Controller and Auditor-General
Tumuaki o te Mana Arotake

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Annual report 2022/23

Photo acknowledgement:
Ginny Dunn

Annual report 2022/23

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

About this annual report

This 2022/23 annual report is the main accountability document for the Controller and Auditor-General. It describes the work we have carried out to demonstrate how we will achieve our ultimate outcome – that Parliament and the public have trust and confidence in New Zealand's public sector.

The annual report informs our stakeholders – Parliament, New Zealanders, and public organisations – about our strategic intentions, priorities, and performance for the year 1 July 2022 to 30 June 2023. It has been prepared in keeping with the requirements of the Public Audit Act 2001 and the Public Finance Act 1989.

In this report, the "Office" includes the Auditor-General, the Deputy Auditor-General, the Office of the Auditor-General | Te Mana Arotake, Audit New Zealand | Mana Arotake Aotearoa, the Corporate Services Group, and contracted audit service providers.

We are interested in feedback to help us improve our reporting.

Feedback can be sent to enquiry@oag.parliament.nz.

Statement of responsibility

I am responsible, as Controller and Auditor-General, for:

- the preparation of the Office's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Office is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Office, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2023 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2024 and its operations for the year ending on that date.

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

26 September 2023

Aaron Crookston
Chief Financial Officer

26 September 2023

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Auditor-General’s overview

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

I am pleased to present my annual report for 2022/23.

In 2022/23, New Zealanders continued to experience disruption and uncertainty. Although there was less immediate disruption from Covid-19, the social and economic effects of the pandemic continue to be felt. The severe weather events this year caused extensive damage and are a stark reminder of the impacts we are increasingly likely to face because of climate change. Global instability and other factors have also affected economies worldwide, resulting in inflation, sharp rises in the cost of living, and an uncertain economic outlook. Considerable public money has been spent responding to these issues.

The public’s trust and confidence in the public sector are fundamental to successfully responding to current and future challenges. Although the trust that New Zealanders have in the public sector remains high, we must not take this for granted. We know that trust in the government and public institutions is declining globally and, as we saw during the pandemic, misinformation can undermine the trust that people have in the public sector and in New Zealand's system of government.

These circumstances reinforce the importance of the role of my Office as a source of independent and trusted information about public sector performance and accountability.

Public sector audits

Annual audits form most of my Office's work and are fundamental to the work we do that contributes to trust and confidence in the public sector. Annual audits help ensure that public organisations report reliable and relevant information to the public about how they have used public money and how well they have performed.

At the outset of the pandemic, I made it clear that my Office's focus was on completing quality audits. A significant amount of public money was being spent in unprecedented ways and circumstances. However, given the constraints of the pandemic, completing quality audits took time and resulted in audit deadlines being extended by Parliament and some audits being deferred.

In 2022/23, the pandemic continued to affect the nature and timing of our annual audits. My focus has been, and continues to be, on returning annual audits of public organisations back to the timeliness we saw pre-pandemic, while maintaining their quality. The first half of 2022/23 was particularly challenging, with audits affected by the global auditor shortage and other Covid-19 effects, including staff illness at audit service providers and public organisations.

Audits have also become more complex as public organisations and auditors navigate a range of complicated issues and disruptions to normal work patterns.

Timeliness also relies on public organisations being ready for their audits. The pandemic put pressure on public organisations, resulting in many finding it challenging to provide auditors with adequate information in a timely way, despite extensions to their reporting deadlines.

Given these challenges, I directed my auditors to prioritise audits most important to New Zealand’s public accountability system – such as the financial statements of the Government, many government departments, and Financial Markets Conduct reporting entities, such as Auckland Council. I also decided to reallocate work among audit service providers where there was capacity to do so.

I am pleased that we completed 74% of the audits of large public organisations on time in 2022/23. For others, many were not completed on time because information was not ready to audit.

Most of the deferred audits of large public organisations are now up to date. Audit New Zealand, my in-house audit service provider, is well placed to return to pre-pandemic audit completion rates. However, parts of my portfolio, particularly schools, are audited by private sector auditors and remain under pressure to return to pre-pandemic audit completion rates.

