator: Percentage of other work concluded and published within the expected time period

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of other work concluded and published within the expected time period	**50%**	**+8%**	42%	60%	88%	-
Target: At least 75%	**Not achieved**					
This includes research reports, sector reports and letters, good practice guides, and any other publication that has been published on the Auditor-General's website.						

Quality measures

We assess the quality of performance audits through a combination of internal quality assurance reviews and external peer reviews by the Australian National Audit Office, and through a satisfaction survey of public organisations that have been involved in a performance audit. In 2023/24, our internal review found that our performance audits substantially met the Auditor-General's process and quality criteria.

In 2023/24, we received survey responses from seven public organisations that we had previously audited. We used a five-point survey scale, ranging from "strongly disagree" to "strongly agree" across several dimensions. We assess that the responses were at least "satisfactory" if the organisation responded with "neutral", "agree", or "strongly agree" to most questions. All seven organisations that responded to our survey rated our performance audits as at least "satisfactory".

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of performance audits that substantially meet the Auditor-General's process and reporting quality criteria (as determined by quality assurance review)	**100% (internal review)**	**-**	100% (internal review)	100% (external review)	Not assessed	100% (internal review)
Target: 100%	**Achieved**					

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

Measure	2023/24	Change	2022/23	2021/22	2020/21	2019/20
Percentage of audited entities that rate our performance audits as at least "satisfactory"	**100%**	-	100%	100%	93%	88%
Target: At least 85%	**Achieved**					

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Our finances

Our appropriations

Our services are funded through the appropriations for Vote Audit 2023/24. In the table below, we show the links between the appropriations and our services.

Our appropriations	Our services
Statutory Auditor Function MCA MCA means multi-category appropriation – more than one aspect of our work is covered by this appropriation.	**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	**Monitor spending against parliamentary appropriations** Our Controller function.
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.	**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.
Statutory Auditor Function MCA	**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.

Appropriation statements

Statement of budgeted versus actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2024

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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Output expenses					
*Audit and Assurance Services RDA***	**129,916**	110,928	118,026	123,563	122,491
Audit and Assurance Services	**150**	5,422	13,833	13,983	11,960
Total appropriations for output expenses	**130,066**	**116,350**	**131,859**	**137,546**	**134,451**
Other expenses					
Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority)‡	**1,166**	1,099	1,099	1,166	1,166
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance audits and inquiries	**10,726**	9,824	13,126	13,426	15,251
Supporting accountability to Parliament	**8,432**	8,784	6,901	7,150	6,901
Total *Statutory Auditor Function MCA*	**19,158**	**18,608**	**20,027**	**20,576**	**22,152**
Total appropriations for operating expenditure	**150,390**	**136,057**	**152,985**	**159,288**	**157,769**
Capital expenditure					
Controller and Auditor-General Capital Expenditure PLA‡‡	**2,559**	2,818	4,297	4,585	5,030
Total annual and permanent appropriations	**152,949**	**138,875**	**157,282**	**163,873**	**162,799**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2023/24, revenue under this appropriation was $129.916 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 2024

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 2024 (2023: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2024

The Office did not receive any capital injections without, or in excess of, appropriation or other authority in the year ended 30 June 2024 (2023: 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 organisations 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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Income					
Crown	**19,957**	20,508	19,657	19,957	21,782
Other	**571**	474	370	619	370
Total income	**20,528**	**20,982**	**20,027**	**20,576**	**22,152**
Expenditure	**(19,158)**	**(18,608)**	**(20,027)**	**(20,576)**	**(22,152)**
Surplus	**1,370**	**2,374**	**-**	**-**	**-**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

Statutory Auditor Function MCA costs were $1.418 million lower than in the Supplementary Estimates. This was mainly due to the deferral of some projects in the Office's *Information Systems Strategic Plan* to 2024/25 and 2025/26 while we reviewed the programme of work and considered new opportunities, like artificial intelligence.

The surplus of $1.370 million is subject to an In-Principle Expense Transfer (IPET) of $0.6 million approved by the Officers of Parliament Committee (OPC) in March 2024. OPC will be requested to confirm or approve an amended amount in October 2024. The IPET currently allows the Office to increase the available budget in 2024/25 by up to $0.6 million for the deferral of projects that were not completed in 2023/24.

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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Income from third parties	**132,226**	110,928	118,026	123,563	122,491
Expenditure	**(129,916)**	(110,928)	(118,026)	(123,563)	(122,491)
Surplus**	**2,310**	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

** 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 2023/24 primarily reflects more work completed and more fees earned on audits of public organisations, including the audits of councils' long-term plans, carried out by audit services providers.

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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Income	**150**	150	150	150	150
Expenditure	**(150)**	(5,422)	(13,833)	(13,983)	(11,960)
(Deficit)**	**-**	**(5,272)**	**(13,683)**	**(13,833)**	**(11,810)**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

** 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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Income from Crown	**150**	150	150	150	150
Income from third parties	**132,226**	110,928	118,026	123,563	122,491
Total income	**132,376**	**111,078**	**118,176**	**123,713**	**122,641**
Expenditure	**(130,066)**	(116,350)	(131,859)	(137,546)	(134,451)
Surplus/(Deficit)**	**2,310**	**(5,272)**	**(13,683)**	**(13,833)**	**(11,810)**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

** 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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Income	**1,166**	1,099	1,099	1,166	1,166
Expenditure	**(1,166)**	(1,099)	(1,099)	(1,166)	(1,166)
Surplus	**-**	**-**	**-**	**-**	**-**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

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.

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 Auditor-General's operations.

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

	Actual 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Property, plant, and equipment	**628**	1,451	2,671	2,856	1,759
Intangible assets	**1,743**	1,160	1,626	1,729	3,271
Other	**188**	207	-	-	-
Total capital expenditure	**2,559**	**2,818**	**4,297**	**4,585**	**5,030**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

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 2024/25 and 2025/26 while we reviewed the programme of work and considered new opportunities, like artificial intelligence.

The lower spend on property, plant, and equipment primarily reflects delays in the refurbishment of our Wellington office.

Our financial results

Overview of our financial results

Operating result

For 2023/24, our Office had a surplus of $3.680 million. Our net operating results by appropriation are summarised below.

	Audit and Assurance Services $000	Statutory Auditor Function $000	Remuneration of Auditor-General and Deputy Auditor-General $000	Total $000
Revenue	132,376	20,527	1,166	154,069
Costs	(130,066)	(19,157)	(1,166)	(150,389)
Surplus/(Deficit)	**2,310**	**1,370**	**-**	**3,680**

The surplus of $2.310 million in Audit and Assurance Services arose from additional revenue generated from the audit of council's long-term plans, in addition to the annual audit and other assurance engagements completed by Audit New Zealand. This surplus is transferred to our memorandum account, which was set up to help us manage the peaks and troughs in our audit fee revenue cycle.

The surplus of $1.370 million in the Statutory Auditor Function arose from the deferral of some projects in the Office's *Information Systems Strategic Plan* to 2024/25 and 2025/26. The surplus is subject to an In-Principle Expense Transfer (IPET) of $0.6 million approved by the Officers of Parliament Committee (OPC) in March 2024. OPC will be asked to confirm or approve an amended amount in November 2024. The IPET increases the available budget in 2024/25 by up to $0.6 million for the deferral of projects that were not completed in 2023/24.

