Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[24l]

Our audit of the Government's financial statements and our Controller function

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

Our audit of the Government's financial statements and our Controller function

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

November 2024

Contents

Auditor-General’s overview

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

We are fortunate to have a public financial system in New Zealand that ensures regular and transparent reporting, aligned with internationally recognised accounting standards, on the Government’s financial position and performance. This plays an important role in building the public’s and Parliament’s trust in the Government.

However, trust in public institutions is declining internationally. In New Zealand, research shows that the public’s trust and confidence in the public sector has declined since 2021. New Zealand has also dropped in its score and ranking in the Transparency International Corruption Perceptions Index.

We should all be concerned about this downward trend. Trust in the public sector is critical to how well our democracy functions.

Independent auditing of this information supports Parliament, the public, and the international community to have confidence in the integrity of New Zealand’s public finance system.

My Office’s work in central government

This report describes the results of our audit of the *Financial Statements of the Government of New Zealand* (the Government’s financial statements). It also reports on the findings from our Controller work (where we monitor government spending to check whether it is in line with parliamentary authority).

The Government’s financial statements

The Government’s financial statements remain, in many respects, world leading. They are prepared and audited within three months of the end of the financial year and published soon afterwards.

The Government’s financial statements are consistent with generally accepted accounting practice. They include information about the Government’s revenue, expenses, and liabilities, the value of its assets, and an account of the Government’s net worth.

This information tells the public, Parliament, and international audiences about how the Government is managing its finances and gives some insight into its ability to manage public finances over the longer term and to respond to future shocks or emergencies.

My audit report for the 2023/24 financial statements included an unmodified opinion. This means that I am satisfied that they present fairly the Government’s financial performance and position, and that they comply with generally accepted accounting practice.

This year, the Government's financial statements were prepared in a context of significant change as central government responded to the new Government's priorities and policy agenda. When we carried out our audit, many central government organisations were implementing extensive change processes to align with changed priorities and to meet the Government's expectations that they reduce costs.

This created a challenging environment for finance teams in many central government organisations. There were some delays to the preparation of financial information and more adjustments and corrections were made than in previous years. Despite this, the financial statements were prepared and the audit was completed by the statutory deadline of 30 September.

Key audit matters

In my audit report, I describe several key audit matters. These are matters that I consider to be of most significance to the audit of the financial statements. They are typically matters that are complex, have a high degree of uncertainty, or are particularly important to the public because of their size or nature.

As in previous years, I included a key audit matter about the amounts still owed to employees who were paid less than their legal entitlements under the Holidays Act 2003. The financial statements included a provision of $2.4 billion for amounts owing to tens of thousands of public sector employees over many years. Health New Zealand – Te Whatu Ora and the Ministry of Education have the most affected current and former employees.

I am aware that Parliament has previously expressed concern about the continued non-compliance with the Holidays Act 2003, particularly in the health sector, where most of the liability is. I understand that the recently appointed Commissioner of Health New Zealand – Te Whatu Ora is to prioritise payment of the liability this financial year. It is a matter I have asked my staff to regularly brief select committees on.

This year, I included a new key audit matter about whether there is a liability in relation to the Government's commitments to achieve its carbon targets, including the Paris Agreement commitment to reduce net greenhouse gas emissions to 50% below gross 2005 levels by 2030.

The Treasury assessed that at 30 June 2024 there is no liability related to the Government's commitments to achieve its carbon targets under the Paris Agreement. The Treasury provided an additional and improved disclosure about this matter in the commentary to the financial statements.

We agreed with the Treasury's assessment. We also recommended that, each year, the Treasury continue to reassess whether a climate liability should be recognised and, where necessary, continue to improve disclosures about climate change and its impact on the Government's financial statements.

Increasing unappropriated expenditure

The Government needs Parliament's approval to spend public money. It provides this approval through appropriations voted by Parliament as part of the Budget process. Appropriations set out what the Government can spend public money on, when it can spend it, and how much it can spend. In most instances, expenditure outside of Parliament's approval (unappropriated expenditure) is unlawful.

The Controller function is an important part of my role as Auditor-General. It supports the fundamental principle of Parliament's control over government spending. To fulfil this role, my Office monitors public spending throughout the year to determine whether it is in line with parliamentary authority.

In 2023/24, $1.17 billion (0.62% of the Government's budget) was incurred outside what was authorised by Parliament. The incidence of unappropriated expenditure reached a historical low in 2020/21, with 12 instances. Since then, there has been a steady increase in the instances of unappropriated expenditure – rising to 21 in 2023/24.

Although the proportion of unappropriated expenditure compared to the Government's budget is low, many of the cases of unappropriated expenditure were easily preventable. We continue to work with the Treasury to ensure ongoing focus on this important area of accountability.

Further reflections on the public sector

This report, which I do annually, would typically provide wider reflections on the work of my Office, including from our performance audits, inquiries, research, and other reporting. My term as Auditor-General concludes on 1 July 2025. I have therefore decided to publish a second report before I retire as Auditor-General with my broader reflections on the public sector, which will incorporate observations from our work over the last year.

Acknowledgements

The Government's audited financial statements are crucial to maintaining the integrity of our public finance system. Their preparation is a significant undertaking, requiring highly pressured work by the broader public sector, the Treasury, and my auditors. The integrity of our financial system is underpinned by robust audits.

I acknowledge in particular the work and expertise of the Treasury in its leadership of public sector accounting and its constructive engagement with my Office. We should all recognise the professionalism of the Treasury in its role in preparing these financial statements.

I also acknowledge the work of my staff and other audit service providers. They make many carefully considered judgements in forming their opinions, work under considerable pressure, and maintain an unwavering focus on audit quality.

Finally, I thank Parliament for its ongoing support of my Office and interest in the work we do.

Nāku noa, nā

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

18 November 2024

Our audit of the Government's financial statements

1

1.1 In this Part, we describe the key audit matters and risks arising from our audit of the *Financial Statements of the Government of New Zealand* (the Government's financial statements).

1.2 New Zealand is fortunate in having a public finance system that regularly reports on government financial performance. This includes a requirement under the Public Finance Act 1989 to publish the Government's audited annual financial statements.

1.3 The Government's financial statements consolidate the financial results of all government departments, State-owned enterprises, Crown entities (including schools and Crown research institutes), Officers of Parliament, Schedule 4 entities,[1] the New Zealand Superannuation Fund, and the Reserve Bank.

1.4 The Treasury prepares the Government's financial statements soon after the end of the financial year.[2] The financial statements are audited by 30 September and published in October, which is faster than many comparable jurisdictions.[3]

1.5 The Government's financial statements are consistent with generally accepted accounting practice. They include information about the Government's revenue, expenses, and liabilities, the value of its assets, and an account of the Government's net worth. This information allows Parliament, the public, and the international community to scrutinise the Government's financial performance and position.

1.6 Our audit report for 2023/24 included an unmodified opinion. This means that we were satisfied that the financial statements present fairly the Government's financial performance and position for the year, and that they comply with generally accepted accounting practice.

1 Schedule 4 of the Public Finance Act 1989 includes a list of public organisations subject to certain provisions of the Crown Entities Act 2004, including fish and game councils, Reserve Boards, trusts, and other organisations. Schedule 4a of the Act has a list of companies in which the Crown is the majority or sole shareholder, and which are not listed on a registered market.

2 The Government's financial statements are available at treasury.govt.nz.

3 For example, the Australian Government publishes its *Commonwealth Consolidated Financial Statements for the year ended 30 June* in December.

The Government's financial performance and position at 30 June 2024

1.7 In 2023/24, the Government's financial statements were affected by both domestic and global factors. Higher inflation and interest rates affected tax revenue, the valuation of assets, and the costs of delivering services.

1.8 Throughout the year, inflation was at higher levels than in recent times.[4] To drive down inflation, the Reserve Bank kept the Official Cash Rate at 5.5% throughout the year (which is the highest it has been since 2008).[5] Both had an impact on the Government's financial position.

1.9 The Government's revenue was higher than forecast, at $167.3 billion.

1.10 Tax revenue increased by 7.3% ($119.9 billion compared to $111.7 billion in 2022/23). Notable changes to tax revenue included a 10.3% increase in in-source deductions (such as PAYE) due to continued wage growth and increases in other direct taxes, mainly comprising resident withholding tax (which increased by 86.2%). This reflected growth in tax paid on interest income owing to higher interest rates experienced throughout 2023/24 and dividends due to higher-than expected dividend distributions. Goods and Services Tax (GST) revenue increased by 4.1% due to an increase in private consumption.[6]

1.11 The sales of goods and services increased by 14.5% to $25.1 billion. This was largely due to the increase in revenue earned by electricity generators, driven by higher wholesale electricity prices.[7]

1.12 Total expenses increased by 11.3% ($180.1 billion compared to $161.8 billion in 2022/23).[8] The increase in expenses was due to a range of reasons, including an 8.1% increase in transfer payments and subsidies (such as New Zealand Superannuation payments) to $41.9 billion and personnel expenses increasing by 8.4% to $39.1 billion.[9]

1.13 The total value of government-owned assets was $570.9 billion ($536.7 billion in 2022/23), comprising property, plant, and equipment (50%), financial assets

4 Inflation in 2023/24 was the highest it had been since 1990. See "Inflation: How has inflation changed over the years?" at rbnz.govt.nz.

5 See "Reserve Bank of New Zealand – Past monetary policy decisions" at rbnz.govt.nz.

6 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 9.

7 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 8.

8 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 40.

9 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, pages 10 and 11.

(45%), and other assets (5%).[10] The value of property, plant, and equipment increased by $16.4 billion to $283.8 billion, due mainly to changes in the valuations of buildings, electricity generation, state highways, and land assets.

1.14 The value of financial assets increased by $16.5 billion to $257.1 billion. This increase was due to a range of factors, including a $3.7 billion increase in receivables due to an increase in tax receivables, an increase in the value of share investments of $5.4 billion driven by growth in share investments held by the New Zealand Super Fund and the Accident Compensation Corporation, and a $9.7 billion increase in marketable securities.[11]

1.15 Total liabilities were $379.8 billion ($345.2 billion in 2022/23), comprising borrowings (66%), insurance liabilities (18%), and other liabilities (16%). Borrowings were $24.2 billion more than in 2022/23, totalling $250.9 billion. They largely comprised Government bonds (51%), settlement deposits (15%), and Kiwi Group Capital Limited customer deposits (11%), with the remainder across several other borrowing types.[12] Net core Crown debt was $175.5 billion at 30 June 2024 (42.5% of GDP) – an increase of $20.2 billion over the previous year.[13]

1.16 Total net worth (the difference between total assets and total liabilities) remained largely unchanged at $191 billion ($191.5 billion in 2022/23).