New Zealand is not alone in facing these challenges. The United Kingdom's National Audit Office (NAO) is aiming to return to 70% of its pre-pandemic audit levels by the end of 2023/24. Only 12% of the United Kingdom's local government bodies received audit opinions in time to publish audited accounts for 2021/22 by their extended deadline of 30 November 2022.

Although we are well placed to return to pre-pandemic timelines in 2023/24, we know this will require ongoing improvements from both auditors and public organisations.

Strengthening our core assurance role for the future

Strengthening our core assurance role is the first priority for our strategic intentions to 2028. The public audit system is critical to robust public accountability and we must ensure its long-term sustainability.

As I noted in my October 2022 mid-term review, the audit profession faces a range of challenges. This includes a significant decline in the number of students enrolling in accountancy-related subjects at university, the increasing costs and complexity of audits, and threats to the profession's reputation. The effects have been felt by audit service providers worldwide.

Strengthening our core assurance role includes work to ensure the sustainability of Audit New Zealand. In the second half of 2022, we completed a review to ensure that Audit New Zealand is both efficient and resourced to carry out its work. We are well under way with implementing the main findings of that review and will complete this work over the coming year.

Ensuring that Audit New Zealand remains financially sustainable will be a key focus for the remainder of my term. Audit New Zealand's revenue depends on the audit fees it charges public organisations. Increasing audit complexity, a shortage of auditors, and audit costs rising faster than audit fees has put pressure on Audit New Zealand.

To complete the deferred audits and get back to a position that will enable Audit New Zealand to complete audits within normal statutory reporting deadlines, I reallocated about 80,000 hours (about 20%) of Audit New Zealand's workload to other audit service providers, where I was satisfied that there was capacity and that quality standards could be met.

Parliament has also invested in Audit New Zealand to ensure that we can rebalance its portfolio and to compensate for unrecoverable inefficiencies as a result of Covid-19.

Sustainable audit fees

Our audit services must be financially sustainable. The Public Audit Act 2001 (the Act) requires audit fees to be reasonable. In practice, this means that fees need to be reasonable for the public organisation being audited as well as for the auditor.

Fees for many public organisations were constrained during the pandemic. We have been reviewing and moving to sustainable audit fees in sectors where fees have not kept pace with the rising costs of providing a quality audit. I recognise that this comes at a time when many other costs are rising, however we must ensure that fee levels are reasonable. We will also continue to work with public organisations to ensure that audits are completed as efficiently as possible.

Public sector reforms

The public sector is operating in an environment of significant reform. In particular, the reforms to the health and tertiary sectors and changes to water services create a wide range of challenges. I have new responsibilities because of these reforms.

The Pae Ora (Healthy Futures) Act 2022 created new agencies to replace a number of health organisations, including the 20 district health boards. The fundamental nature of the changes, and the scale of Te Whatu Ora, will have implications for how we approach our audits in the health sector, including how we consider risks and how we can best add value.

This year, we have also been preparing our approach to auditing Te Pae Tata, the New Zealand Health Plan. This is an important new assurance role for the Office.

Our submission on water reforms influenced better accountability and audit arrangements for the water services entities. The Water Services Act 2022 requires the Auditor-General to audit the water services entities' statement of intent, infrastructure strategy, and consumer engagement strategy.

I am pleased that Parliament has reinforced the importance of rigorous independent assurance as part of the reform process.

Supporting strong integrity practices

The public sector response to recent crises has involved significant spending, the use of high-trust policies, policies prepared at speed, and urgent procurement processes. These have been necessary steps, but they come with risks to probity and can raise questions about integrity and value for money. We have been actively involved in reviewing the government's responses to these events.

In 2022/23, we developed and promoted our integrity framework with senior public sector leaders and governors. This framework encourages whole-of-organisation approaches to creating a culture of integrity.

We have examined matters where we had concerns about integrity and found recurring themes of a need to strengthen how conflicts of interest are managed and a need to improve the robustness of procurement processes.

We also reviewed how well the New Zealand Defence Force (NZDF) had designed and reset its programme aimed at eliminating inappropriate and harmful behaviours and sexual violence in its organisation. We will continue to independently monitor, assess, and report on whether NZDF is eliminating these behaviours from its workplaces.