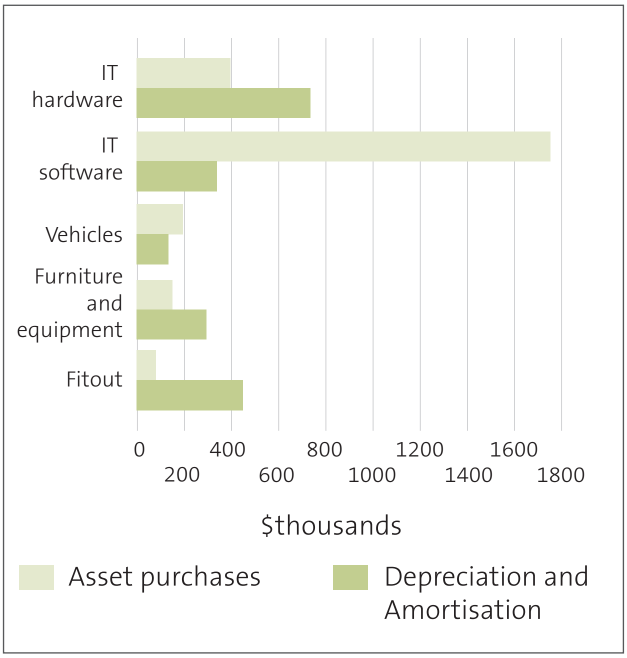
Memorandum account

The surplus for the year reflects additional revenue from audits of councils' long-term plans and the closing balance of the memorandum account reflects a capital contribution of $7 million 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 2023	2,018
Audit and Assurance Services surplus	2,310
Capital contribution	7,000
Closing balance at 30 June 2024	**11,328**

Investment in our assets

In 2023/24, we continued our replacement programme for IT hardware, furniture, and vehicles. We also continued implementing our *Information Systems Strategic Plan*, which covers a programme of work to improve our information systems and services.



Due to spending more time than anticipated on implementing our Audit Management System this year, we did not spend as much as we anticipated on implementing other IT software projects.

Statement of comprehensive revenue and expense

for the year ended 30 June 2024

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 "Appropriation statements" section.

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

	Notes	Actual 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Revenue						
Crown funding	2	**21,273**	21,757	20,906	21,273	23,098
Audit fee revenue	3	**132,216**	110,906	118,016	123,952	122,631
Other revenue		**580**	496	230	230	230
Gains on sale of plant and equipment		**1**	19	-	-	-
Total revenue		**154,070**	**133,178**	**139,152**	**145,455**	**145,959**
Expenditure						
Personnel costs	4	**68,680**	64,242	67,429	69,748	70,928
Other operating costs	5	**78,558**	69,199	76,640	75,527	77,322
Depreciation and amortisation expense	10, 11	**1,921**	1,865	2,685	2,532	3,064
Capital charge	6	**1,231**	751	1,231	1,231	1,6188
Total expenditure		**150,390**	**136,057**	**147,985**	**149,038**	**152,932**
Surplus/(Deficit)		**3,680**	**(2,879)**	**(8,833)**	**(3,583)**	**(6,973)**
Other comprehensive revenue and expense		**-**	-	-	-	-
Total comprehensive revenue and expense for the year		**3,680**	**(2,879)**	**(8,833)**	**(3,583)**	**(6,973)**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

Statement of financial position

as at 30 June 2024

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

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

	Notes	Actual 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Assets						
Current assets						
Cash and cash equivalents	7	**11,948**	6,509	3,934	10,874	9,494
Receivables	8	**21,365**	15,521	10,100	13,500	13,500
Prepayments		**2,011**	1,928	900	1,244	1,244
Work in progress	9	**2,488**	2,977	2,308	2,669	2,669
Total current assets		***37,812***	***26,935***	***17,242***	***28,287***	***26,907***
Non-current assets						
Plant and equipment	10	**3,620**	4,487	5,682	5,252	4,824
Intangible assets	11	**3,061**	1,650	3,154	2,939	5,333
Total non-current assets		***6,681***	***6,137***	***8,836***	***8,191***	***10,157***
Total assets		**44,493**	**33,072**	**26,078**	**36,478**	**37,064**
Liabilities						
Current liabilities						
Payables and deferred revenue	12	**12,154**	9,869	9,562	10,286	10,300
Repayment of surplus due to the Crown	13	**1,370**	2,393	-	-	-
Employee entitlements	14	**8,219**	7,946	8,035	9,231	9,409
Total current liabilities		***21,743***	***20,208***	***17,597***	***19,517***	***19,709***
Non-current liabilities						
Payables and deferred revenue	12	**221**	245	-	-	-
Employee entitlements	14	**338**	476	687	662	674
Total non-current liabilities		***559***	***721***	***687***	***662***	***674***
Total liabilities		**22,302**	**20,929**	**18,284**	**20,179**	**20,383**
Net assets		**22,191**	**12,143**	**7,794**	**16,299**	**16,681**
Taxpayers' funds		**10,863**	10,125	10,863	10,863	11,218
Memorandum account	15	**11,328**	2,018	(3,069)	5,436	5,463
Total equity		**22,191**	**12,143**	**7,794**	**16,299**	**16,681**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

Statement of changes in equity
for the year ended 30 June 2024

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.

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

	Notes	Actual 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Taxpayers' funds						
Balance at 1 July		**10,125**	**8,221**	**10,125**	**10,125**	**10,863**
Total comprehensive revenue and expense		**3,680**	(2,879)	(8,833)	(3,582)	(6,973)
Transfer of memorandum account net (surplus)/deficit for the year		**(2,310)**	5,272	8,833	3,582	6,973
Capital contribution		**738**	1,904	738	738	355
Surplus repayment due to the Crown		**(1,370)**	(2,393)	-	-	-
Balance at 30 June		**10,863**	**10,125**	**10,863**	**10,863**	**11,218**
Memorandum account						
Balance at 1 July		**2,018**	**(410)**	**(1,236)**	**2,018**	**5,436**
Memorandum account net surplus/(deficit) for the year		**2,310**	(5,272)	(8,833)	(3,582)	(6,973)
Capital contribution		**7,000**	7,700	7,000	7,000	7,000
Balance at 30 June	**15**	**11,328**	**2,018**	**(3,069)**	**5,436**	**5,463**
Total equity						
Balance at 1 July		**12,143**	7,811	8,889	12,143	16,299
Balance at 30 June		**22,191**	**12,143**	**7,794**	**16,299**	**16,681**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

Statement of cash flows

for the year ended 30 June 2024

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 2023/24 $000	Actual 2022/23 $000	Main Estimates 2023/24 $000*	Supplementary Estimates 2023/24 $000*	Main Estimates 2024/25 $000*
Cash flows from operating activities						
Receipts from the Crown		**15,123**	19,968	20,906	23,062	23,098
Receipts from public entities**		**72,758**	53,786	62,946	69,109	66,761
Payments to suppliers**		**(18,616)**	(18,658)	(23,854)	(21,067)	(23,338)
Payments to employees		**(66,726)**	(60,424)	(64,873)	(66,025)	(68,608)
Net GST received/(paid)***		**1,289**	222	-	(243)	-
Capital charge paid		**(1,231)**	(751)	(1,231)	(1,231)	(1,618)
Net cash flow from (used in) operating activities	**16**	**2,597**	**(5,857)**	**(6,106)**	**3,605**	**(3,705)**
Cash flows from investing activities						
Receipts from sale of plant and equipment		**56**	72	-	-	-
Purchase of plant and equipment		**(816)**	(1,657)	(2,671)	(2,856)	(1,759)
Purchase of intangible assets		**(1,743)**	(1,161)	(1,626)	(1,729)	(3,271)
Net cash flow from (used in) investing activities		**(2,503)**	**(2,746)**	**(4,297)**	**(4,585)**	**(5,030)**
Cash flows from financing activities						
Capital contributions		**7,738**	9,604	7,738	7,738	7,355
Surplus repayment to the Crown		**(2,393)**	(3,115)	-	(2,393)	-
Net cash flow from (used in) financing activities		**5,345**	**6,489**	**7,738**	**5,345**	**7,355**
Total net increase (decrease) in cash and cash equivalents		**5,439**	(2,114)	(2,665)	4,365	(1,380)
Cash and cash equivalents at the beginning of the year		**6,509**	8,623	6,599	6,509	10,874
Cash and cash equivalents at the end of the year		**11,948**	**6,509**	**3,934**	**10,874**	**9,494**