1.17 Figure 1 shows changes in net worth and changes to the value of assets and liabilities since 2015.[14]

10 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 19.

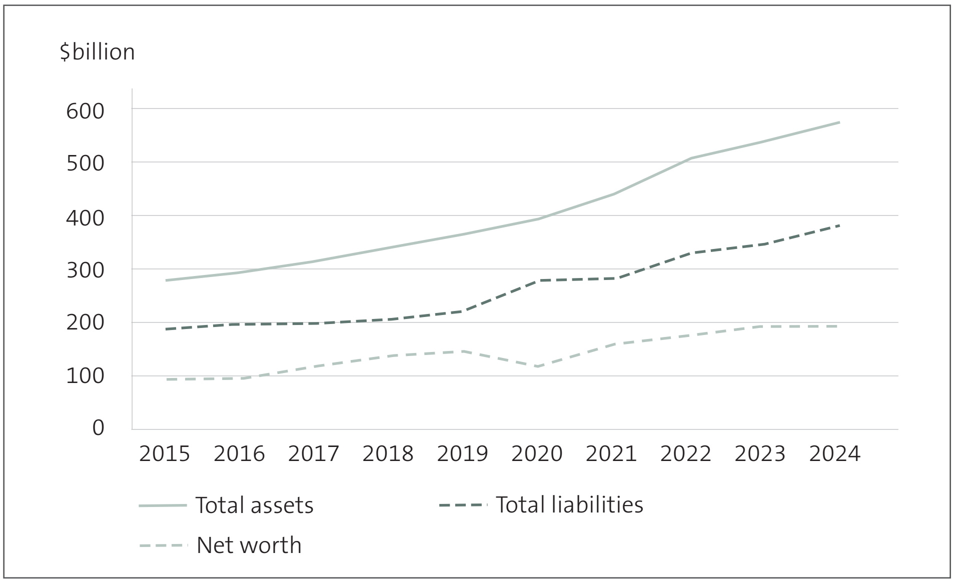
11 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 20. Marketable securities comprise bonds, commercial paper, debentures, and similar tradable financial assets held by the Government.

12 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, pages 19 and 21.

13 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, pages 1, 5, and 7.

14 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, pages 25 and 180.

Figure 1
Changes to net worth, assets, and liabilities since 2015



Operating context

1.18 The change in government in November 2023 brought about significant changes to priorities, initiatives, projects, programmes, and funding in the public sector.

1.19 Changes included the disestablishment of Te Aka Whai Ora – the Māori Health Authority on 30 June 2024 (its functions were folded into Health New Zealand – Te Whatu Ora and the Ministry of Health), the disestablishment of the Productivity Commission, and plans to disestablish Te Pūkenga – New Zealand Institute of Skills and Technology. The Government also established the Ministry for Regulation and the Social Investment Agency.

1.20 Government organisations were expected to find significant cost savings without affecting frontline services. As a result, many were undergoing organisational change processes and cost reduction exercises when we carried out our audits. This created more work for support functions while also directly affecting them.

1.21 We considered the potential impact of these changes on the financial statements. This included on expenditure, asset impairment, restructuring provisions, and the valuation of property, plant, and equipment.

1.22 We considered how some specific Government decisions affected financial reporting. This included the Government's decision to cease funding for the project to replace the existing Interislander ferry fleet (the iRex project), leading to

KiwiRail cancelling the project. It also included the signalled disestablishment of Te Pūkenga – New Zealand Institute of Skills and Technology. We also considered the potential effect of cost-saving initiatives on public organisations and any resulting effect on the Government's financial statements.

1.23 We were comfortable that the disclosures for and accounting treatment of these matters were appropriate.

1.24 We experienced more delays in organisations providing financial information to auditors than in previous years and an increase in the number of adjustments needed to draft financial statements. Although this created more complexity and time pressure on preparers and auditors, we were satisfied with the integrity of the Government's financial statements when signing our audit opinion.

Key audit matters

1.25 Our audit report on the Government's financial statements includes a description of key audit matters. Key audit matters are those most significant in our audit of the Government's financial statements. They are matters that we consider to be complex, to have a high degree of uncertainty, or to be important to the public because of their size or nature.

1.26 Each year, we review whether the previous year's key audit matters remain relevant and consider whether we should include any new matters in our audit report.

1.27 We removed a key audit matter about student loans this year because we were satisfied that there were no new significant issues or judgements that needed further explanation.

1.28 We extended an existing key audit matter and added a new key audit matter.

1.29 We extended the key audit matter relating to the value of property, plant, and equipment to include the rail network because of the complexity and high level of judgement involved in the valuation of the assets involved.

1.30 We included reporting on the government's climate change obligations as a key audit matter because of the audit effort, level of judgement involved in determining how these commitments should be reported, and the level of public interest in climate change more generally.

1.31 The complete list of key audit matters we included in our audit report for the year ended 30 June 2024 were:

- calculating the value of other persons and companies tax revenue;
- valuing property, plant, and equipment:
  - land;
  - state highways and the rail network; and
  - electricity generation assets;
- valuing financial assets where market data is not available;
- valuing the outstanding claims liability of the Accident Compensation Corporation (ACC);
- entitlements under the Holidays Act 2003; and
- climate change obligations.

1.32 Appendix 1 provides a description of each of the recurring key audit matters and our response to auditing them. We discuss the new key audit matter about climate change below.

Climate change obligations

Why is this a key audit matter?

1.33 The implications of a changing climate and its fiscal impacts are potentially significant. In addition, the Government has committed to various actions under the Paris Agreement on Climate Change (the Paris Agreement). For these reasons there is public interest in how climate change is addressed in the Government's financial statements.

1.34 The Paris Agreement sets the goal of holding the increase in the global average temperature rise to below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

1.35 In 2021, New Zealand updated its Nationally Determined Contribution under the Paris Agreement. New Zealand committed to a 50% reduction of net emissions below its gross 2005 level by 2030.[15]

1.36 To meet this commitment, New Zealand will need to reduce its domestic emissions and/or purchase carbon credits from international markets. The amount of carbon credits needed will depend on how much New Zealand reduces its domestic emissions. The cost of the carbon credits will depend on carbon prices at the time.

15 See "Submission under the Paris Agreement: New Zealand's first Nationally Determined Contribution Updated 4 November 2021", at unfccc.int.

1.37 The Government has not recognised any liabilities in relation to its commitments to achieve its carbon targets under the Paris Agreement. Determining if, and at what point, a liability should be recognised requires judgement. In 2023/24, the Treasury carried out a further assessment about whether a liability existed at 30 June 2024. It concluded that there was no liability and provided an additional and improved disclosure about this matter in the commentary in the financial statements.[16]

Our audit work

1.38 There is no financial reporting standard that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements. Determining at what point a liability should be recognised requires judgement and consideration of factors such as the ability of the Government to modify or change the obligation before it eventuates.

1.39 We reviewed the Treasury's assessment of whether a liability should be recognised. We considered whether the nature of the Paris Agreement and other government commitments meant that a liability should be recognised. This included analysing whether the "present obligation" criterion for recognising a provision or disclosing a contingent liability was met.[17]

1.40 We also reviewed the annual financial statements of other governments to see whether they had recognised a liability for their Paris Agreement commitments. The United Kingdom, the United States of America, Canada, Australia, and Switzerland have not included any liability or contingent liability in their latest financial statements.

1.41 We were satisfied that not recognising a liability or contingent liability for the Government's emissions reduction targets was a reasonable interpretation of the financial reporting standards, and we concluded that the disclosures were appropriate.

1.42 As estimates of potential future liabilities arising from the National Determined Contribution become more reliable, there will be more scope for information and disclosure in the Government's financial statements. More disclosure could include more transparent reporting of the Government's climate-related targets, its progress in achieving those targets, and the potential consequences of not achieving them.

16 See New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 23.

17 As required by accounting standards.

1.43 As 2030 approaches, to plan effectively the Government will need to decide on a course of action related to the potential purchase of offshore carbon credits. Estimates of future pricing should also become more reliable as overseas markets or other ways of settling commitments develop.

1.44 We were pleased to see that the Treasury included an additional and improved disclosure this year in the commentary to the Government's financial statements. We considered the disclosures to be appropriate, although they do not form part of the information covered in our audit opinion. We recommended that the Treasury continue to reassess annually whether the accounting treatment for climate-related matters remains appropriate and update the disclosure in the Government's financial statements as needed.

The Controller function

2

2.1 The Controller function is an important part of the Auditor-General's work. It supports the fundamental principle of Parliament's control over government expenditure.

2.2 Under New Zealand's constitutional and legal system, the government needs Parliament's approval to:

- make laws;
- impose taxes on people to raise public funds;
- borrow money; and
- spend public money.[18]

2.3 Parliament's approval to incur expenditure is mainly provided through appropriations,[19] which are authorised in advance through the annual Budget process and annual Acts of Parliament.

2.4 Most government expenditure is authorised through the annual Appropriation (Estimates) Acts. Parliament provides additional authority through annual Imprest Supply Acts and through permanent legislation. (See Appendix 2 for an explanation of how Parliament authorises government expenditure.)

2.5 The incidence of unappropriated expenditure reached a historical low in 2020/21, with 12 instances. Since then, the number of instances has risen to 21 in 2023/24. The amount of unappropriated expenditure as a percentage of the Government's budget was 0.62% of the budgeted spend (2022/23: 0.20%).[20]

2.6 In this Part, we discuss:

- why the Controller work is important;
- how much public expenditure was unappropriated in 2023/24 and why;
- how 2023/24 compares with previous years;
- the reasons for unappropriated expenditure during the last nine years; and
- a summary of work we carried out in 2023/24 to discharge the Controller function.

18 Section 22 of the Constitution Act 1986.

19 Appropriations are authorities from Parliament that specify what the Crown may incur expenditure on (specific areas of expenditure). Most appropriations specify limits in terms of the type of expenditure (the nature of the spending), scope (what the money can be used for), dollar amount (the maximum that can be spent), and period (the time frame that the authority is given for).

20 For ease of discussion, we include the unauthorised capital injection numbers within the unappropriated expenditure totals.

