

About the Controller and Auditor-General

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Introduction

The Controller and Auditor-General (the Auditor-General) is responsible for auditing all of New Zealand’s public organisations.

The current Auditor-General is John Ryan. His focus is to improve the performance of, and public trust in, the public sector.



The Auditor-General is an officer of Parliament¹ and has been in place since the 1840s.

The current role and functions of an Auditor-General are set out in the Public Audit Act 2001 and the Public Finance Act 1989.

As an officer of Parliament, the Auditor-General is independent of central and

local government. The Auditor-General is sometimes referred to as a “public watchdog”. That’s because the Auditor-General acts as a check and balance on the public sector.

The Auditor-General has two functions – Auditor-General (the audit function) and the Controller.

The Auditor-General has a Deputy who is also an officer of Parliament. The Deputy can perform all the functions and exercise all the powers of the Auditor-General.

1 Parliament makes laws and holds the Executive Government to account for its policies, actions, and spending. Parliament consists of the Sovereign (represented in New Zealand by the Governor-General) and the House of Representatives (comprising all elected Members of Parliament). There are three officers of Parliament: the Auditor-General, the Ombudsman, and the Parliamentary Commissioner for the Environment.

Why is there an Auditor-General?

Parliament authorises all government spending and provides public organisations with their statutory powers.

Public organisations, including local government, are accountable for their use of public resources and the powers that Parliament gives them. The Auditor-General provides Parliament independent assurance that public organisations are operating and accounting for their performance in the way Parliament intended.

It is not part of the Auditor-General's role to question the *policies* of the Government or councils. Policies are determined by democratically elected representatives. However, the Auditor-General can report on how those policies are implemented.

Who does the work on behalf of the Auditor-General?

The Auditor-General employs staff in two different offices – the Office of the Auditor-General and Audit New Zealand. The Auditor-General also has contracts with private sector accounting firms.

Office of the Auditor-General

The Office of the Auditor-General is responsible for:

- planning the work programme for the organisation as a whole;
- carrying out performance audits, special studies, and inquiries;
- planning other audit work;
- reporting to Parliament and to select committees;
- setting auditing standards (the Auditor-General's auditing standards);²
- allocating annual audits to appointed auditors;
- monitoring audit fees to ensure that they are fair and reasonable;

2 The Public Audit Act 2001 requires the Auditor-General to report these auditing standards to Parliament at least once every three years and to describe significant changes to the standards in any year in the Auditor-General's annual report.

- overseeing auditors' performance; and
- carrying out quality assurance reviews of all work done on behalf of the Auditor-General, including annual audits by appointed auditors.

Audit New Zealand

Audit New Zealand is responsible for:

- carrying out annual audits on the Auditor-General's behalf; and
- providing other auditing and assurance services to public organisations.

Private sector accounting firms

Auditors from private sector accounting firms are appointed to carry out annual audits on the Auditor-General's behalf.

How does the Auditor-General maintain independence?

To be effective and credible, the Auditor-General and his staff must be independent of the public organisations being audited. To ensure independence, the Public Audit Act 2001 provides that the Auditor-General:

- is an officer of Parliament and can report directly to Parliament and anyone else;
- is appointed by the Governor-General on the recommendation of the House of Representatives for a single term of no more than seven years;
- is paid by Parliament, with the amount determined independently by the Remuneration Authority; and
- makes any requests for funding directly to Parliament through the Officers of Parliament Committee (rather than through the Executive Government).

Auditors appointed by the Auditor-General to carry out annual financial audits on the Auditor-General's behalf must also be independent.

The Auditor-General's auditing standards put strict constraints on appointed auditors, including:

- personal involvement with an audited organisation (such as between family members);
- financial involvement with the organisation (such as financial investments);
- providing other services to the organisation (such as carrying out valuations); and
- doing other work for the organisation.

What does the role involve?