* All Estimates information is unaudited. The figures under Main Estimates 2023/24 reflect the forecasts published in Budget 2023 and in the Office's 2022/23 annual report, and the figures under Supplementary Estimates 2023/24 reflect the updated forecasts published in Budget 2024.

** 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 2024

This statement records expenditure to which the Office is contractually committed at 30 June 2024.

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 2023/24 $000	Actual 2022/23 $000
Non-cancellable operating lease commitments		
Not later than one year	**3,154**	778
Later than one year and not later than five years	**2,971**	679
Later than five years	**4,966**	1,055
Total non-cancellable operating lease commitments*	**11,091**	**2,512**
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	**11,091**	**2,512**

* The significant increase in the actual operating lease commitments for 2023/24 reflects the execution in July 2023 of our existing Wellington office lease renewal to 2028.

Statement of contingent liabilities and contingent assets
as at 30 June 2024

This statement discloses situations that existed at 30 June 2024, 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 2024 (2023: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2024 (2023: Nil).

Notes to the financial statements

for the year ended 30 June 2024

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 Officer 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 2024 and were authorised for issue by the Controller and Auditor-General on 30 September 2024.

Basis of preparation

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

Statement of compliance

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

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

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

Presentation currency and rounding

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

Standards issued and not yet effective and not early adopted

There were no Standards and amendments issued but not yet effective which have not been early adopted and which are relevant to the Office.

Budget and forecast figures

The forecast financial statements (Main Estimates 2024/25) 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.

2023/24 Main Estimates and Supplementary Estimates

The 2023/24 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2023 and in the Office's 2022/23 annual report.

The 2023/24 Supplementary Estimates forecast financial statements are based on the updated forecasts published in Budget 2024.

2024/25 Main Estimates

The 2024/25 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2024. They have been prepared in keeping with PBE FRS 42: *Prospective Financial Statements* and comply with that standard.

The 2024/25 forecast financial statements were approved for issue by the Auditor-General on 10 April 2024. 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 2025 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 about what might occur during 2024/25. 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 10 April 2024, were as follows:

- The Auditor-General's portfolio of organisations will remain substantially the same as for the previous year and reflect the same allocation approach across the audit service providers as was in place at 10 April 2024.
- The Office will continue to deliver the range of products currently provided and will also be in a position to create 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 2024/25 are likely to vary from the forecast information presented, and the variations might be material.

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.

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 information 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 2023/24 $000	Actual 2022/23 $000
Fee revenue generated by the Office for audit and assurance services	**70,272**	55,985
Fee revenue generated by contracted audit service providers for audits of public entities*	**61,944**	54,921
Total audit fee revenue	**132,216**	**110,906**

* 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 2023/24 $000	Actual 2022/23 $000
Salaries and wages	**64,716**	60,322
Other employee-related costs	**1,517**	1,950
Employer contributions to defined contribution plans	**1,824**	1,643
Increase/(decrease) in employee entitlements	**623**	327
Total personnel costs	**68,680**	**64,242**

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 2023/24 $000	Actual 2022/23 $000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	**125**	126
Operating lease payments	**3,184**	3,119
Fees for audits of public entities carried out by contracted audit service providers*	**61,944**	54,922
Other expenses	**13,305**	11,032
Total other operating costs	**78,558**	**69,199**

* 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 2024 was 5% (2023: 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.

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.

No credit losses are anticipated because our debtors are primarily public organisations that can charge taxes and levies and/or receive funding from the Crown. We also note that we have not experienced any material losses over the previous two years. The allowance for credit losses at 30 June 2024 and 30 June 2023 was determined as 0%.

Breakdown of receivables and further information

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

30 June 2024	Gross $000	Estimates of losses %	Expected credit losses $000	Impaired credit losses $000	Net $000
Not past due	18,777	0%	-	-	18,777
Past due 1-30 days	1,650	0%	-	-	1,650
Past due 31-60 days	209	0%	-	-	209
Past due 61-90 days	274	0%	-	-	274
Past due over 90 days	455	0%	-	-	455
Carrying amount	**21,365**		**-**	**-**	**21,365**

30 June 2023	Gross $000	Estimates of losses %	Expected credit losses $000	Impaired credit losses $000	Net $000
Not past due	13,162	0%	-	-	13,162
Past due 1-30 days	1,435	0%	-	-	1,435
Past due 31-60 days	475	0%	-	-	475
Past due 61-90 days	128	0%	-	-	128
Past due over 90 days	321	0%	-	-	321
Carrying amount	**15,521**		**-**	**-**	**15,521**

The receivables balance at 30 June 2024 also reflects a debtor from the Crown of $7.939 million (June 2023: 1.789 million) arising from the recognition of Crown revenue earned in 2023/24 but not reflected by the equivalent receipt (draw down) of cash as at 30 June 2024.

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

	Actual 2023/24 $000	Actual 2022/23 $000
Balance at 1 July	**-**	**-**
Additional provisions made during the year	-	-
Receivables written off during the year	-	-
Balance at 30 June	**-**	**-**

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 2022	***2,108***	***690***	***4,459***	***3,705***	***1,046***	***12,008***
Additions	268	145	68	970	206	1,657
Disposals	(64)	(91)	-	(125)	(99)	(379)
Balance at 30 June 2023	***2,312***	***744***	***4,527***	***4,550***	***1,153***	***13,286***

	Furniture and fittings $000	Office equipment $000	Leasehold improvements $000	IT hardware $000	Motor vehicles $000	Total $000
Additions	31	114	97	385	189	816
Disposals	-	-	-	(478)	(239)	(717)
Balance at 30 June 2024	***2,343***	***858***	***4,624***	***4,457***	***1,103***	***13,385***
Accumulated depreciation and impairment losses						
Balance at 1 July 2022	***1,763***	***579***	***2,208***	***2,568***	***370***	***7,488***
Depreciation expense	182	87	422	800	143	1,634
Elimination on disposal	(64)	(91)	-	(123)	(45)	(323)
Balance at 30 June 2023	***1,881***	***575***	***2,630***	***3,245***	***468***	***8,799***
Depreciation expense	194	95	443	725	132	1,589
Elimination on disposal	-	-	-	(478)	(145)	(623)
Balance at 30 June 2024	**2,075**	**670**	**3,073**	**3,492**	**455**	**9,766**
Carrying amounts						
Balance at 1 July 2022	345	111	2,251	1,137	676	4,520
Balance at 30 June 2023	431	169	1,897	1,305	685	4,487
Balance at 30 June 2024	**268**	**188**	**1,551**	**965**	**648**	**3,620**

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, see 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

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

Movements for each class of intangible asset are as follows:

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2022	***4,293***	***1,372***	***5,665***
Additions	-	1,161	1,161
Disposals	-	-	-
Reclassification	3	(3)	-
Balance at 30 June 2023	***4,296***	***2,530***	***6,826***
Additions	-	1,743	1,743
Disposals	-	-	-
Balance at 30 June 2024	**4,296**	**4,273**	**8,569**
Accumulated amortisation and impairment losses			
Balance at 1 July 2022	***4,234***	***709***	***4,943***
Amortisation expense	28	203	231
Elimination on disposal	-	-	-
Balance at 30 June 2023	***4,262***	***912***	***5,174***
Amortisation expense	27	305	332
Elimination on disposal	-	-	-
Balance at 30 June 2024	**4,289**	**1,217**	**5,506**
Carrying amounts			
Balance at 1 July 2022	59	661	720
Balance at 30 June 2023	34	1,618	1,652
Balance at 30 June 2024	**7**	**3,056**	**3,063**

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

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.