Why the Controller work is important

2.7 Appropriations enable Parliament, on the public's behalf, to have adequate control over how the government plans to spend public money.[21] They also mean that the government can subsequently be held to account for how it used that money.

2.8 Most of the Government's funding is obtained through taxes. Parliament and the public are entitled to assurance that the government is spending public money as authorised by Parliament.[22]

2.9 As the Controller, the Auditor-General helps maintain the transparency and legitimacy of the public finance system. The Auditor-General provides an important check on the system, on Parliament's and the public's behalf, by providing independent assurance that the spending is within authority.

2.10 The Auditor-General also provides assurance that any government spending without authority has been identified and dealt with appropriately.

2.11 In Appendix 2, we explain how public expenditure is authorised, who is responsible for managing it, and the Controller's role in checking it.

How much public expenditure incurred in 2023/24 was unappropriated?

2.12 The Government's financial statements for the year ended 30 June 2024 report 21 instances of unappropriated expenditure (2022/23: 19 instances). Expenditure incurred above or beyond appropriation for 2023/24 was $1.17 billion (2022/23: $349.251 million). Figure 2 shows a breakdown of unappropriated expenditure categories.[23]

21 The Controller is concerned with Government "expenditure". We sometimes use the terms "spend" or "spending" for readability.

22 That is, it is within the type, scope, dollar amount, and period limits that Parliament authorised.

23 New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, pages 154-163.

Figure 2
Unappropriated expenditure incurred for the year ended 30 June 2024

Category	Unappropriated expenditure by category	2023/24 Number	2023/24 $million*	2023/24 Votes
A	Approved by the Minister of Finance under section 26B of the Public Finance Act 1989	2	17	Education
B	Expense or capital expenditure incurred without appropriation or other authority	7	496	Arts, Culture and Heritage; Finance; Justice; Revenue; Social Development; Transport
C	Expense or capital expenditure incurred in excess of appropriation or other authority	10	641	Business, Science and Innovation; Customs; Education; Health; Revenue; Te Arawhiti; Transport
Category	**Unauthorised capital injections**	**2023/24 Number**	**2023/24 $million***	**2023/24 Votes**
D	Capital injection made without authority or approval under section 25A of the Public Finance Act	1	3	Ombudsmen
E	Capital injection made in excess of authority or approval under section 25A of the Public Finance Act	1	13	Business, Science and Innovation
Total		**21**	**1,170**	

* Amounts are affected by rounding.

2.13 The unappropriated expenditure categories shown in Figure 2 fall into the following three broader categories:

- **Approved by the Minister of Finance** (Category A): Under section 26B of the Public Finance Act 1989, the Minister of Finance may approve small over-runs of expenditure (that is, within $10,000 or 2% of the appropriation) if it takes place in the last three months of the financial year. Although unappropriated, expenditure approved under section 26B is lawful. There were two instances of unappropriated expenditure authorised under this section for 2023/24.
- **Without appropriation or other authority** (Categories B and D): For 2023/24, the Government's financial statements reported eight instances of expenditure that were without authority when it was incurred – that is, without parliamentary appropriation or without Cabinet's prior approval to use imprest supply.

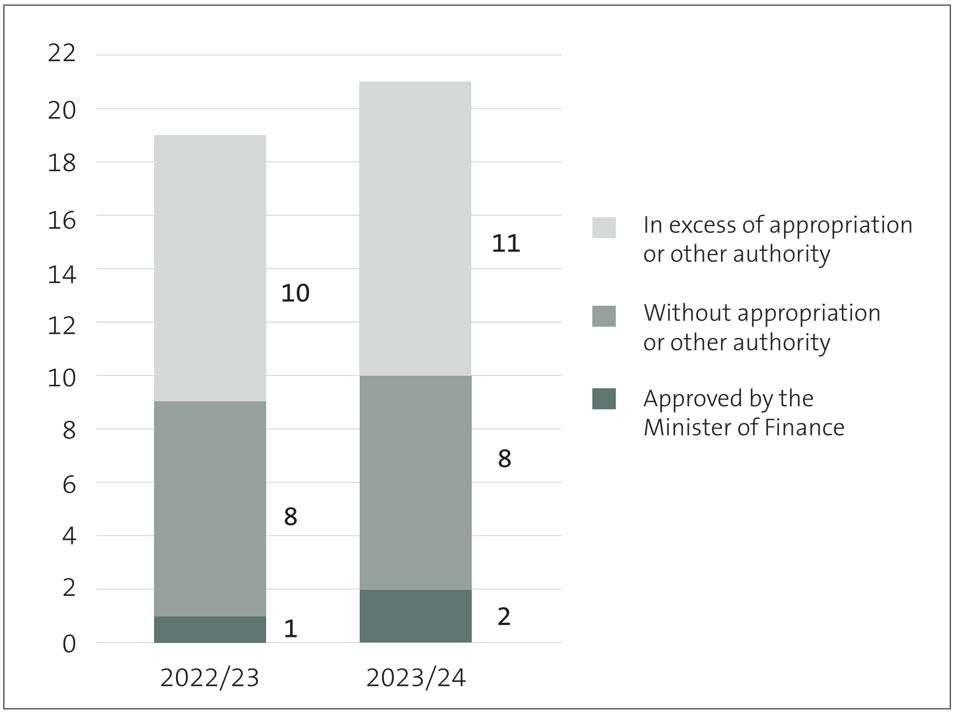
- **In excess of appropriation or other authority** (Categories C and E): For 2023/24, the Government's financial statements reported 11 instances of expenditure that was above the maximum allowable amount when it was incurred.

2.14 When it is anticipated that expenditure will be incurred above the appropriation limits, departments should seek prior Cabinet approval to use imprest supply. However, imprest supply is only an interim authority, so all expenditure using this authority must also be appropriated through an Act of Parliament by 30 June (see Appendix 2 for how appropriations work).

2.15 Sometimes Cabinet's approval to use imprest supply is obtained, but the extra authority is not included in an Appropriation Act before the end of the financial year. In these instances, the expenditure remains unappropriated.

2.16 Figure 3 shows a slight increase in the incidence of unappropriated expenditure in 2023/24, with two more instances than for 2022/23. (Figure 6 sets out the number of instances of unappropriated expenditure from 2018/19 to 2023/24.)

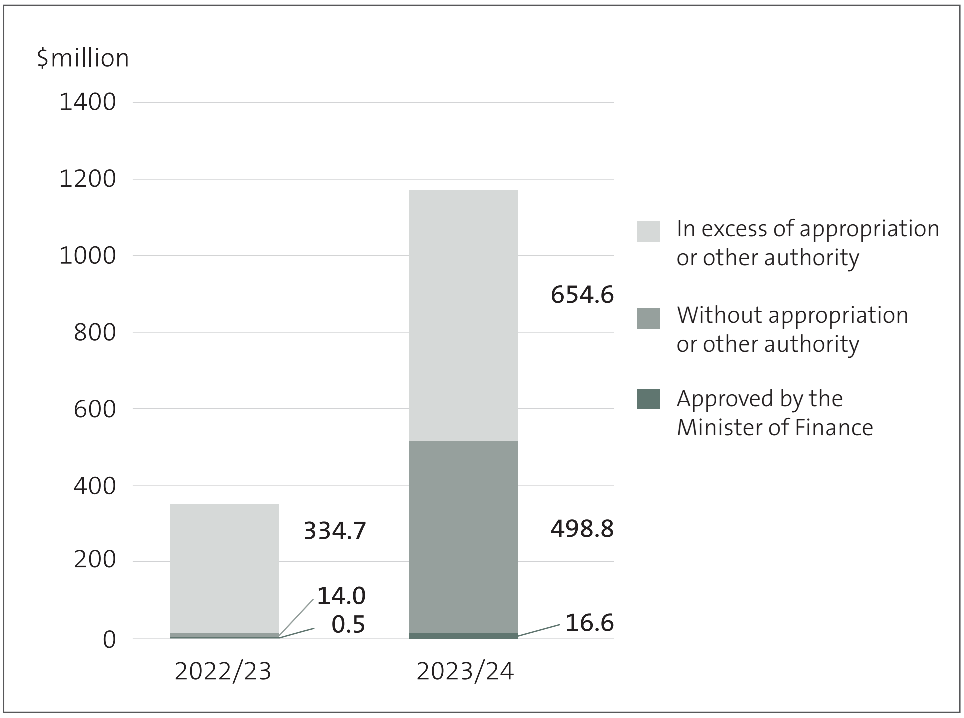
Figure 3
Number of instances of unappropriated expenditure for the year ended 30 June 2024



Note: The reported 2022/23 amount has been revised to reflect confirmed instances identified in the current year that relate to the previous year.

2.17 Figure 4 compares the dollar amounts of unappropriated expenditure for 2022/23 and 2023/24. The amount of unappropriated expenditure in 2023/24 ($1,170.1 million) was more than triple that for 2022/23 ($349.251 million).[24] It has also trebled as a percentage of the Government's budget. The $1,170.1 million for 2023/24 was 0.62% of the Government's final budgeted amount for that year, compared with 0.2% for 2022/23.

Figure 4
Amount of unappropriated expenditure for the year ended 30 June 2024



Note: Figure 5 explains why the amount has increased.

2.18 The increase in the dollar amount of unappropriated expenditure is primarily attributable to two instances in Vote Revenue and Vote Finance.

2.19 For Vote Revenue, the expense associated with writing down the value of debtors[25] (that is, the debt impairment and debt write-off expense) because of a reclassification of debt exceeded the amount appropriated for this purpose by $513 million (see paragraphs 2.53-2.54).

2.20 Vote Finance included an appropriation in 2022/23 to incur expenditure relating to the provision for contributions to councils affected by the severe weather

24 New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington, page 155.

25 Also known as "receivables".

events in the North Island. However, it was determined that the provision and expense should be recognised in 2023/24, when no appropriation or other authority was in place, resulting in unappropriated expenditure of$494.5 million (see paragraphs 2.67-2.69).