Influencing better performance reporting

This year we continued to focus on improvements needed to the information that public organisations provide about their performance. It is still too hard to tell what New Zealanders are receiving for about $160 billion of central government expenditure each year, and whether it represents value for money. I have raised this matter in several of my reports, as well as directly with the Officers of Parliament Committee. In my view, fundamental changes are needed to the system for how public organisations are required to report on performance, to ensure that the public sector meets the accountability requirements of a 21st century New Zealand. This is an important and urgent matter.

We regularly discuss with Parliament and public sector leaders the need to see improved performance reporting at the organisation, cross-agency, and all-of-government levels.

In this regard, I welcome the report of the Standing Orders Committee recommending the establishment of a select committee to conduct an inquiry into performance reporting by the government and for changes to parliamentary scrutiny more generally. These create significant opportunities to better hold future governments to account for their performance.

Improving trust and performance

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

Through this work we have continued to focus on matters of importance to improving the lives of New Zealanders. This included examining how public organisations are meeting the needs of people affected by family violence and sexual violence, how well public organisations are supporting Whānau Ora and whānau-centred approaches, and how the Cost of Living Payment was designed and implemented.

I am encouraged to see, through our follow-up work, that public organisations are implementing our recommendations for improvement.

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

Strengthening our relationships

Building and maintaining relationships with our stakeholders is crucial to how we influence positive change.

We have continued to hold good-practice events for public sector leaders and audit and risk committees, and communicate regularly with chief executives and the governors of public organisations about key findings from our work.

In the local government sector, we have delivered induction sessions to elected members. These focused on the role of the Office, what public accountability means for councils, the importance of a strong integrity culture, managing conflicts of interest, improving the effectiveness of audit and risk committees, and areas of focus for the upcoming 2024-34 long-term plans.

Māori have lower trust in the public sector than the general population. We are interested in how the public sector can improve its service delivery to, and outcomes for, Māori. To do this we too must be well connected to the concerns and interests of Māori.

In 2022/23, we continued work on our te ao Māori strategy. The strategy will help us build our organisational capability and capacity in te ao Māori, and to better connect our work with Māori.

I established a Rōpū Māori to advise me as we look to increase our impact in areas of public sector performance affecting Māori. The Rōpū Māori is designed to provide valuable insight, advice, and guidance to my Office.

Our international team has continued to play an important role in supporting accountability and transparency in the Pacific. This has been done directly through the seminars we run and through the twinning relationships we have with Auditors-General in Samoa and the Cook Islands. Through my role as Secretary-General, we have also supported the Pacific Association of Supreme Audit Institutions (PASAI) to deliver capability development programmes and support to developing Supreme Audit Institutions in the wider Pacific region.

I am also the Auditor-General of Tokelau and Niue. A key achievement this year was the completion of many of the delayed audits of the financial statements of the Government of Niue and excellent progress on a similar programme for the Government of Tokelau.

International reputation

The Office and our staff continue to be highly respected in the international audit community. This year we were invited to be one of the reviewers of the United States Government Accountability Office. Our Assistant Auditor-General Audit Quality sits on the International Public Sector Accounting Standards Board (IPSASB), and our former Deputy Auditor-General also sits on an international board, as noted below.

Deputy-Auditor General

Greg Schollum retired from his role as Deputy Controller and Auditor-General on 30 April, after nearly eight years and after more than 19 years working in the Office. Greg made an enormous contribution to the Office, New Zealand's public sector, and the accounting and auditing profession locally and internationally. He will carry on contributing in many ways, including on the International Auditing and Assurance Standards Board.

On 1 May, we welcomed Andrew McConnell as our new Deputy. Andrew joined us from the Ministry for Primary Industries. He has also held senior roles at the Department of Internal Affairs and the Ministry of Justice and was previously a Sector Manager at the Office.

Thank you

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

I also acknowledge public organisations for their constructive engagement with my Office.

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

Nāku noa, nā

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

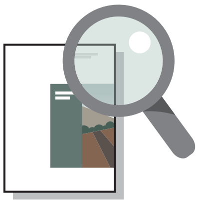
26 September 2023

2022/23
Our year in numbers

3074
audit reports issued on public organisations' financial statements and performance information.