	Actual 2023/24 $000	Actual 2022/23 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	**2,094**	1,680
Income in advance	**6,945**	5,943
Accrued expenses	**601**	1,021
Total payables under exchange transactions	***9,640***	***8,644***
Current payables and deferred revenue under non-exchange transactions		
GST payable	**2,514**	1,225
Total payables and deferred revenue under non-exchange transactions	***2,514***	***1,225***
Total current payables and deferred revenue	**12,154**	**9,869**
Non-current payables and deferred revenue under exchange transactions		
Other payables	**221**	245
Total non-current payables and deferred revenue	**221**	**245**

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 2023/24 $000	Actual 2022/23 $000
Surplus/(Deficit) current year		**3,680**	(2,879)
Less: Surplus/(Deficit) transferred to/from memorandum account	15	**2,310**	(5,272)
Total provision for payment to the Crown		**1,370**	**2,393**

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 2024. The salary inflation factor has been determined after considering the 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 $14,893 lower and $15,987 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 $18,477 higher and $17,477 lower respectively.

Breakdown of employee entitlements

	Actual 2023/24 $000	Actual 2022/23 $000
Current employee entitlements		
Salary and other accruals	**2,312**	2,800
Annual leave	**5,151**	4,577
Time off in lieu of overtime worked	**212**	208
Retiring leave	**366**	206
Sick leave	**178**	155
Total current employee entitlements	***8,219***	***7,946***
Non-current employee entitlements		
Retiring leave	**338**	476
Total non-current employee entitlements	***338***	***476***
Total employee entitlements	**8,557**	**8,422**

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 2023/24 $000	Actual 2022/23 $000
Audit and assurance services		
Balance at 1 July	**2,018**	**(410)**
Revenue	**132,376**	111,637
Expenses	**(130,066)**	(116,909)
Surplus/(Deficit) for the year	***2,310***	***(5,272)***
Capital contribution	**7,000**	7,700
Balance at 30 June	**11,328**	**2,018**

In 2023/24 ,we drew down capital contributions from the Crown of $7.738 million; $7 million was a non-repayable capital injection approved in Budget 2023 related to *Audit and Assurance Services*.

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 2023/24 $000	Actual 2022/23 $000
Net Surplus/(Deficit)	3,680	**(2,879)**
Add/(Less) non-cash items		
Depreciation and amortisation	**1,921**	1,865
Total non-cash items	***1,921***	***1,865***
Add/(Less) movements in working capital items		
(Increase)/Decrease in prepayments	**(83)**	(1,057)
(Increase)/Decrease in receivables	**(5,843)**	(4,464)
(Increase)/Decrease in work in progress	**1,491**	(38)
Increase in payables	**1,255**	(3)
Increase in employee entitlements	**138**	735
Total movements in working capital items	***(3,042)***	***(4,827)***

	Actual 2023/24 $000	Actual 2022/23 $000
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	**38**	(16)
Total items classified as investing activities	***38***	***(16)***
Net cash flow from operating activities	**2,597**	**(5,857)**

Reconciliation of liabilities arising from financial activities

	2022/23	Cash flows	Non-cash changes	2023/24
Repayment of surplus to the Crown	2,393	(2,393)	1,370	1,370

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 2023/24 $000	Actual 2022/23 $000
Key management personnel remuneration	**3,352**	3,245
Full-time equivalent key management personnel	**11**	11

The above key management personnel information excludes the Auditor-General and Deputy Auditor-General. The Auditor-General and Deputy Auditor-General's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are funded under a Permanent Legislative Authority.

Key management personnel at 30 June 2024 comprised the 11 members of the Combined Leadership Team.

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 (2023: 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 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. 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 2023/24 $000	Actual 2022/23 $000
Loans and receivables			
Cash and cash equivalents	7	**11,948**	6,509
Receivables	8	**21,365**	15,521
Total loans and receivables		**33,313**	22,030
Financial liabilities measured at amortised cost			
Payables		**12,154**	9,869
Total creditors and other payables	**12**	**12,154**	**9,869**

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 2023/24 budget figures (2023/24 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The overall surplus for 2023/24 was $3.680 million, compared to a deficit of $8.833 million budgeted in the Main Estimates. Revenue was $14.918 million higher than the Main Estimates and expenditure was $2.405 million higher. The revenue and increases primarily reflect more work completed and more fees earned on audits of public organisations, including the audits of councils' long-term plans, carried out by audit service providers.

Audit New Zealand's direct expenditure also increased due to the recruitment of more employees to support the completion of audits.

Statement of financial position and Statement of changes in equity

Net assets at 30 June 2024 were $14.397 million more than the Main Estimates. This primarily reflects an actual surplus in the Audit and Assurance Services memorandum account asset compared with an anticipated deficit.

Assets at 30 June 2024 were $18.415 million higher than the Main Estimates. This reflects higher cash balances and receivables arising from more work completed and more fees earned from audits. The increase in our receivables has been partially offset by less software expenditure than anticipated on the Office's *Information Systems Strategic Plan*.

Liabilities at 30 June 2024 were $4.018 million higher than the Main Estimates. This reflects higher levels of income received in advance and the repayment of surplus to the Crown.

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 (2023: Nil).

Independent auditor's report

To the readers of the Controller and Auditor-General's Annual Report for the year ended 30 June 2024

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 2024, 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 2024 in the section *Our performance*; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2024 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 2024;
    - 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 2024:
    - 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 2024, 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 30 September 2024. 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 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, Our core assurance functions, The impact of our work, 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 Dawn Alexander.

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit Limited

Christchurch, New Zealand

30 September 2024

Appendix 1
Report of the Audit and Risk Committee

Members (1 July 2023 to 30 June 2024)

Warren Allen, FCA, FCIS, MinstD, Chair
Linda Robertson, BComm, Dp.Bank, GAICD, INFINZ, FGNZ, CFInstD, CS, CGP
Howard Fancy, MComm(Hons), BSc(Hons) Chemistry
Andrew McConnell, Deputy Controller and Auditor-General

The Audit and Risk Committee is an independent committee established by, and reporting directly to, the Auditor-General. The Committee has no management functions. The purpose of the Committee is to provide independent oversight and advice to the Auditor-General on:

- risk management and internal controls;
- the Office's audit functions (both internal and external audits);
- financial and other external reporting;
- the governance framework and processes; and
- compliance with legislation, policies, and procedures.