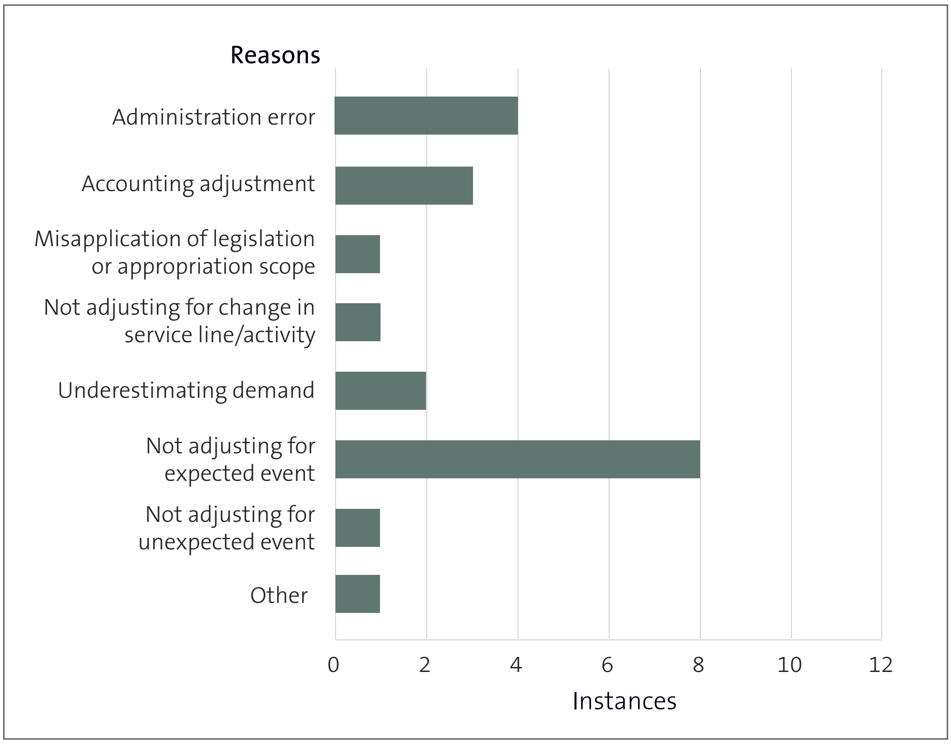
2.21 These two instances constitute 86.1% of the $1,170.1 million of unappropriated expenditure for 2023/24. Without these Vote Revenue and Finance items, the value of unappropriated expenditure would have been $162.59 million – 0.09% of the Government's budget.

Why was the expenditure unappropriated?

2.22 Figure 5 shows the reasons why unappropriated expenditure occurred and lists the number of instances against each of the eight reasons. The classification of reasons is based only on the root cause of the unappropriated expenditure. Once again, administrative errors continue to feature.

2.23 Four of the 21 instances resulted from administrative oversights, but they account for less than 2% of the value of unappropriated expenditure. Such errors should be avoidable. Not adjusting an appropriation for an expected event gave rise to eight instances, amounting to 45.2% of the value of unappropriated expenditure.

Figure 5
Reasons for unappropriated expenditure in 2023/24, by number of instances



Administration error

2.24 Four instances of unappropriated expenditure resulted from administrative oversights. These were in Vote Ombudsmen, Vote Health, and Vote Business, Science and Innovation.

2.25 Two of the instances were because capital injections were incorrectly requested and transferred from the Crown to the Office of the Ombudsman and the Ministry of Business, Innovation and Employment (MBIE).

2.26 Under section 12A of the Public Finance Act 1989, the Crown must not make a capital injection to a department (other than an intelligence and security department) or an Office of Parliament unless an Appropriation Act authorises the capital injection.

2.27 The Crown made a capital injection with no authority to the Office of the Ombudsman. The Office of the Ombudsman incorrectly interpreted an adjustment to its capital expenditure appropriation as authority for a capital injection. It requested and received an unauthorised cash injection of $2.58 million, which it returned when the error was identified.

2.28 The Crown also made a capital injection to MBIE with no authority. Vote Business, Science and Innovation included capital injection authority to cover $13.1 million in assets transferred to MBIE. However, MBIE requested and received $13.1 million in cash, despite already having received $13.1 million in assets (which constituted a capital injection). The cash received exceeded the capital injection authority.

2.29 Administrative errors at MBIE meant that two contracts related to the Innovation Partnerships Programme were tracked as departmental expenditure rather than as non-departmental expenditure. Because the expenditure was not managed as part of the non-departmental appropriation, it exceeded appropriation by $390,000.

2.30 When departments need an increase in expenditure authority, they must seek it in a timely manner and ensure that it has been appropriately approved before they incur the expenditure.

2.31 The Ministry of Health sought an increase in authority to its *Legal Expenses* appropriation for increased costs associated with new proceedings, historical abuse claims, and Covid-19 litigation. Although the Ministry sought the authority in March, it was not approved until April. This resulted in expenditure under Vote Health being unappropriated.

Accounting adjustments

2.32 During 2023/24, the Ministry of Transport identified that historical accounting for expenditure under the *Bad Debt Provisions* appropriation in Vote Transport was incorrect. Once revised, an increase in the provision caused expenditure to exceed the amount authorised.

2.33 Similarly, after an extensive review, the Ministry of Education adjusted its cost allocation model to more accurately align the allocation of costs to where funding is provided. The Ministry's improvements increased the amount allocated to Vote Education's *Primary and Secondary Education* multi-category appropriation, causing expenditure to exceed the appropriation limit by $16.1 million.

2.34 In 2021/22, MBIE carried out a review of the Cloud venue on Auckland's Queens Wharf. As a result of the review, the expected useful life for this asset was revised downward. When the estimate of an asset's life is reduced, its book value needs to be depreciated over a shorter period of time (that is, over its revised remaining life). This means that the annual depreciation expense will be higher than it was before.

2.35 However, MBIE did not incorporate the reduction in useful life of the Cloud into its depreciation calculation until 2023/24. After updating the calculation, the depreciation expense exceeded the appropriation *Economic Development: Depreciation on Auckland's Queen's Wharf* for the last three years (2021/22 to 2023/24). Unappropriated expenditure under Vote Business, Science and Innovation for this item was $811,000 in 2023/24 and a total of $661,000 for the previous two years.

Misapplication of legislation or appropriation scope

2.36 The Ministry of Social Development supports families with children who are living in emergency housing accommodation and who are eligible for the Emergency Housing Special Needs Grants. This assistance must meet the criteria set out in the Social Security Act 2018. One criterion requires dependent children to be under 18 years old.

2.37 The Ministry made payments for special assistance under the Flexible Funding Welfare Programme that did not meet the "under 18 years old" criterion. Consequently, expenditure under Vote Social Development's *Emergency Housing Support Package* appropriation exceeded authority by less than $1,000.

Change in activity

2.38 One instance of unappropriated expenditure in 2023/24 resulted from a government department funding a new class of service providers without checking that it had parliamentary authority for the related expenditure.

2.39 The Ministry of Justice provides support to community-based justice services. This expenditure is authorised by the multi-category appropriation, *Community Justice Support and Assistance*.

2.40 The appropriation authorises payments for community-based legal advice, assistance, and representation services. However, the Ministry made payments to providers that *represent and support* agencies that provide community-based legal advice, as well as providers who directly deliver community legal services. Expenditure incurred on the former ($527,000) was outside the scope of the appropriation.

Underestimating demand

2.41 It is often difficult for government departments to accurately forecast the demand for some activities. During 2023/24, two instances of unappropriated expenditure resulted from the Ministry of Education and Te Arawhiti (a departmental agency within the Ministry of Justice) underestimating demand and associated costs in Vote Education and Vote Te Arawhiti.

2.42 The Ministry of Education forecasts the expected amount of subsidy that licensed and certificated services need to deliver early learning services to children under six years of age. However, demand for early learning services for 2023/24 was higher than the Ministry expected. The Ministry's under-forecasting led to subsidy payments exceeding the *Early Learning* appropriation limit by $100.7 million.

2.43 Costs associated with continuing litigation and court proceedings are often unclear until they have been completed. Depending on the outcome, costs can be higher or lower than anticipated.

2.44 The Ministry of Justice, under Vote Te Arawhiti, incurred expenditure under the appropriation *Crown Response to Wakatū Litigation and Related Proceedings*. The costs associated with significant senior-level legal input and a range of expert witnesses called by the Crown exceeded Te Arawhiti and the Ministry's forecast. This resulted in $921,000 of unappropriated expenditure.

Not adjusting for expected event

2.45 After the Budget has been passed, departments should regularly monitor their activities and events, and update their forecasts accordingly. If needed, they should seek additional spending authority if they forecast that expenditure will be higher than the existing appropriation authority or if an upcoming event is outside the scope of an appropriation.

2.46 During 2023/24, eight of the 21 instances of unappropriated expenditure were because of departments not adjusting their forecasts or not seeking additional spending authority for expected events. Good budget management would avoid such unappropriated expenditure.

2.47 Most appropriations are limited to a single financial year.[26] If expenditure could occur beyond that financial year, government departments must gain authority for the following year, regardless of whether expenditure in the earlier year was below the maximum amount authorised for that year.

2.48 Of the eight instances of departments not adjusting for expected events, three were caused by departments incurring expenditure in the year after the year that they had an appropriation for.

2.49 Inland Revenue processed additional valid claims for Covid-19 support and Covid-19 resurgence support after 30 June 2022. However, it only had expenditure authority until 30 June 2022. It approved and made payments for these claims during the next two years without appropriation in Vote Revenue. This unappropriated expenditure was $1.1 million in 2022/23 and $2,400 in 2023/24.

2.50 Similarly, the Ministry of Transport had an appropriation in 2022/23, *Supporting a Chatham Islands Replacement Ship*, under Vote Transport. This authorised payments for short-term maintenance of the existing vessel. There was no appropriation in Budget 2023 for 2023/24.

2.51 Although the maintenance work was expected to be completed by 30 June 2023, work continued and expenditure was incurred in 2023/24. The Crown was obliged to reimburse expenditure for this work. The Ministry incurred unappropriated expenditure of $529,000 in 2023/24 before receiving additional authority under imprest supply.

2.52 Five instances of departments not adjusting, or not adjusting adequately, for expected events resulted in them incurring expenditure that exceeded appropriation.

2.53 For the second year in a row, Inland Revenue's expenses under *Impairment of Debt and Debt Write-Offs* exceeded the appropriation limit. It identified adjustments in

26 Multi-year appropriations cover several years, and permanent legislative authorities are not time bound.

the classification of debt that was overdue but that had previously been classified as not yet due.