443
recommendations implemented by large public organisations to improve systems and processes.

172
reports to Parliament and briefings given to select committees to help them scrutinise and improve the performance and accountability of public organisations.



153
letters on audit findings sent to Ministers.

1710
mentions about the Office and our work in mainstream media.

605
social media posts.

23
events hosted.

9
blog posts.

What went well in 2022/23

We are well placed to return to pre-pandemic audit completion rates

We completed most audits on time for large public organisations and those most important to New Zealand's public accountability system.[1] We have made good progress on our deferred audits for other large public organisations and are well placed to have audits completed within pre-Covid statutory time frames in 2023/24, although school audits will remain challenging.

We maintained quality

Maintaining audit quality has been a priority for the Office. Monitoring reports about audit quality by the Financial Markets Authority (FMA) in 2021 and 2022 indicated that auditors had responded well to the various challenges presented by Covid-19. Reviews by the FMA, the New Zealand Institute of Chartered Accountants (NZICA), and our own in-house quality assurance team have all shown that Audit New Zealand and other audit service providers continue to deliver quality audits. This is a significant achievement, given the challenges that Covid-19 created.

We increased our capacity to complete annual audits

We reallocated audits between audit firms to ensure that workload was manageable and to maximise our use of available audit capacity in New Zealand. Audit New Zealand is sufficiently resourced for its current workload. We have established new secondment arrangements with other audit offices internationally, which increase capacity when demand is high and provide staff with opportunities to broaden their experience.

We advocated for better performance reporting

It is difficult, and often not possible, to track public spending and what is being achieved with it. Systemic shortcomings have been identified through our audits and reports.

This year, we advocated extensively for improved performance reporting to build and maintain Parliament's and the public's trust and confidence in the public sector. We have seen some improved reporting on major areas of government spending and Parliament has responded positively to the need for change, with new rules for select committee scrutiny.

We helped strengthen accountability for water services

Our submission on the Water Services Entities Bill resulted in improved accountability and audit arrangements.

The Water Services Entities Act 2022 now requires the Auditor-General to audit the water services entities' statements of intent, infrastructure strategies, and consumer engagement strategies. This will significantly improve public confidence in these organisations' performance.

1 Other than those that have been disestablished, such as district health boards.

We continued to deliver insights to improve public sector performance

We published significant reports on matters of importance to New Zealanders that have driven positive change. The matters we have reported on include harmful behaviours in the New Zealand Defence Force, family violence, Whānau Ora, and the Provincial Growth Fund reset. Some of our other publications focus on topics that are most relevant to the public sector audience, for example on Crown entity monitoring, procurement, and emergency responses.

We helped to improve targeting of Cost of Living Payments

We raised concerns about how eligibility criteria were applied for the Cost of Living Payment, uncertainty about how many ineligible people received the payment, and the approach to recovering payments from ineligible recipients.

Inland Revenue took action to address these problems. This included estimating the amount of ineligible payments, carrying out extra checks on people's residential status, and contacting people about eligibility and repayment requirements.

We took important steps to build our capability in te ao Māori

We established our Māori Rōpū to advise the Auditor-General on matters central to Māori and how we might be more relevant to them. We are taking a phased approach to our te ao Māori strategy. We have carried out work to understand our history and the role we played in some significant events affecting Māori. We continue to build the capacity and capability of our people with te reo Māori and tikanga Māori. We commissioned work to understand Māori perspectives on public accountability and the implications of this for the Office.

What did not go well in 2022/23

We did not complete all audits on time

The ongoing effects of the Covid-19 pandemic, catching up on previously deferred work, and global auditor shortages meant that it was not possible to complete all public sector audits within their statutory deadlines. Some public organisations also experienced challenges in having adequate information ready to be audited. Certain sectors have been particularly impacted, especially schools, where audits remain affected by these ongoing pressures.

Some of our performance audits took longer than planned

The effects of the Covid-19 pandemic meant that some performance audits took longer than planned. Our performance audits examine complex issues, often including multiple agencies, and involve managing many dependencies that can affect timeliness.