In the last year, the Committee met on seven occasions to fulfil its role and responsibilities. During the past year, the Committee:

- received regular updates on the Office's key focus areas and discussed risks for the Office to ensure they are appropriately managed;
- reviewed the Office's strategic risks with the Auditor-General;
- received regular briefings on the Controller function;
- obtained briefings on the internal audit programme, findings, and audit challenges;
- discussed with external auditors their plans and findings;
- monitored the Office's implementation of audit recommendations made by internal and external auditors;
- reviewed the 2022/2023 Annual Report and annual financial statements of the Office prior to the approval by the Auditor-General;
- reviewed the Draft 2024/25 Annual Plan; and
- deliberated on major projects: progress on implementation of the Information System Strategic Plan (ISSP); implementation of the new audit tool (Auvenir); the Office's role in climate-related disclosures; the Audit New Zealand work practice review; incorporating reforms in the health sector and water infrastructure into the Office's business; progress on the Office's te ao Māori and People Strategy.

The Committee has reported on the above, and on all other relevant matters to the Auditor-General.

There were no outstanding matters at the time of this report.

Warren Allen
Chair, Audit and Risk Committee

13 August 2024

Appendix 2
Report of the independent reviewer

Pauline Courtney
Barrister and Commercial Mediator (AAMINZ)
P O Box 10 318
Wellington 6140

18 July 2024

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

Dear Mr Ryan

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES 2024

Background and instructions

Under s 14 of the Public Audit Act 2001 (the Audit Act), you are appointed as the auditor of all public entities. Section 42 of the Audit Act authorises you 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 3,340 public entities in New Zealand, of which approximately 3275 must be separately audited, it is impractical for Audit New Zealand itself to carry out all these audits. Therefore, you contract auditors from the private sector to carry out many of these audits on your behalf. In the year under review Audit New Zealand carried out approximately 50% of all public sector audits (measured by audit fees) not including schools.

The Office of the Auditor-General (OAG) sets strategy, policy and standards, and appoints and oversees auditors, both from Audit New Zealand and the 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 second year that I have carried out this review, which covers the year ending 30 June 2024. I am a Barrister and Commercial Mediator with Kate Sheppard Chambers working in the civil/commercial and public law areas. I hold an LLB(Hons) and BCA from Victoria University of Wellington. 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.*

No limitation has been placed on the manner in which I may carry out my work. I have been free to inspect any documents or files that I consider appropriate to the review; and to discuss any 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 I 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 client organisations, one a major government department, the other a major council that as well as its annual financial report audit underwent an audit of its Long-Term Plan. While a small sample, some similar responses led me to consider as part of this review the third of the bulletpoints above. As a result, I had some useful discussions with senior representatives of your office about what is being done, and areas where further benefit might be achieved.

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 various material issues that arose during the year based on information provided by your Office; and related inquiries I considered it appropriate to pursue.

Types of Audit Appointments

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

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

Appointments for new entities

In the financial year 2023-2024, the Auditor-General appointed auditors for eight new public entities including four schools and four non schools. I had received confirmation that the appointments were made using the principles set out in the "Allocation Model"; the reasons given for the appointments 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 past financial year to audit 60 public entities for a further term. For most of the appointments covered by this paragraph I observed no dissatisfaction from the entities. In the very small number of cases where the appointment of different auditors was sought, including where concern about audit fees was expressed, I reviewed the considerations taken into account having regard to the published principles used to appoint auditors and to set audit fees, and the process adopted. The reasons given for the decisions appeared reasonable.

New appointments for existing entities in the non-school sector

In the year under review 15 new appointments were made for existing entities in the non-school sector. (However, I note that 13 of those were related; and 12 of the appointments involved an entity and its subsidiaries.) The documentation I reviewed related to the new appointments indicated that the principles of the Allocation Model had been applied, and prudent and relevant considerations of both a technical and relationship nature had been considered, before you made the new appointments.

During the year under review no tender process was undertaken.

1 In exceptional circumstances the Auditor-General can agree to more than 6 years.

Moderating of fees for local authority audits

Because of reporting and auditing challenges in the local authority sector for the period 2023-2025, the decision was taken to moderate fees in three tranches: 1) city councils; 2) regional councils; and 3) district councils. In the year under review moderation of the third tranche occurred. The documentation I reviewed indicated that a robust process had been undertaken. The approach sought to align proposed fees among similar types of local authorities. Careful analysis of past and current considerations was evident; including to ensure that the approach adopted should not undermine the reasonableness of other audit fees.

Audit Allocation Model

In the past 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 always to have access to enough audit capacity and capability.

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

I understand 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. Before 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. I understand that the contestable process will continue to be used in individual cases where appropriate. I consider that when the work on the principles and practical application is completed, it is important that an accurate summary is 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 that past 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 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 continuing 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 database 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 past 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 that arise over fees are during or after the end of an audit. Some arise from the constrained financial position of particular small entities. Some arise from misunderstandings about what is required, some about 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 a number of requests were received from auditors for an additional fee for additional work requirements. You have given permission for auditors to discuss increases directly with the entities within certain limits without the need to obtain your consent first. I consider this additional flexibility to be reasonable.

Overall, I am 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

In my view, no other material issues arose in the previous year that warrant comment in this report.

Conclusion

I have been provided with 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; including related to the relevant internal processes of the OAG regarding both appointments, fee setting and monitoring. On the basis of that review and the explanations provided, nothing has come to my attention that would impact on my conclusion that:

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

Yours sincerely

Pauline Courtney

Pauline Courtney
Barrister

Appendix 3
Our 2023/24 work programme and work published

For each item listed in Appendix 3 of our *Annual Plan 2023/24*, we provide the published title (in italics) and publication date or provide an update.

* Denotes projects in progress that were due to be completed in 2023/24.

Strengthening our core assurance role

Items	Published title or current state
Audit readiness for public sector reforms, including new audit methodologies	In progress: We have finalised a methodology for auditing the New Zealand Health Plan. Preparing for new audits, including Te Wānanga o Raukawa and greenhouse gas emissions for public sector climate reporting entities
Supporting the Ministry of Education's review of school accountability	Not started: The Ministry of Education has not started the project
Readiness for climate reporting by public organisations	*Accounting for climate change* (May 2024) *Carbon targets and ambiguity: The scrutiny to expect from an auditor* (June 2024) The first audits of climate reporting entity greenhouse gas emissions will be carried out during the second half of 2025
Audit contract management system upgrade	Complete: We implemented a new audit management system and auditor portal (April 2024)
Audit fee reviews of key sectors	Ongoing: Local government fees for annual audits and the long-term plan audits were reviewed during the past year. School audit fees are to be set in the first half of 2024/25, and central government fees are due to be set in the second half of 2024/25
Focus on practice management and implementing the new audit tool	In progress: The practice management review has been completed and recommendations are being implemented through the Audit New Zealand Practice Improvement programme. The new audit tool has been implemented, with its use on audits being phased in for 2024 and 2025 audits*
Ethics in auditing	*Guide to support the application of the Auditor-General's Code of Ethics* (June 2024)
Monitoring the use of appropriations	*The increasing use of multi-year appropriations* (May 2024)