2.54 The reclassified debt was consequently impaired at the overdue debt rates. This, along with revisions to previous years' interest and penalties remitted as part of the Covid-19 response, increased the impairment expense. Inland Revenue had anticipated the increase in impairment expense and obtained a significant increase in authority to cover it. However, the increase was not enough, resulting in $513 million of unappropriated expenditure under Vote Revenue.

2.55 The Ministry of Education exceeded the expenditure limits in Vote Education for both the *Outcome for Target Student Groups* and the *Oversight of the Education System* multi-category appropriations.

2.56 After therapist pay equity claims were settled, the Ministry made a correction to pay rates and parental payments for those who return to work from parental leave. It also adjusted the level of reimbursements to therapists who are required to pay for annual practising certificates or membership fees for a professional body.

2.57 The corrections resulted in expenditure exceeding the *Outcome for Target Student Groups* appropriation by $531,000.

2.58 Expenditure exceeded the *Oversight of the Education System* appropriation limit by $5.3 million because of increased redundancy costs associated with the Budget 2024 savings programme.

2.59 Vote Transport includes a multi-category appropriation, *Mode-Shift – Planning, Infrastructure, Services, and Activities*. This appropriation funds expenditure by third parties for services and activities that reduce the public's reliance on cars and support them to take up active and shared travel modes, such as walking, cycling, and public transport.

2.60 Under the Transport Choices programme, the Ministry of Transport, through the New Zealand Transport Agency, funds local councils to deliver agreed projects in line with the programme and the scope of the appropriation. The programme was due to expire on 30 June 2024. However, it was extended to 30 June 2025, and a significant amount of funding was transferred from 2023/24 to 2024/25.

2.61 In the Supplementary Estimates, the appropriation authority was reduced from $303.5 million to $100 million for 2023/24, and $54.8 million was provided for 2024/25. Most of this was against the *Third-party Projects and Activities* category.

2.62 However, many councils still met the 30 June 2024 timeline, and their unanticipated claims resulted in expenditure exceeding the reduced maximum authority ($100 million) by $9.2 million.

2.63 The Ministry for Culture and Heritage needed to increase its provision for settling legal obligations associated with the creation of the Pukeahu National War Memorial Park. This resulted in a $698,000 expense in 2023/24.

2.64 The Ministry determined that neither its appropriation for the *Maintenance of War Graves, Historic Graves and Memorials* nor any other appropriation in Vote Arts, Culture and Heritage covered this sort of expense. Therefore, it incurred the expenditure without appropriation.

Unexpected events

2.65 The New Zealand Customs Service collects revenue from the import and export of goods on behalf of the Crown. In March 2024, Customs issued an assessment of the duty and compensatory interest that an importer owed for importing six tonnes of illicit tobacco. Even though the tobacco was imported illegally, duty must still be charged on it because tobacco is a legal product.

2.66 In June, Customs deemed that it was unlikely to recover the amount of duty and interest owed because of the importer's imprisonment and lack of assets. The write-off of the duty and compensatory interest resulted in expenses exceeding the *Change in Doubtful Debt Provision* appropriation by $9.9 million.

Other

2.67 In early 2023, New Zealand was hit by two separate extreme weather events. The Auckland Anniversary Weekend floods and Cyclone Gabrielle caused widespread catastrophic flooding throughout large parts of the North Island.

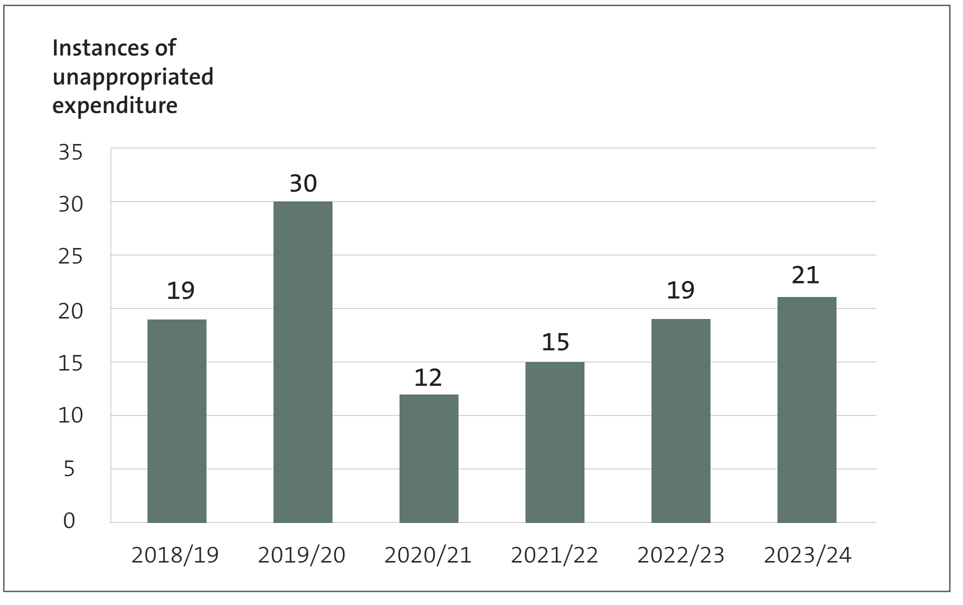
2.68 The Government had anticipated that expenditure relating to provisions for contributions to affected councils would be incurred during 2022/23, and Vote Finance included an appropriation to cover the expense.

2.69 However, after 2022/23, it was determined that the Crown's obligation arose in 2023/24. The provision and associated expense were therefore recognised in 2023/24, with no appropriation in place. As a result of the timing for recognising the obligation, expenditure of $495 million was incurred without appropriation. The unappropriated expenditure was reported under Vote Finance.

How does 2023/24 compare with previous years?

2.70 There has been a steady increase in the number of instances of unappropriated expenditure since the historical low of 12 instances in 2020/21. As Figure 6 shows, the number has risen to 21 in 2023/24.

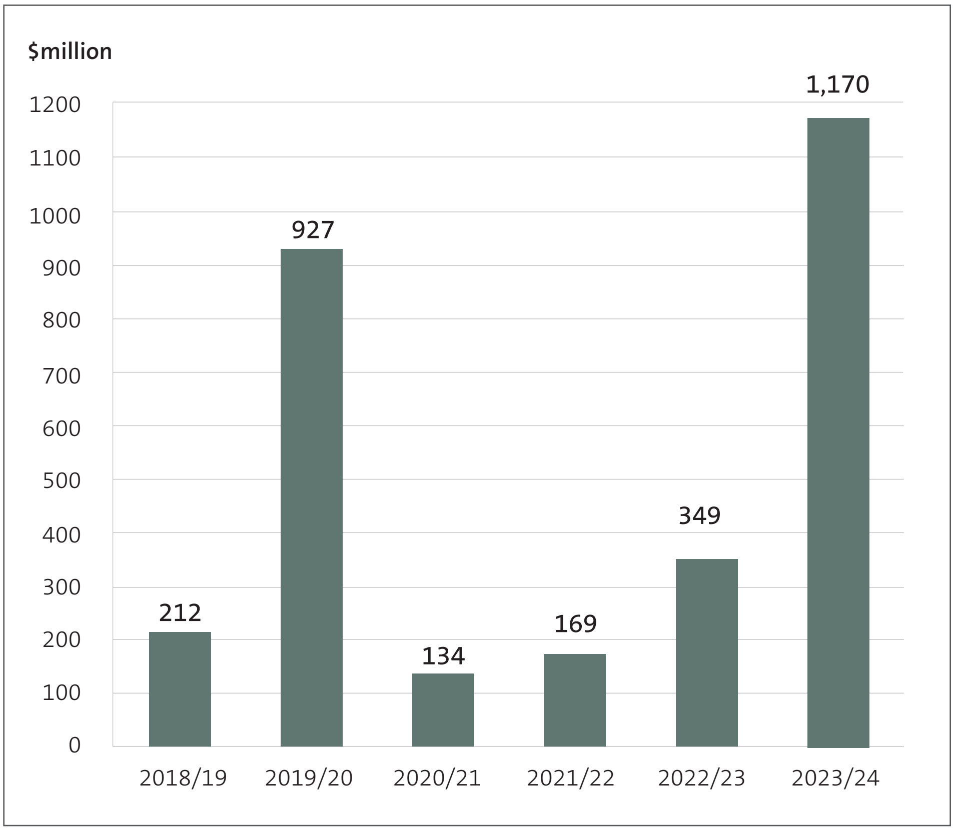
Figure 6
Number of instances of unappropriated expenditure, from 2018/19 to 2023/24



2.71 Figure 7 shows the dollar amount of unappropriated expenditure incurred during the last six years. The value of unappropriated expenditure follows the usual fluctuations over time, with the values for the two outlier years resulting from one large instance (2019/20) and two large instances (2023/24).

2.72 As we explained in paragraph 2.21, 86.1% of unappropriated expenditure for 2023/24 is attributable to two instances – debt write-offs and write-downs under Vote Revenue and the North Island severe weather events under Vote Finance.

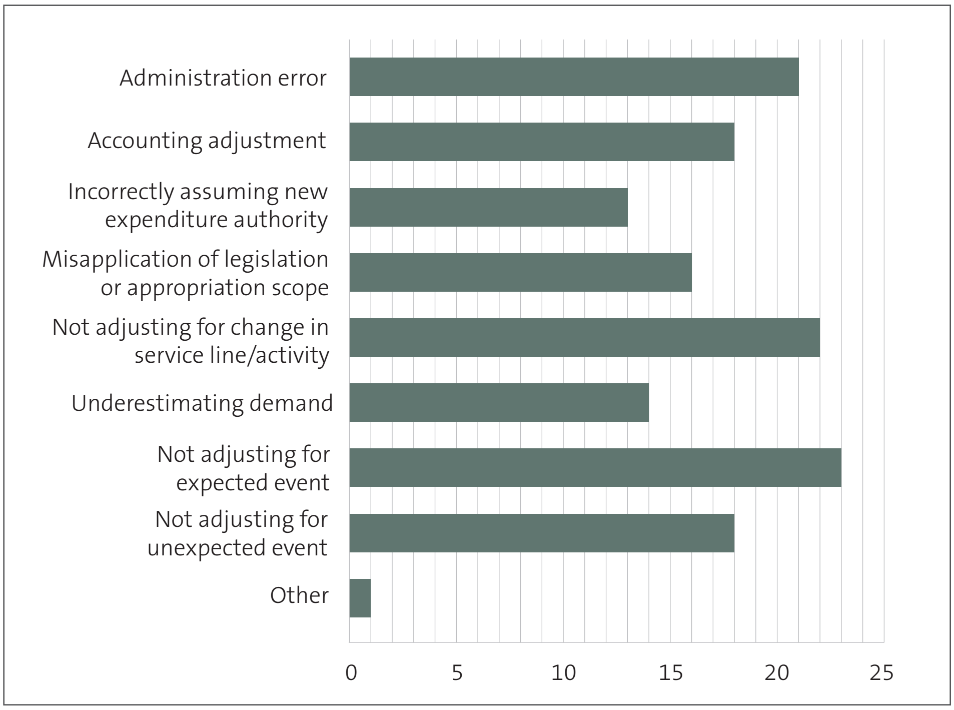
Figure 7
Amount of unappropriated expenditure, from 2018/19 to 2023/24



Reasons for unappropriated expenditure over time

2.73 Figure 8 shows the reasons why unappropriated expenditure occurred over nine years and how frequently it occurred for each reason.[27]

Figure 8
Reasons for unappropriated expenditure from 2015/16 to 2023/24, by number of instances



2.74 In recent years, the most common reason for unappropriated expenditure was departments not adjusting for expected events (23 instances, which is 15.8% of all instances). Eight of these instances occurred in 2023/24.