Public organisations' satisfaction with audit services fell

In 2022/23, public organisations' satisfaction with their audit fell to 69% , down from 71% the year before. One important reason for the fall in satisfaction was the delay in completing audits.

Sustainability of public sector audits

Many issues are affecting the long-term sustainability of public sector audits, including a global auditor shortage, fewer people studying accountancy-related subjects in New Zealand universities, ongoing challenges from the Covid-19 pandemic, new standards that are increasing expectations on auditors (such as standards on quality management and risk assessment), and pressure on audit fees.

Significant public sector reforms and severe weather events have also affected many public organisations and their ability to adequately prepare for being audited. The Covid-19 pandemic has exacerbated this. As a result, the workload for our audit service providers continued to increase in 2022/23.

Completing deferred audit work

In 2022/23, we again completed most of the audits of large public organisations and those most important to New Zealand's public accountability system on time. However, because of the issues described above, there were many audits that were deferred, including audits of several councils and Crown entities.

We have made good progress in completing these deferred audits. We have also increased capacity in Audit New Zealand and reallocated audits between providers to ensure that the available auditor capacity in New Zealand is fully utilised.

In 2023/24, we are aiming to complete most audits within their pre-Covid-19 statutory deadline. We will continue to work with public organisations affected by ongoing public sector reforms and severe weather events to ensure that audits are carried out as efficiently as possible.

Public sector reforms and new auditing responsibilities

Ongoing public sector reforms present us with both a challenge to ensure that we are ready to carry out new engagements and an opportunity to increase the impact of our work. These reforms will also present challenges for public organisations.

In 2022/23, we started working through the implications of auditing the New Zealand Health Plan (Te Pae Tata) 2024-27 and auditing the reporting against the interim Te Pae Tata (which was put in place for 2022/23 and 2023/24).

The purpose of Te Pae Tata 2024-27 is to provide a three-year plan for the delivery of publicly funded health services. To provide Parliament and the public with assurance on Te Pae Tata 2024-27, we need to develop new methodologies for what will be complex and high-profile audit work.

In August 2022, we wrote a submission to the Finance and Expenditure Committee about our concerns with the accountability arrangements in the Water Services Entities Bill. We noted in our submission that the Bill's proposed reduction in audit scrutiny of water services entities (compared to when councils were responsible for water services) was a serious diminution in public accountability.

Our submission influenced better accountability and audit arrangements for the water services entities. The Water Services Act 2022 requires the Auditor-General to audit the water services entities' statements of intent, infrastructure strategies, and consumer engagement strategies.

Because these will be new types of audits, we will need to prepare an approach, plan for the work, and ensure that we have appropriate resources. This will be a focus in 2023/24.

Our strategic direction

In 2022/23, the Auditor-General reached the mid-point of his seven-year term. He commissioned a review to consider the challenges the Office faces and confirm the priorities for the rest of his term.

The review found that good progress had been made with our strategy. This has included:

- broadening the focus and approach of our performance audits, inquiries, and other work with a view to increasing our impact;
- doing more to influence improvements in public accountability; and
- investing more in our people, systems, and data and analytics to improve our capacity and capability.

It also pointed to where we could do more.

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

Our focus over the next five years is to:

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

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

Our *Annual plan 2022/23* set out our discretionary programme of work for the year. In this report, we describe our progress against our annual plan. We regularly review the work in our annual plan so that it remains relevant and responsive to the dynamic and changing operating environment. Appendix 4 provides a summary of progress made during the year on the work programme set out in our *Annual plan 2022/23*.

The key strategic risks we manage

Our key strategic risks are:

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

We actively manage these risks through the processes that support our work. This includes our Audit and Risk Committee, which provides advice on risk and how to mitigate it. See Appendix 1 for the Committee's report for the year ended 30 June 2023.

Strategic intentions
2023-28

Positioning Audit New Zealand for the future

In 2022/23, we completed a review of Audit New Zealand. The review looked at how we can ensure the long-term sustainability of Audit New Zealand and maximise the benefits of our investment in new technology for audit delivery and practice management.