Increasing our impact with public organisations

Items	Published title or current state
Advice and support to Parliament and select committees	Ongoing
Preparing for, and performing, the next round of long-term plan audits	Ongoing: Originally planned to be completed in 2023/24. However, councils were given the option to defer adoption of their long-term plans by 12 months. Those councils' audits will be completed by July 2025*
Auckland Council review of service performance	In progress: To be completed in 2024/25
Public sector accountability to communities – research	In progress: To be completed in 2024/25*
Commentary on the Wellbeing Report	*Commentary on Te Tai Waiora: Wellbeing in Aotearoa New Zealand* (August 2023)
Effectiveness of mental health and alcohol/other drug services for young people	*Meeting the mental health needs of young New Zealanders* (February 2024)
Understanding and addressing educational disparities	In progress: To be completed in 2024/25*
Immigration New Zealand visa processing – accountability and effectiveness of the visa process	In progress: To be completed in 2024/25*
Progress of the Government's efforts to reduce child poverty	In progress: To be completed in 2024/25*
Leadership of the housing and urban development system	*Leading New Zealand's approach to housing and urban development* (August 2023)
Planning of significant housing and urban development projects	Discontinued due to other work priorities
Cyber security maturity and preparedness	In progress: To be completed in 2024/25
Systems and processes underpinning government decisions on major infrastructure investment	*Making infrastructure investment decisions quickly* (December 2023)
Performance audit topic from public survey: Infrastructure resilience	In progress: To be completed in 2024/25
Presenting a picture of sector-level performance reporting (transport pilot)	*Transport sector: A case study of sector-level performance* (October 2023)
Assessing the quality of performance reporting	*Do your measures measure up?* (November 2023)
Good practice guidance on performance reporting – local government	*Local government planning and reporting on performance* (January 2024)
Improving the quality of performance reporting	*A guide to our resources to support better performance reporting* (May 2024)

Items	Published title or current state
Monitoring performance information in sectors undergoing major change	Data published on our website (September 2024)
Climate change and local government	In progress: To be completed in 2024/25*

Enhancing our impact in te ao Māori

Items	Published title or current state
How well prepared are public organisations to meet Treaty settlement commitments	In progress: To be completed in 2024/25*

Building on our reputation as a source of trusted information

Items	Published title or current state
Observations from our central government audits (including the Controller function): 2022/23	*Observations from our central government work in 2022/23* (December 2023)
Results of the 2022 school audits	*Results of the 2022 school audits* (December 2023)
Results of the 2022 audits of tertiary education institutions and understanding disparities in tertiary education	*Tertiary education institutions: 2022 audit results and what we saw in 2023* (June 2024)
2022/23 health update	In progress: To be completed in 2024/25*
Insights into local government 2022 audits	*Results of the 2021/22 council audits* (December 2023)
Insights into local government 2023 audits	*Insights into local government: 2023* (August 2024)
Licensing trusts: Results of the 2022/23 audits	In progress: To be completed in 2024/25*
Auckland landscape scan	*Reporting on the public sector's performance in Tāmaki Makaurau Auckland* (October 2023)
Controller update	*Controller update: September 2023* (September 2023) *Controller update: April 2024* (April 2024)
Procurement reflections – wrap-up of procurement work	*Strengthening government procurement: Lessons from our recent work* (May 2024)
Support for audit and risk committees	Ongoing
Two pilot rapid audits (topics to be confirmed) #1	*Monitoring importers of specified high-risk foods* (February 2024)
Two pilot rapid audits (topics to be confirmed) #2	In progress: Our work on inspecting vehicles for safety is to be completed in 2024/25*
Public sector events	Ongoing

Items	Published title or current state
Assurance over aspects of the 2023 General Election	*General Election 2023: Independent review of counting errors* (May 2024)
Support for strong accountability arrangements	*Submission on the Water Services Entities Amendment Bill* (July 2023) *Submission on the Fast-track Approvals Bill* (April 2024)

Following up on performance audits

Items	Published title or current state
Follow-ups to our performance audits	*Responses to our recommendations about Governance of the City Rail Link project* (December 2023) *Regional councils' relationships with iwi and hapū for freshwater management – a follow-up report* (May 2024) *Strategic suppliers: Understanding and managing the risks of service disruption – follow-up* (June 2024) *Responses to our recommendations about the co-ordination of the all-of-government response to the Covid-19 pandemic in 2020* (June 2024) *Responses to our recommendations about improving Crown entity monitoring* (June 2024) *The Government's preparedness to implement the sustainable development goals – follow-up* (June 2024)

Corporate publications

Items	Published title or current state
Corporate documents	*Annual report 2022/23* (October 2023) *Draft annual plan 2024/25* (April 2024) *Annual plan 2024/25* (June 2024)

Appendix 4
Report on the quality of annual audits

High-quality audit work is important. It enables us to provide assurance over public spending and help improve financial management and reporting.

This report focuses on our system of quality management for annual audits carried out on behalf of the Auditor-General.

The way we operate

The Auditor-General appoints auditors to carry out annual audits of public organisations. These auditors are appointed from Audit New Zealand (the Auditor-General's in-house audit service provider) and 22 private sector audit firms. There are about 155 auditors with the authority to audit and issue audit reports for the public organisations they have been appointed to audit.

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

- the appointment of auditors considered to be independent to carry out audits;
- the Auditor-General's auditing standards that auditors are required to apply;[2] and
- the quality of the work that auditors perform.

Our quality management system

Professional and ethical standards[3] require us to operate a system of quality management to provide reasonable assurance that we comply with standards and applicable legal and regulatory requirements, and issue appropriate reports from our work. The system of quality management is based on seven elements:

- governance and leadership;
- our risk assessment processes;
- ethical requirements;
- performing our audit work;
- resources;
- information and communication; and
- monitoring quality and remediating deficiencies.[4]

We report below on the processes, policies, and procedures that support each element of audit quality, as it applies to annual audits carried out on behalf of the Auditor-General. We also include some quality indicators, which measure performance.

2 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.

3 The relevant Professional and Ethical standard is PES 3: *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Service Engagements* issued by the New Zealand Auditing and Assurance Board of the External Reporting Board.

4 PES 3 has eight components. The component *Acceptance and Continuance of Client Relationships and Specific Engagements* in not directly relevant to the Office as we cannot refuse to be the auditor of a public entity. We include requirements on our audit services providers to advise us of issues which may ordinarily lead them to decline performing an audit so that we can manage the situation.

Governance and leadership

Our governance and reporting structure contributes to audit quality

The Auditor-General is ultimately responsible for the system of quality management 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's 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;
- 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 during 2023/24.

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

Our values underpin audit quality

The Auditor-General relies on all staff acting with integrity, so that there will be trust and confidence in the work that we do. Integrity is about consistently adhering to strong and moral ethical principles.

The Auditor-General is the Office's Integrity Officer because of the importance of integrity in our work. The Integrity Officer leads integrity work, which includes:

- increasing awareness of integrity matters across the organisation;
- ensuring integrity is regularly on the agenda at senior leadership level;
- supporting ongoing work to progress and implement the matters identified in the Office's Integrity Strategy; and
- identifying and ensuring alignment of progress on integrity matters with other work under way across the Office.

Our integrity framework has the building blocks a public organisation should have in place for a strong and effective integrity system and is consistent with the good practice material we have published for use by public organisations.[5]

We measure and report progress internally to staff.

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 organisations audited by private sector audit firms. Every four years, we invite the Financial Markets Authority to carry out a review, so the next review is expected to occur in 2026.

The Financial Markets Authority reviewed both the system of quality control and a sample of audit files. Although its report identified low-rated findings about the system of quality control, and low and medium rated findings for the sample of audit files, none of the findings would change the audit reports that were issued.