2.75 If existing appropriations do not cover the expenditure from the expected event, departments need to seek authority under imprest supply before incurring the expenditure.

2.76 The second most common reason is the failure to secure spending authority to cover changes in departmental functions, services lines, or activities.

2.77 Thirty-six percent of instances resulted from administration (21) or accounting (18) adjustments or other failures in appropriation management (13). These should be avoidable.

27 This is the period that we have collected data for.

2.78 Administration errors include mistakes that departments make when they seek additional authority for spending between Budgets.[28] Departments also make errors when they transfer funding from one appropriation to another, reducing the spending limit of the original appropriation.

2.79 In some instances, the department calculated the transferred amount incorrectly. In others, it appears that the department made the transfer without enough awareness of the likely future expenditure. Government departments need to diligently manage and monitor the way that they move funding and change spending authorities during the financial year (that is, between Budgets).

2.80 Accounting adjustments relate mainly to the misapplication of accounting rules, commonly referred to as "generally accepted accounting practice" (GAAP). For the most part, GAAP is specified in financial reporting standards, which determine how government departments' financial statements recognise, classify, measure, and report expenditure.

2.81 The accounting treatment of an item has implications for the type of expenditure authority needed. The most common problem involves determining whether expenditure is capital or operating. Operating expenditure needs an operating expense appropriation, and capital expenditure needs a capital expenditure appropriation.

2.82 If departments account for expenditure incorrectly, the subsequent correction of the error might result in expenditure not being covered by the correct appropriation type. Government departments must ensure that they properly think through the GAAP accounting implications for all their expenditure. In turn, they must identify and properly manage the implications for appropriations from the accounting treatment.

2.83 During the last nine years, 13 instances of unappropriated expenditure occurred because departments failed to manage the timing of and needed authority for expenditure. The most common reason why these instances occurred involved departments receiving Cabinet's "in principle" agreement to have funding and spending authority transferred from one financial year to the next (in-principle expense transfers, or "IPETs").

2.84 IPETS are not included in the annual Budget and do not authorise expenditure. All IPETs need to be formally confirmed or otherwise in the new financial year (usually in October). If confirmed, then the department must receive explicit approval to use imprest supply to cover that expenditure. It is positive to see that there have been no errors of this nature in the last several years.

28 In other words, departments make these mistakes when they seek Cabinet authority to use imprest supply or additional appropriation through the annual Supplementary Estimates Bill.

2.85 Another common reason is when government departments fail to keep spending within the scope of what the law allows (16 instances).

2.86 Departments need to understand what their appropriations may and may not cover and regularly review their practices to ensure that they align with the relevant authorities. The appropriation scope limits what departments may spend public money on - they cannot spend money on activities that are outside the scope of their appropriations. When the scope of the appropriation is tied to legislation or regulation, and the legislation or regulation has changed, departments must ensure that their practices remain aligned to the revised authority.

2.87 There have been 14 instances of unappropriated expenditure in the last nine years because demand-driven expenditure exceeded the forecast spending. Unexpected demand can arise from situations that could not reasonably have been foreseen. However, it can also arise from situations that departments should have anticipated and provided for.

2.88 In Figure 8, the reason "Not adjusting for expected event" (23 instances) refers to unappropriated expenditure that occurred because of specific events that the department should have anticipated.

2.89 However, unappropriated expenditure can also arise as a direct result of "unexpected events" – that is, where we would not expect departments to know that they would need additional authority before the event happens. Such events resulted in 18 instances of unappropriated expenditure during the last nine years. They can include expenses relating to sudden asset impairments, and obligations placed on the Crown at short notice.

2.90 In the last several years, we have seen costs associated with unexpected severe weather events and the Covid-19 pandemic result in unappropriated expenditure.

Work carried out to discharge the Controller function

Monitoring public expenditure

2.91 During 2023/24, we monitored public expenditure to determine whether it was in line with the authority that Parliament provided.[29]

2.92 We checked that the amount of new "between-Budget" expenditure agreed by Cabinet (that is, the use of imprest supply) remained within the $28.5 billion authorised through the second annual Imprest Supply Act.[30] We also checked a sample of changes made to individual appropriations during the year to ensure that they had been properly authorised.

Audits of government departments

2.93 We carry out the core of the Controller work through annual audits of government departments and associated interactions with those departments.[31] As part of our audits, we examined the financial systems and financial records of government departments to determine whether public expenditure has been properly authorised and accounted for.

2.94 If the Government incurred expenditure above or beyond what Parliament had authorised, we checked that the nature and amount of unappropriated expenditure was accurately reported to Parliament and the public.[32]

Multi-year appropriations

2.95 As an Office of Parliament, we are interested in ensuring that the system and arrangements for Parliament to authorise government expenditure continues to operate as intended. We recently, we examined the use of multi-year appropriations (MYAs) for authorising public expenditure.

2.96 MYAs provide more flexibility for government spending. They are an exception to the usual way of authorising expenditure through annual appropriations. MYAs should be used sparingly and not when an annual appropriation should be used.

29 We do this work under section 65Y of the Public Finance Act 1989.

30 Joint Ministers may also approve between-Budget spending under delegation from Cabinet.

31 We do this work under section 15 of the Public Audit Act 2001.

32 We carried out these checks during our audits of the Government's financial statements and of the financial statements of all government departments, for the year ending 30 June 2024.

2.97 We found that there has been a marked increase in the use of MYAs, from 20 in 2008 to 59 in 2016 to 167 in 2023. We also found some examples of expenditure under MYAs that we consider should have been authorised under annual appropriations. We reported our findings on our website in May 2024.[33] We called for the Government to review the use of MYAs to ensure that they are being used appropriately, in line with the Treasury's guidelines. We will continue to monitor this area.

Resolving issues and providing advice

2.98 Much of the Controller responsibilities include considering matters where the question of whether public expenditure is unauthorised is not straightforward or, at least, needs some consideration before a conclusion is drawn.

2.99 From time to time, government departments seek the Controller's view on a matter to gain assurance about the lawfulness of spending or to help alert them to the need to seek additional spending authority. At other times, our appointed auditors, the Treasury, members of Parliament, or the news media will draw our attention to matters that need deeper scrutiny and consideration.

Helping to improve capability and promote good appropriation management

2.100 We continued to support the Treasury's Finance Development Programme by delivering seminars to government department finance professionals. In those seminars, we highlighted the importance of parliamentary control of Crown spending, how the Controller function supports New Zealand's constitutional arrangements, the importance of obtaining proper authority for government expenditure, and some of the common problems that can lead to unappropriated expenditure.

33 See "The increasing use of multi-year appropriations" at oag.parliament.nz.

Appendix 1
Recurring key audit matters in the Government's financial statements

This Appendix describes the key audits matters included in our audit report on the Government's financial statements and describes the audit work we did.[34]

Key audit matters are those matters we consider to be the most significant in our audit of the Government's financial statements. They are matters we consider to be complex, to have a high degree of uncertainty, or to be important to the public because of their size or nature.

We review the key audit matters each year to determine whether they remain relevant and if we should include any new audit matters. Below we describe those key audit matters that are recurring from previous years. This includes the change to the key audit matter relating to the value of property, plant, and equipment to include the rail network. A new key audit matter on climate change obligations is discussed in Part 1 of this report.

Calculating the value of other persons and companies tax revenue

Total tax revenue was $119.9 billion in 2023/24 ($111.7 billion in 2022/23). This included other persons tax revenue of $9.9 billion and companies tax revenue of $16.9 billion.

Why is this a key audit matter?

Tax revenue from other persons and companies is estimated because the final income tax owed for the year is known only when tax returns have been filed. This can happen more than a year after the tax year.

Estimating the amount of other persons and companies tax is challenging because significant assumptions and estimates are used. This means that a high degree of judgement is involved, including forecasting the performance of New Zealand's and the global economy. Because of this, we treated the calculation of corporate and personal tax revenue as a significant audit risk and included it as a key audit matter.

Our audit work

We reviewed the systems, processes, and controls for receiving and reviewing provisional and final tax returns, assessments, and revenue. This included gaining an understanding of the information systems Inland Revenue uses to manage tax.

We tested the underlying data used in estimating tax revenue to ensure that it was relevant and appropriate. We reviewed the 2023 tax year estimation and

34 The key audit matters are described on pages 31-35 of the New Zealand Government (2024), *Financial Statements of the Government of New Zealand for the year ended 30 June 2024*, Wellington. We have provided further detail and explanation of our work, so the wording differs from that in the audit report to the financial statements.

compared it to the tax return information that Inland Revenue subsequently received to assess the methodology used for estimating tax revenue.

We also engaged independent economic experts to assess the assumptions about economic growth that could cause changes to expected tax revenue.

Several tax policy changes were implemented during the year. These included:

- deductibility of co-operative company dividends;
- denying depreciation deductions for commercial and industrial buildings;
- increasing the trustee tax rate from 33% to 39%; and
- restoring interest deductibility for residential property.

Inland Revenue recognised the impact of the deductibility of co-operative company dividends on its financial results, but it did not make adjustments for the other policy changes. This is because these changes only affected the final quarter of the year, and their impact was not material to the Government's financial statements.