There has been a significant under-investment in Audit New Zealand over many years. For Audit New Zealand to remain effective and efficient, we must invest in new audit tools, methodologies, systems, and technologies.

Balancing Audit New Zealand's capacity and capability against its audit portfolio will ensure that it can maintain the quality of its work, its engagement with public organisations, and how it manages its business.

In 2023/24, we will begin implementing the findings of our review and continue to improve how Audit New Zealand carries out its work.

Ensuring quality annual audits

All auditors in New Zealand must comply with auditing standards issued by the External Reporting Board (the XRB). The professional, ethical, auditing, and assurance standards of the XRB do not always take full account of the scope and nature of public sector audits. Therefore, the Auditor-General issues his own standards for all public sector auditing work done on his behalf. The Auditor-General's auditing standards supplement the auditing standards issued by the XRB.

The Auditor-General also appoints and oversees auditors who carry out audits on his behalf.

Independence

The Auditor-General's auditing standard on independence is stricter than the one for the private sector. The standard restricts the non-assurance work that audit service providers can do for the public organisations they audit.

This position has been taken to mitigate the risk of conflicts of interest occurring, safeguarding the independence of auditors working on public sector audits.

We monitor the services that audit service providers carry out for public organisations they audit on behalf of the Auditor-General. We also pre-approve or decline work that audit service providers propose to carry out that could cause people to question their independence.

In recent years, the Auditor-General has increased expectations of audit service providers to ensure that commercial interests do not undermine their independence.

Updated auditing standards

The Public Audit Act 2001 requires us to report each year on any significant changes made to the Auditor-General's auditing standards. In March 2023, we published an updated version of the standards (see *Changes to standards* in *Our services, Service 3*).

The changes we made to the Auditor-General's auditing standards included a new code of ethics that sets out the reasons for the high expectations and standards we have, particularly for independence.

Maintaining quality audits

We carry out quality assurance reviews of our auditors. A significant part of these reviews is ensuring that the auditor has complied with the Auditor-General's auditing standards. Our quality assurance reviews are in addition to audit providers monitoring their own quality control systems and complying with professional ethical standards.

As well as quality assurance reviews of auditors, we periodically invite the Financial Markets Authority and the New Zealand Institute of Chartered Accountants Practice Review Group to carry out quality reviews of Audit New Zealand. Both organisations were invited to carry out their reviews of Audit New Zealand during 2022.

The Financial Markets Authority reviewed our quality control system, and both the Financial Markets Authority and New Zealand Institute of Chartered Accountants reviewed a sample of Audit New Zealand's audit files. The resulting reports showed that Audit New Zealand maintained a robust system of quality control and completed quality work.

Improving public accountability

Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. A robust public accountability system is vital to maintaining trust in the public sector and showing what has been achieved with the spending of public money.

We have carried out work looking at the effectiveness of the current public accountability system and have published reports on how it can be improved. Part of this work included commissioning and publishing a report on Māori perspectives on public accountability.

Case study: Māori perspectives on public accountability

Trust in the public sector is driven by a range of factors. Māori have lower levels of trust in the public sector than other New Zealanders.

We commissioned research, guided by kaupapa Māori principles, to learn more about the range of views that Māori hold about public accountability.

The findings are important for all public organisations seeking to build and maintain trust and confidence with Māori. Forming closer connections, actively listening, learning about Māori worldviews, and continuing to ask what else can be done can all contribute to building more trusting relationships between Māori and the public sector.

The findings also have implications for how our Office carries out its role and the impact we can have on public sector accountability and on matters of significance to Māori.

Influencing improved performance reporting

For performance reporting to be meaningful, it needs to clearly explain what is being delivered, the difference that is being made for New Zealanders, and how much these services cost.

We have continued to influence improvements in public organisations' performance reporting by providing good practice guidance and seminars, promoting this guidance through our relationships with senior leaders and governors of public organisations, and briefing parliamentary select committees about the quality of performance information in annual reports and budget documents.