The New Zealand Institute of Chartered Accountants Practice Review reviewed a sample of audit files. Its report noted it was evident that Audit New Zealand applies high quality standards in its audits. The report identified some findings, none of which would change the audit reports that were issued.

5 See *Putting integrity at the core of how public organisations operate: An integrity framework for the public sector* at oag.parliament.nz.

We have considered the findings in each report to identify improvements that can be made to our system of quality management.

Our risk assessment processes

Our risk management processes for audit quality operate at two levels; the strategic level and the system of quality management level.

Strategic risks affect the Office achieving its strategic objectives. Audit failure that leads to a loss of trust and confidence is one of our strategic risks. Such a failure could occur if an audit report with an incorrect audit opinion was issued.

The system of quality management risks relate to our quality objectives for each of the seven elements outlined above.

We have systems and processes designed to mitigate both strategic and quality management risks. We have identified policies and procedures to improve or enhance our risk mitigations. We will develop a work programme to address these.

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 and restricts the work auditors can carry out for an organisation they audit to only work of an assurance nature.

We monitor compliance with audit independence requirements

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

For staff, including Audit New Zealand, the work that can be done is limited by the Public Audit Act 2001, and 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 where independence may be questioned, and we consider independence as part of our quality assurance review program for annual audits.

In 2023/24, 46 proposals for work other than the audit were referred for approval (51 in 2022/23). Of these, 45 were approved and one was declined. There was one instance where we identified a threat to independence and took action to manage and mitigate the threat.

For 2023/24 we were satisfied that independence standards were upheld.

We monitor how long key audit staff audit the same organisation

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

For 2023/24 we complied with the Auditor-General's standard.

Resources

All audits are allocated, either to senior staff 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.

For 2023/24 we were generally satisfied with the skills and experience of staff allocated to audits, based on our quality assurance reviews.

Performing our 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 appropriate levels of review of audit files. Auditors carry out audits based on the Auditor-General's auditing standards and requirements and guidance provided through an audit brief. We updated two Auditor-General Statements for improvements identified from our quality reviews.

We communicate the mandatory quality requirements we place on firms that carry out audits or other engagements on behalf of the Auditor-General.[6]

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

The Auditor-General's auditing standards require auditors to consult on specific matters that could result in a 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 2023/24, the committee met on 44 occasions (45 in 2022/23).

We analyse the nature of matters considered by the committee and communicate to auditors so that they can maintain an awareness for these in their audit work. In 2023/24, potential probity matters were considered during two meetings (eight in 2022/23) and uncertainties in estimates relating to financial statements were considered during three meetings (10 in 2022/23).

To support and ensure consistency of our audit reports on council consultation documents and long-term plans, we reviewed the proposed audit report and key judgements supporting these. In 2023/24, we reviewed 26 audit reports on council consultation documents and long-term plans.

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

Sometimes during an audit an auditor discovers, or is made aware of, an error or misstatement in the prior year's financial statements 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.

6 The quality requirements are set out in one of the Auditor-General's auditing standards, AG PES 3: *Quality Management for Firms that Perform Audits or Other Engagements on Behalf of the Auditor-General.*

When material errors are identified, common practice, in line with auditing and accounting standards, is to retrospectively correct for misstatement in the first set of financial statements authorised after the error is discovered.

Prior period errors by financial year

Year	Prior period errors included in annual reports	As a percentage of the total number of reports issued in the year
2023/24	52	1.6%
2022/23	49	1.8%
2021/22	33	1.2%

Most of the errors were in the financial statements of schools, local authorities, council-controlled organisations, and State-owned enterprises, and related to incorrect classification or measurement of financial instruments, errors in recognising or derecognising property, plant and equipment, and incorrect classification of financial instruments.

The number and impact of errors or misstatements can signal potential problems with the audit. We follow up errors with auditors to understand why the error wasn't identified during the audit, and whether improvements can be made in future audits.

We also communicate the findings of our analysis to our auditors.

We require an engagement quality review to occur for particular audits

We have a standard that sets out when an engagement quality review is required. Our auditors need to consider a wide range of quality risk factors as part of assessing when to appoint an engagement quality reviewer to respond to the risks.

An engagement quality review provides an objective evaluation of significant judgements made by auditors and the conclusions reached before the auditor signs the audit opinion. The engagement quality reviewer's evaluation of significant judgements takes into account professional standards and applicable legal and regulatory requirements. The engagement quality reviewer is not part of the engagement team.

We assess compliance with the engagement quality review as part of our quality assurance reviews, including evidence that the review met the requirements of the standard. For 2023/24, based on our quality reviews, we were satisfied that all audits that required it had an effective engagement quality review.

Monitoring quality and remediating deficiencies

Frequency of our quality reviews

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

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

Our monitoring covers all auditors appointed to carry out audits. The frequency of reviews is based on risk.[7]

7 Our policy is to perform a quality review:
- for all new appointed auditors after their first year of appointment;
- once within a three-year period for each appointed auditor, unless the risk profile supports extending that period (with the agreement of the Assistant Auditor-General, Audit Quality) to a frequency up to once every five years; and
- when the overall assessment grade assigned to an appointed auditor requires another quality review.

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. We also perform quality reviews of some audit files before the audit report is issued, depending on risk factors.

Quality reviews performed by financial year

Year	Number of appointed auditors who had a quality review	Number of instances where the audit file was reviewed after the corresponding audit report was issued	Number of instances where the audit file was reviewed before the corresponding audit report was issued
2023/24	51	63	13
2022/23	31	47	11
2021/22	34	79	6

In applying a risk-based focus, the frequency of our reviews for auditors where no risk factors are present can be more than five years. We have 20 (16%) auditors where their last quality review was more than five years ago.

Quality review results of audit file inspections

We grade each audit file we review.

Percentage of audit files reviewed that met our quality expectations

Year	Met our quality expectations	Did not meet our quality expectations
2023/24	84%	16%
2022/23	74%	26%
2021/22	84%	16%

Our results are similar to those reported by the New Zealand Financial Markets Authority and similar to international averages.[8]

Where audit files do not meet our quality expectations, we assess whether deficiencies call into question the appropriateness of the opinion included in the audit report. In all situations we were satisfied that the audit opinion was appropriate.

How we determine the cause of quality review findings

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

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

How we assess timely and effective remediation of quality review findings

We require our auditors to remediate the more significant deficiencies, and where necessary, make changes to the audit approach for subsequent audits.

8 New Zealand Financial Markets Authority, *Audit Quality Monitoring Report 1 July 2022 – 30 June 2023*, page 6, reports 84% compliance of audit files reviewed in 2022/23 and 72% in 2022. The international average of non-compliant files is 26%.

For our 2023/24 quality assurance work, auditors are in the process of responding to our quality review findings and remediating the more significant deficiencies. Our follow-up work to assess remediation will occur as part of our 2024/25 quality review programme.

We perform a follow-up review

As well as assessing auditors' remediation of the more significant deficiencies, we carry out a follow-up quality assurance review once the auditor's quality improvement programme has been completed. This usually occurs within 18 months, to give sufficient time to the auditor and their firm to make changes and have them reflected in future audits. If it is important that particular changes are made before the next audit, we confirm those changes before the next audit report is issued.

At 30 June 2024, there are 14 auditors who did not meet our quality expectations. For 11 of these auditors the review was carried out during the past 18 months and a follow-up review was not due.

Sometimes there are significant findings from follow-up reviews. If this occurs, and the auditors continue to carry out audits, more support is provided to the auditors. The other three auditors are in this position.