The audit function

The Auditor-General is responsible for auditing all public organisations. This includes:

- government departments – such as Inland Revenue and the Ministry of Education;
- Crown entities – such as the Commerce Commission, district health boards, the New Zealand Tourism Board, and all school boards of trustees;
- State-owned enterprises – organisations that are owned by the Government and have a strong commercial focus, such as New Zealand Post Limited or Airways Corporation of New Zealand Limited;
- councils and their subsidiaries – city, district, and regional councils, and council-controlled organisations such as charitable trusts and incorporated societies associated with councils; and
- statutory boards and other public bodies – such as airport authorities and reserve boards.

The Auditor-General audits about 3500 public organisations, almost 3000 of which are schools or small organisations.

What is the Auditor-General looking for?

Public organisations are accountable to Parliament and the public for their performance and use of resources through annual reports. The Auditor-General's work is designed to give assurance to Parliament, public organisations, and members of the public, that public organisations are fairly reflecting the results of their activities in their annual reports.

The Auditor-General also keeps an eye on whether public organisations are carrying out their activities effectively and efficiently, as well as on matters of waste, integrity, legislative compliance, and financial prudence in the public sector.

The Controller function

The Controller function supports the important constitutional principle that the Government cannot spend, borrow, or impose a tax without Parliament's approval. The Government can only spend money that Parliament has approved through what are known as "appropriations".

The Controller function provides independent assurance to Parliament that the expenses and capital expenditure of government departments and officers of Parliament are lawful and within the scope, amount, and period of the appropriation or other statutory authority.

The main features of the Controller function are:

- The Treasury must supply monthly statements to the Auditor-General to examine whether expenses and capital expenditure have been incurred in keeping with appropriations or other authority.
- The Auditor-General can direct a Minister to report to the House of Representatives if the Auditor-General believes that any expenditure incurred is unlawful or applied for a purpose that is not within the scope, amount, or period of an appropriation or other statutory authority.
- The Auditor-General can stop payments from a Crown bank account or a departmental bank account to prevent money from being used for a purpose that is unlawful or inconsistent with any appropriation or other statutory authority.

What type of work does the Auditor-General do?

Under the Public Audit Act 2001, the Auditor-General:

- carries out annual audits;
- carries out performance audits; and
- may inquire into any matter relating to a public organisation's use of its resources.

Under the Local Government Act 2002, the Auditor-General must audit every council's long-term plan and the related consultation document.

The Auditor-General can also perform other auditing or assurance services at the request of a public organisation, such as auditing financial information in a prospectus or giving assurance to a public organisation about its purchasing or contracting procedures.

Annual audits

Annual audits are carried out in keeping with the Auditor-General's auditing standards, which incorporate the auditing standards issued by the New Zealand Audit and Assurance Standards Board of the External Reporting Board.

In an annual audit, the auditor:

- examines a public organisation's financial statements, performance information, and other information that must be audited;
- assesses the results of that examination against a recognised framework (usually generally accepted accounting practice); and
- forms and reports an audit opinion.

The audit involves gathering all the information and explanations needed to obtain reasonable assurance that financial statements and other information does not contain material misstatements. The auditor also evaluates the overall adequacy of the presentation of information.

This audit of the annual financial statements and other information results in two reports. One is the audit report (including the audit opinion) that is included in the public organisation's published annual report. The other report is for the organisation's governing body and management on matters arising from the audit.

The audit report on a public organisation's annual financial statements and other information gives readers information to help them understand the accuracy of those statements.

The report for the governing body and management of a public organisation sets out the audit findings. It draws attention to areas in the underlying environment, systems, and controls where the public organisation is doing well and contains recommendations for improvement where appropriate.

Most public organisations provide their annual report to Parliament. However, in the case of councils, the annual report is for ratepayers and other residents, so they can see how their council has managed the public resources for which it is accountable.

Performance audits

A performance audit examines one or more of the following aspects of a public organisation's performance:

- effectiveness and efficiency;
- compliance with statutory obligations;
- use of public resources;
- integrity; and
- financial prudence.