We concluded that the tax revenue estimation used a reasonable model, methodology, variables, and adjustments. We were satisfied that tax revenue for the year was reasonable and that the disclosures were appropriate, but we noted the high degree of estimation uncertainty.

Valuing property, plant, and equipment

The government owns a large portfolio of property, plant, and equipment. This portfolio had a carrying value of $283.8 billion at 30 June 2024 ($267.4 billion in 2022/23).

Why is this a key audit matter?

The government owns many assets that are difficult to value. The valuations of these assets are based on assumptions and information that involve a high degree of judgement. This includes considering the impact of economic conditions, such as the effects of interest rates and inflation.

Supply chain disruptions and labour supply constraints drove cost inflation in the construction sector. Assets that were valued on an optimised depreciated replacement cost approach were affected by this. Whether these cost changes are permanent or temporary is a matter of judgement.

Our audit work

For our audit of the Government's financial statements, we looked at specific types of assets where complexity and uncertainty pose significant risks to the reliability of the assets' valuations. These asset types are:

- land;
- state highways and the rail network; and
- electricity generation assets.

When we audit the valuation of property, plant, and equipment, we typically test that the assumptions that valuations are based on are reasonable and that the information that the valuers used is robust. We assess the appropriateness of valuation approaches and confirm the competence, capabilities, and objectivity of independent valuers.

We also consider how valuers took current economic conditions into account, including the judgements they used to assess whether recent cost increases should be considered when assessing replacement costs – that is, whether they are temporary or whether they reflect sustained market conditions.

Land

The land that the government owns was valued at $80.9 billion at 30 June 2024.

The government's land portfolio includes a wide range of different types of land that it uses for different purposes. Therefore, different approaches to valuation are used that consider the highest value and best use of the types of land.

Judgement is needed to determine the most appropriate approach to valuation. Valuation approaches include evidence from market-based sales data and rateable values.

We assessed the reasonableness of methods used to confirm that land valuations were not materially different from the land's fair value. We also reperformed the calculations.

Where market data was used, we compared the information to external sources of information. We also discussed with valuers how economic factors and market conditions have affected valuations.

Where an index was used to record changes in value, we assessed the appropriateness of the index to other external data sources. We also compared the retrospective accuracy of indices applied in previous periods.

We concluded that the value of land at 30 June 2024 was reasonable and that the disclosures were appropriate.

State highways and the rail network

State highways (excluding land) were valued at $62.3 billion and the rail network (excluding land) was valued at $14.5 billion at 30 June 2024.

The value of state highways and the rail network cannot be measured precisely because of their unique nature. Significant estimates and assumptions are made about quantities and rates used to construct state highways and the rail network, the remaining useful life of the assets, and unit costs.

Our audit work included confirming that the controls, systems, and processes used to record costs and other asset information about the state highways and rail network were operating appropriately.

We were satisfied that the value of the state highways and rail network was reasonable and that the disclosures were appropriate.

Electricity generation assets

The valuation of the government's electricity generation assets was $23.6 billion at 30 June 2024.

The government has a controlling interest in three electricity generating companies: Genesis Energy, Mercury, and Meridian Energy. These companies operate under a mixed ownership model.

Valuing the electricity assets of these companies is complex. It relies on significant assumptions about the future prices of electricity, generation costs, and how much electricity will be generated.

The assumptions used to value electricity assets are sensitive – even small changes to underlying assumptions can cause material movements in estimated values. The assumptions are also interdependent – changes in one assumption will affect the other assumptions used.

The main assumptions used to value electricity generation assets are:

- future revenue and expenses;
- generation volumes;
- discount rates; and
- wholesale electricity prices.

The three companies have a different mix of generation assets, including thermal, hydro, wind, and other asset types. All three companies valued their electricity assets at 30 June 2024. Each company used a future earning approach, but they used slightly different valuation methodologies.

We tested the sensitivities and assumptions in the different approaches that each company used. We compared forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available.

We were satisfied that the value of electricity generation assets at 30 June 2024 was reasonable and that the disclosures were appropriate.

Valuing financial assets where market data is not available

Financial assets valued where market data is not available were valued at $27.1 billion at 30 June 2024.

Why is this a key audit matter?

The Government's financial statements include financial assets that are valued using significant non-observable inputs (that is, where market data is not available for those assets). These financial assets include loans (including student loans), investments, and deposits. We considered these valuations as a key audit matter because the calculations are complex and involve a high degree of judgement and estimation.

The entities that hold a significant portion of these instruments are:

- the New Zealand Super Fund;
- the Government Superannuation Fund;
- ACC; and
- Inland Revenue (for student loans).

When there is no quoted market price for a financial asset, the value of the asset is estimated using an appropriate technique, such as a valuation model. These models are usually complex, using inputs from market data when available. Otherwise, inputs are derived from non-market data, which needs greater judgement.

Our audit work

Based on a sample of investments, we reviewed the valuation techniques and tested the controls and inputs used to determine the value of these financial assets.

As part of our audit, we reviewed the valuation techniques and tested the controls and inputs used to determine the value of these financial assets. We tested the controls over the data entered into financial systems, tested valuation approaches, compared the fair value of financial assets to independent information, and investigated any significant variances.

We were satisfied that the value of financial assets where market data is not available at 30 June 2024 was reasonable and that the disclosures were appropriate.

Valuing the Accident Compensation Corporation's outstanding claims liability

An actuary, commissioned by ACC, valued ACC's outstanding claims liability at $60.2 billion at 30 June 2024.

Why is this a key audit matter?

Estimating the value of ACC's outstanding claims liability is complicated because it consists of many components that are aggregated to arrive at the overall estimate. We considered this valuation as a key audit matter because the calculation is complex and involves a high degree of judgement and estimation.

The assumptions used to determine the value of the outstanding claims liability included:

- the risk-free discount rates and consumer price index assumptions published by the Treasury and that were used to calculate a present value of expected claims payments;
- the risk margin for the inherent uncertainty in the estimate of the present value of expected claims payments;
- the effects of inflation and innovation on future medical costs; and
- how long it will take people to recover from their injuries.

These assumptions are closely linked and cannot be viewed in isolation. Changes in the assumptions can have a large effect on the value of the outstanding claims liability (and the gain or loss that is recognised).

Our audit work

We confirmed the competence, capability, and objectivity of the actuary used to value ACC's outstanding claims liability. We tested their procedures and methodology, the assumptions about different types of claims, the systems used to record claims, and the accuracy of the calculations.

We also engaged an independent expert to consider the appropriateness of the Treasury's risk-free discount rates and Consumer Price Index assumptions.

We reviewed the outcome of court cases during the year and considered the impact on the total outstanding claims liability.

There was an increase in the provision for sensitive claims against ACC of $3.6 billion relating to mental injuries, as set out in Schedule 3 of the Accident Compensation Act 2001.

In previous years, ACC recognised the liability from a claim for mental injury from the date the claimant received treatment. However, in December 2023, the Court of Appeal ruled that, for claimants who obtained cover for mental injury arising in terms of Schedule 3 of the Accident Compensation Act, the claim exists from the date of mental injury rather than the date of first treatment.

We were satisfied that ACC's outstanding claims liability at 30 June 2024 was reasonable and that the disclosures were appropriate.

Entitlements under the Holidays Act 2003

The Government's financial statements included a provision for employee entitlements of $2.4 billion for amounts owing to employees who were paid less than their legal entitlements under the Holidays Act 2003.

Why is this a key audit matter?

Applying the Holidays Act 2003 to complex employment arrangements, such as those with teachers and staff in the health sector, needs a good understanding of both the legislation and employees' contractual terms. Judgement, negotiation, and agreement with employee representatives are needed to determine entitlements.

We included entitlements under the Holiday Act 2003 as a key audit matter because of the nature and effect on many public sector employees.

Our audit work

Health New Zealand – Te Whatu Ora and the Ministry of Education are most affected. These organisations had not finished determining the final amounts they owe to employees. Each had made an estimate based on a sample of former and current employees, applying assumptions and projecting the result over the affected employees.

We reviewed the changes in the provision since 2022/23 and considered the information and evidence used for the updated provision.

We were satisfied that the provision for entitlements under the Holidays Act 2003 at 30 June 2024 was reasonable.

The health sector

Of the $2.4 billion provision for Holidays Act 2003 entitlements included in the Government's financial statements, $2 billion relates to employees and related project costs of Health New Zealand – Te Whatu Ora.

We evaluated whether the provision reflected the best information currently available to estimate the liability. We reviewed an update on the Health New Zealand – Te Whatu Ora Holidays Act Remediation Programme. We also reviewed an external expert's work that compared updated remediation models (that reflect better quality data) to the recorded provision.

Health New Zealand – Te Whatu Ora had not completed determining the final amounts that it owes to all current and former employees, and there was uncertainty about the actual payments.

The payroll systems that Te Whatu Ora uses will be non-compliant until it has completed remediation.

The education sector

The Ministry of Education continued to assess its obligations to historic non-compliance with the Holidays Act 2003. The Ministry estimated that it owes $400 million to some school employees paid through the Ministry of Education. It revised the provision during the year to take account of a recently agreed framework for teachers' annual holiday entitlements.

We obtained and reviewed an update on the Ministry's Holidays Act compliance programme and reviewed its estimate of how much money it owes.

Because of progress on this matter during 2023/24, the Ministry's estimate of the amount it owes was more reliable.

The Ministry of Education continues to assess its obligation to settle issues related to non-compliance with the Holiday Act 2003.

Appendix 2
How appropriations work

Who approves the spending of public money and how?

Each year the Government puts forward its expenditure proposals for the coming financial year in the Budget (usually in May). It formally presents its proposed Budget to Parliament in the Appropriation (Estimates) Bill, along with various explanatory documents. This is the first Appropriation Bill for the financial year.

The Bill sets out estimates of what will be spent under each ministerial portfolio. In general, every ministerial portfolio associated with a department has a corresponding "Vote" in the Budget (for example, Vote Health sets out all the expenditure in the health portfolio).

Each Vote is made up of several specific appropriations. Each appropriation sets out:

- the maximum amount of expenditure being approved;
- the scope (that is, what the money can be used for); and
- the date that the appropriation lapses on (most appropriations last for one year).

Once Parliament has considered and passed the Bill, it becomes law as an Act. In general, any expenditure outside what has been approved in this Act of Parliament will be unlawful.

The Budget generally does not become law until several weeks into the financial year.