Statement of the effectiveness of the Office's system of quality management

In keeping with the New Zealand External Reporting Board's standard on quality management, we carried out an evaluation of the overall system of quality management at 15 December 2023. We concluded that, except for matters relating to an identified deficiency that has a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides us with reasonable assurance that the objectives of the system of quality management are being achieved.

A key contributor to our conclusion related to the status of root-cause analysis of the more significant deficiencies from quality assurance reviews of audit engagements. Although we were satisfied that audit reports contained the correct audit opinion, we were not satisfied that the root-cause analysis and any necessary remediation to the system of quality management had occurred. The root-cause analysis has now been completed.

Appendix 5
Disclosures under the Public Audit Act 2001

Organisations 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 organisations audited by the Auditor-General under an arrangement in accordance with section 19 of the Public Audit Act 2001. At 30 June 2024, arrangements had been entered into for audits of:

- 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. Several changes to the Auditor-General's auditing standards have been made during the year:

- AG ISA (NZ) 220 (Revised): *The Auditor-General's statement on quality management for an audit of financial statements* is new. The statement specifies the role of the Auditor-General or Deputy Auditor-General and the responsibilities of appointed auditors in cases where the Auditor-General or Deputy Auditor-General signs the audit report of a public entity.
- AG ISA (NZ) 320: *The Auditor-General's statement on materiality in planning and performing an annual audit* has been updated to include application and other explanatory material when establishing planning materiality for asset intensive entities. Asset intensive entities are those where the reported value of property, plant, and equipment is often very large when compared to the other assets of the entity and to the entity's revenue and expenditure. Councils are an example of asset intensive entities.
- The *Guide to support the application of the Auditor-General's Code of Ethics* (the Guide) provides comprehensive guidance on how the Auditor-General's Code of Ethics (a seven-page document) is to be applied in practice. Specifically, the Guide illustrates how the Auditor-General applies the standard of independence to public sector audits.

Other assurance work

Under the Public Audit Act 2001, the Auditor-General can, with the agreement of the audited organisation, carry out services that are reasonable and appropriate for an auditor to carry out. This work generally focuses on reviewing procurement and contract management, project management, asset management, risk management, governance, and ethical issues including conflicts of interest. In 2023/24, we performed the following work in this category:

- Audit New Zealand and the Office of the Auditor-General worked together to complete an independent review of counting errors in the 2023 General Election.
- Audit New Zealand spent just under 3300 hours providing assurance services. It issued 35 assurance reports in the financial year and started 43 new assurance engagements.

Audit New Zealand and our other audit service providers also regularly 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.

Appendix 6
Emissions inventory

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 that we have included only the organisations and assets that we have financial control of within Categories 1 and 2. Other emissions outside of our organisational boundary are reported in Categories 3 to 6.

Changes to emission factors and additional sources

This is the third year that we have completed a greenhouse gas emissions inventory, with emissions measured in 2018/19 (our baseline year), 2022/23, and 2023/24. The baseline year was chosen as a pre-pandemic year to provide a more consistent point of comparison, as emissions reduced during the pandemic.

Since 2022/23, we have been measuring three additional emissions sources: emissions from staff commuting, emissions from staff working from home, and recycling emissions. The baseline year was not restated for these new sources – we cannot conduct accurate retrospective staff surveys for commuting and working from home, and the recycling emissions were considered immaterial because they were less than 0.5% of our total emissions.

An additional source for this year was emissions data from our external audit service providers. This was a small pilot using data collected from three external providers. The results were not extrapolated because each provider works on a different number of audit clients, and because these clients vary in size and complexity we do not have an accurate method for extrapolation. Overall, the data from this pilot added 4.3 tCO_2e to our inventory (0.4% of total 2023/24 emissions), all in Category 3. The pilot will be rolled out to all external audit service providers in 2024/25 so that we can collect more complete emissions data. Prior years have not been restated to include this source because the data cannot be gathered retrospectively.

Toitū Envirocare sources its emissions factors primarily from the Ministry for the Environment, and updates the factors annually based on new underlying data. These updated emission factors have been applied to our 2023/24 emission sources. Prior years have not been restated with these updated factors because the impact is less than 5% of the total emissions.

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

Inventory summary

Our emissions for 2023/24 are set out in the table below, based on the sources we are currently able to measure. The increase in Category 3 emissions is largely from including the new emissions sources for staff commuting and working from home. The additional data source from the external service providers pilot added only an additional 4.3 tCO_2e to Category 3 emissions.

Category (ISO 14064-1:2018) tCO_2e	Scopes (ISO 14064-1:2006)	2018/19 tCO_2e	2022/23 tCO_2e	2023/24 tCO_2e	Movement 2022/23 to 2023/24
Category 1: Direct emissions and removals	Scope 1	104	100	102	2
Category 2: Indirect emissions from imported energy	Scope 2	47	29	38	9
Category 3: Indirect emissions from transportation	Scope 3	663	1,095	1,031	(64)

Category (ISO 14064-1:2018) tCO_2e	**Scopes (ISO 14064-1:2006)**	**2018/19 tCO_2e**	**2022/23 tCO_2e**	**2023/24 tCO_2e**	**Movement 2022/23 to 2023/24**
Category 4: Indirect emissions from products used by organisation	Scope 3	44	44	48	4
Category 5: Indirect emissions associated with the use of products from the organisation	Scope 3	0	0	0	0
Category 6: Indirect emissions from other sources	Scope 3	0	0	0	0
Total direct emissions		**104**	**100**	**102**	**2**
Total indirect emissions		**754**	**1,168**	**1,117**	**(51)**
Total gross and net emissions		**858**	**1,268**	**1,219**	**(49)**

Note: tCO_2e stands for tonnes of carbon dioxide equivalent.

Category 1 emissions relate to fuel consumption from our vehicle fleet. These have remained steady year-on-year and remain one of our largest sources of emissions.

Category 2 emissions are from our electricity use, and dropped in 2022/23 due to a change in emissions factors. This is not representative of our actual electricity usage in kiloWatts, which has increased each year. In 2023/24, our electricity use was higher than in previous years, despite the calculated emissions being lower.

Category 3 emissions have decreased by 64 tCO_2e in 2023/24 compared to last year. Air travel emissions from international relocations have decreased by 238 tCO_2e, which reflects our reduced reliance on overseas audit staff. Staff commuting emissions have increased by 168 tCO_2e. The underlying data from our staff commuting is highly uncertain, as it is an extrapolation of surveys run during the year.

Category 4 emissions increased by 4 tCO_2e in 2023/24, largely due to emissions from wastewater. This emissions source is based on the staff commuting survey mentioned above so the underlying data carries a high level of uncertainty.

Inherent uncertainty

We calculated our emissions based on supplier sources and the most up-to-date emission factors available from Toitū Envirocare at the time our inventory was produced and independently verified. However, there is inherent uncertainty in preparing a greenhouse gas emissions inventory due to estimations and extrapolation, as well as uncertainty related to the emissions factors.

Where possible, we have collected source data directly from suppliers. For some, we had to estimate or extrapolate information (such as emissions from our vehicle fleet and staff commuting), which increases the level of uncertainty.

There is also a degree of uncertainty with the emissions factors provided by Toitū Envirocare. For example, as vehicles become more efficient over time, the emissions for each kilometre travelled reduces. The electricity emissions factor tends to move more than other factors because in some years there is more thermal generation and in other years more renewable generation.

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