The findings, conclusions, and recommendations from that examination are usually reported to Parliament. There are two constraints on examining effectiveness and efficiency:

- The effectiveness and efficiency of the Reserve Bank or a registered bank cannot be examined.

- It is not the Auditor-General's role to question the policies of the Government or councils.

The Auditor-General chooses the issues to be examined by performance audits and other studies through an annual work-planning process. This involves examining each sector and identifying the main areas of actual and potential concern that would benefit from being examined by a performance audit or other special study. The Auditor-General consults Parliament and other stakeholders before deciding what is included in the annual plan.

Inquiries

The Auditor-General can inquire into any matter concerning a public organisation's use of its resources.

Who can suggest an inquiry?

The Government, any member of the public, any member of Parliament, or any organisation may suggest an inquiry about a significant financial, accountability, or governance issue in a public organisation.

The Auditor-General can also conduct a formal inquiry into, and report to Parliament on, any matter of high public interest.

How does the Auditor-General decide whether to conduct an inquiry?

The Auditor-General cannot be ordered to conduct an inquiry. Before deciding whether to proceed with an inquiry, the Auditor-General considers whether the matter is within their mandate under the Public Audit Act 2001.

Other considerations are whether the person or organisation suggesting the inquiry has themselves taken reasonable steps to resolve the matter with the organisation concerned, and whether the Auditor-General has the staffing and resources to look into the matter.

In conducting an inquiry, the Auditor-General is subject to the same two constraints that apply to any performance audit. Many inquiries are conducted simply and at minimal cost, and result in a brief report to the person or organisation who asked for the inquiry. However, other inquiries address complex matters and assume a high public profile.

The Auditor-General has wide powers to request information, and decides what information to disclose or include in a report. The Auditor-General may, if the issues are significant, produce a public report that is presented to Parliament, a Minister, or a council and published on our website.

Councils' long-term plans

The Local Government Act 2002 requires the Auditor-General to audit every council's long-term plan and consultation document for these plans.

Reports and assistance

Parliament and its committees

As well as reporting to Parliament on public organisations' activities, the Auditor-General assists select committees and members of Parliament in their own roles, holding to account an individual department, office of Parliament, Crown entity, State-owned enterprise, or other public organisation.

This assistance serves one or more of these five purposes:

- select committee examinations of Estimates;
- select committee reviews of public organisations' performance and current operations (called financial reviews);
- select committee inquiries;
- select committee consideration of the reports of the Auditor-General presented to Parliament; and
- members of Parliament enquiries or requests made directly to the Auditor-General.

In the first four categories, assistance is provided usually as a witness, under the Standing Orders of the House of Representatives.

The Officers of Parliament Committee has approved a code of practice that provides guidance for managing the main ways in which the Auditor-General can interact with Parliament, its select committees, and members.

Councils

As well as auditing all councils' long-term plans and consultation documents for these plans, the Auditor-General is responsible for assuring communities that their council (and any related subsidiary organisation) is operating and accounting for its activities and performance in the manner required.

As the auditor of all councils, the Auditor-General has a national perspective, and can:

- conduct audits of, and provide reports to, individual councils that are supported by extensive knowledge of the wider public sector; and
- speak authoritatively about financial management and accountability in local government.

The Auditor-General also has responsibilities under the Local Authorities (Members' Interests) Act 1968, which applies to councils and a range of statutory bodies.

The Act:

- regulates financial dealings between members and their council; and
- precludes members from participating at meetings about matters in which they have a financial interest.

Other stakeholders

The Auditor-General assists other professional and sector organisations, and overseas audit offices, on various auditing, financial management, and accountability matters.

More information

The Auditor-General's reports are available in HTML, epub, and PDF format on the website – oag.govt.nz.

For the Audit New Zealand website, see auditnz.govt.nz.

You can follow the Auditor-General on Twitter ([@auditor_general](https://twitter.com/auditor_general)), Facebook ([@AuditorGeneralNZ](https://www.facebook.com/AuditorGeneralNZ)), and Instagram ([@auditorgeneralnz](https://www.instagram.com/auditorgeneralnz)).