If the Appropriation (Estimates) Bill is not passed before the financial year begins, how can the Government spend money lawfully in the meantime?

The Appropriation (Estimates) Bill needs to be passed within four months of Budget Day. From 1 July until the Bill becomes law, the Government must continue to operate and spend public money. To cover this period, an Imprest Supply Act provides interim authority. This is enacted before the financial year begins.

Therefore, the first annual Imprest Supply Act allows the Government to incur expenditure before the Budget for that year is enacted in legislation. The expenditure authority under this Imprest Supply Act is repealed when the Appropriation (Estimates) Act comes into force.

There are usually at least two Imprest Supply Acts in each financial year.

What happens if things change during the year?

The changing nature of government activities and unexpected demands mean that it is rarely possible to foresee all future expenses and capital expenditure. The system recognises the need for some flexibility to respond to changing events.

A second Imprest Supply Act for the year is usually enacted at the same time as the Appropriation (Estimates) Act. This provides authority for expenditure that might not have been envisaged when the Budget estimates were finalised. It remains in force until the end of the financial year to provide authority for unexpected expenditure.

Cabinet requires that a specific Cabinet decision (or, in some instances, by approval of joint Ministers under delegation from Cabinet) must authorise any use of imprest supply. However, Imprest Supply Acts only provide "interim" authority. To remain lawful, Parliament must approve all expenditure incurred under an Imprest Supply Act through an Appropriation Act passed before the end of the financial year.

Expenditure under the second Imprest Supply Act is typically appropriated through a second Appropriation Act, the Appropriation (Supplementary Estimates) Act, which is usually enacted in June. This allows the Government to update the initial estimates in the Budget and get legislative approval for those changes (which include expenditure already incurred under imprest supply).

If expenditure under the authority of an Imprest Supply Act is incurred too late in the financial year to be authorised through the Appropriation (Supplementary Estimates) Act, then it becomes "unappropriated expenditure" as at 30 June. It must be validated by Parliament through a third Appropriation Act, the Appropriation (Confirmation and Validation) Act, in the next financial year.[35]

The Public Finance Act 1989 includes several other mechanisms for approving minor changes to the expenditure authorities approved by Parliament. For example, there is limited scope for the Governor-General to approve transfers between appropriations in a Vote by Order in Council.[36]

To provide further flexibility during the final three months of the year, the Public Finance Act authorises the Minister of Finance to approve a limited amount of extra expenditure within the scope of an existing appropriation.[37] Flexibility under these mechanisms is subject to confirmation by Parliament through the Appropriation (Confirmation and Validation) Bill.

35 Section 26C of the Public Finance Act 1989. The Appropriation (Confirmation and Validation) Bill, which is introduced after the end of the financial year, allows Parliament to retrospectively confirm or validate all unappropriated expenditure incurred during the year.

36 Section 26A of the Public Finance Act 1989.

37 Section 26B of the Public Finance Act 1989.

Sections 25 and 25A of the Public Finance Act also authorise the Government to spend public money outside appropriations in emergency situations, subject to confirmation by Parliament through the Appropriation (Confirmation and Validation) Bill.

Does that mean any expenditure outside the revised Budget (Supplementary Estimates) is unlawful?

Expenditure outside the Supplementary Estimates can be but is not always unlawful. It could still be lawful if it is covered by some other authority, such as a relevant section in the Public Finance Act or another Act of Parliament.

However, expenditure incurred under Cabinet authority to use imprest supply that is not included in an Appropriation Act at the end of the financial year becomes unappropriated and remains unlawful until Parliament validates it.

Does the Auditor-General have a role in the Budget process?

The Auditor-General does not have a role in the Budget process. The Government prepares the Budget. The Minister of Finance and the Treasury co-ordinate the work of the various government departments and individual Ministers to put together a set of expenditure proposals for the Government as a whole.

The Auditor-General is not part of the Government and is not answerable to Ministers, so they have no role in this process.[38] The Auditor-General does not audit the Budget.

Once the Government has presented its proposed Budget to Parliament, individual select committees consider the proposals in the various Votes. The Auditor-General's staff provide advice to the select committees to assist their scrutiny of the expenditure proposals in the Budget estimates.

Parliament then votes on whether to pass the Appropriation (Estimates) Bill. Votes on Budget and expenditure matters are automatically regarded as confidence matters. That means that, if a government cannot persuade a majority of Parliament to support its expenditure plans, it does not have enough support to continue as the Government.

38 There is a special process for working out the budget for Officers of Parliament (such as the Auditor-General) to ensure that Parliament and not the Government makes the funding decisions. The Auditor-General is involved in this process in their capacity as the chief executive of their own Office.

Who spends the money and how?

All public money must be held in a Crown or departmental bank account. The Treasury is responsible for managing Crown bank accounts unless it delegates responsibility to a department to operate as an agent of the Crown. Government departments are responsible for managing departmental bank accounts.

Each department forecasts its cash requirements based on its budget and agrees cash payment schedules with the Treasury. The Treasury is responsible for disbursing cash to government departments during the year in keeping with those schedules. Responsibility for how that cash is applied rests with the government departments' chief executives.

Government departments are responsible for paying non-departmental providers (for example, Crown entities funded from their Votes) and for their own departmental expenditure.

The public financial management system operates on an "accrual" rather than a cash basis of accounting. This means that expenditure is accounted for when it is incurred (that is, when there is an obligation to pay), as opposed to when the payment is made. To keep within Budget limits, government departments need to manage expenditure on an "accrual" basis.

Who is responsible for ensuring that public money is spent correctly?

Departmental chief executives are responsible under the Public Finance Act for the financial management and performance of their department. This includes ensuring that they have both the funding authority and the necessary legal mandate before incurring expenses or capital expenditure.[39]

Government departments are required to report regularly to the Treasury on the expenses and capital expenditure that they have incurred against the appropriation or other statutory authority. They provide the first report for the financial year in October (covering the previous July to September period) and monthly after that. The Treasury uses this and other financial information to compile the Government's monthly financial statements.

The Treasury is also required to report to the Controller all expenditure incurred compared with the appropriation (or other authority) it was incurred under and all expenditure incurred without authority or that exceeds the authority given. It does this monthly, beginning in October each year, in co-ordination with the requirements in the paragraph above.

39 Section 34(1)(a) of the Public Finance Act 1989.

Who checks whether government departments are spending money lawfully within authority?

This is where the role of the Controller comes in. The Controller checks whether government departments are incurring expenditure lawfully within authority. To check and verify the expenditure, the Auditor-General's Controller team:

- reviews the Treasury's monthly reports;
- carries out tests on the financial information (that the Treasury provides from the Crown Financial Information System);
- checks that Cabinet's authority for changes to budgets are correctly applied;
- reports back to the Treasury highlighting any issues (including unappropriated expenditure), comments on actions needed to confirm or validate any unappropriated expenditure, and advises on any further action that the Treasury or the department needs to take to resolve outstanding issues; and
- confers with the relevant auditors about issues affecting the government departments they audit.

As well as auditing government departments' financial statements, the Auditor-General is responsible for auditing the appropriations that each department administers (the appropriation audit).

During the appropriation audit of each department, our auditors look at systems and some transactions to check that public money was spent as Parliament intended.

If an appointed auditor detects expenditure outside authority through the appropriation audit work, then they will discuss the matter with the government department, advise the department about reporting the matter and taking corrective action, and inform the Controller. The appointed auditor will also check whether the department properly reports the matter in its financial statements.

Expenditure above or beyond the appropriation limits

The public finance system provides some flexibility to how public expenditure is authorised. This is necessary to:

- allow the Government to incur expenditure not covered by Appropriation Acts at the time, including to allow for unanticipated expenditure during the year as circumstances change (through imprest supply);
- allow for immediate expenditure in declared emergencies (sections 25 and 25A of the Public Finance Act); and
- provide for the approval of relatively small amounts of expenditure that exceed appropriation without needing approval from Parliament (sections 26A and 26B of the Public Finance Act).

However, in general, when government departments do not get approval for expenditure before it is incurred, it is unlawful, regardless of the amount incurred. Expenditure approved by Cabinet under imprest supply will also be unlawful if Parliament does not appropriate it before the end of the financial year.

We have urged government departments to seek early approval as soon as they identify the need for previously unanticipated expenditure. This enables Cabinet to authorise any expenditure over that authorised in the Appropriation (Estimates) Act before it is incurred and Parliament to subsequently authorise the expenditure in the Appropriation (Supplementary Estimates) Act.

Ministers need to report unappropriated expenditure to Parliament and, for that expenditure to be lawful, must seek Parliament's retrospective approval of unappropriated expenditure through an Appropriation (Confirmation and Validation) Bill.

How does the Controller deal with expenditure incurred outside appropriation limits?

When government departments become aware of potentially unappropriated expenditure, they are expected to immediately tell their appointed auditor, the Treasury, and their Minister (who will need to seek additional authority for the expenditure).

The department should provide the Treasury with an explanation of the issue, as well as an explanation of the actions it has taken to resolve it – for example, to gain additional authority before incurring the expenditure to avoid unappropriated expenditure or to seek validation of any already unappropriated expenditure through an Appropriation (Confirmation and Validation) Act.

Auditors might detect potentially unappropriated expenditure through their audit process. The Treasury might also detect it through its financial management and budgeting work. After collating information from government departments each month, the Treasury provides its monthly report to the Controller highlighting actual, expected, and potentially unappropriated expenditure. The Controller then carries out the work that we described in Part 2.

The Controller monitors all matters that come to their attention until they are resolved. They will often, through their auditors, advise government departments on any corrective action needed. For expenditure that is confirmed as being unappropriated, corrective action includes disclosing the facts in the affected departments' annual financial statements (and the Government's financial statements).

After the end of the financial year, the Auditor-General audits the departments' and the Government's financial statements to ensure that all unappropriated expenditure is correctly disclosed.

If a government department does not take the action needed to prevent continuing unauthorised expenditure, the Controller can write to the department's chief executive or the relevant Minister directing that no further expenditure be incurred under the affected appropriation until the department has obtained approval.

If the government department still fails to obtain the correct approval, the Controller can direct the Minister, the Treasury, and the department to stop payments from the relevant bank account and direct the Minister to report to the House of Representatives. This would be an unusual sanction and is only used in exceptional circumstances.

About our publications

All available on our website

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

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

Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests.

Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500

Email: reports@oag.parliament.nz
Website: www.oag.parliament.nz