System constraints are affecting public accountability

Our efforts highlighting the need for effective public accountability to support better outcomes for New Zealanders have been amplified in two recent reports by the Productivity Commission and the Parliamentary Commissioner for the Environment.[2]

The reports identify systemic gaps and barriers that are preventing our public accountability system being fully responsive and effective. Identified issues include barriers to informed debates, scrutiny, and innovation, mixed effectiveness in meeting Tiriti o Waitangi responsibilities, the absence of a community voice, and the lack of robust performance information.

We have for some time been concerned with the apparent difficulties the public sector has in connecting with an increasingly diverse society. The Auditor-General has made it clear that without legislative change we are unlikely to see sustained improvement.

We are concerned that it is often not clear to Parliament or the public what outcomes the Government is seeking when it uses public money. In 2021/22, central government spent about $160 billion. In November 2022, we wrote to the Officers of Parliament Committee expressing our concerns

2 These two reports are discussed in a speech by Dr Ganesh Nana, *A Fair Change for All: Breaking the cycle of persistent disadvantage – Launch of final inquiry report on 20 June 2023 at Wellington Museum*, at productivity.govt.nz, and our blog post "Report from Parliamentary Commissioner for the Environment reinforces need for effective public accountability", at oag.parliament.nz

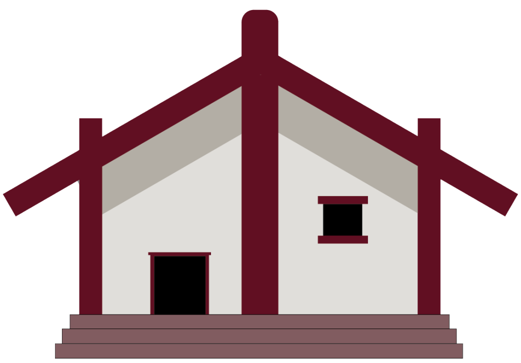
about the transparency and accountability of public spending on new initiatives. We proposed that change is needed to the Public Finance Act to help give Parliament and the public better visibility of the outcomes a government is seeking and the progress it is making.

Parliament has responded to these concerns. The Standing Orders Committee has recently recommended the establishment of a parliamentary select committee in the next term of Parliament to conduct an inquiry into performance reporting and to make other changes to the scrutiny role that Parliament plays.

Case study: Review of the Provincial Growth Fund reset

In June 2023, we wrote to the Economic Development, Science and Innovation Committee about how Kānoa-RDU managed the repurposing of $640 million from the Provincial Growth Fund to help regions in New Zealand recover from the economic impact of the Covid-19 pandemic.

Although some aspects of Kānoa-RDU's management of this process were consistent with good practice, other key elements were not. For these reasons, we were not certain that Parliament or the public could have confidence that the investments made through the Provincial Growth Fund reset will ultimately represent good value for money.



Enhancing our impact in te ao Māori

Te ao Māori strategy

In 2022/23, we continued working on our te ao Māori strategy.

The priorities in our strategy are to:

- continue to build relationships in Māori communities;
- take account of Māori knowledge and perspectives in our work;
- support staff to build their capability to improve outcomes that benefit Māori communities; and
- complete further performance audits and other work that is relevant to the concerns of Māori.

Establishment of a Rōpū Māori

In 2022/23, we established a Rōpū Māori to advise us as we carry out work to enhance our impact in te ao Māori. The Rōpū Māori is designed to provide insight, advice, and guidance to the Auditor-General.

Understanding our history

In 2022/23, we have been researching our Office's history on matters significant to Māori and are writing a series of insights to help us understand our historic role in relation to Māori.

Public sector accountability to Māori

As well as the report we commissioned on how Māori view public accountability, we increased our focus on examining how well the public sector is accountable to, and supporting improved outcomes for, Māori. In 2022/23, we published two reports: *How well public organisations are supporting Whānau Ora and whānau-centred approaches* and *Four initiatives supporting improved outcomes for Māori*.

In 2023/24, we will continue this work by looking at public organisations' implementation of their Treaty of Waitangi settlement commitments.

Supporting strong integrity practices

Integrity can be defined as demonstrating honesty and uncompromising adherence to strong ethical principles. Importantly, it is not just about complying with the law – that is a given. It is about doing the right thing. It is about aligning both commitment and behaviour with strong ethical values or principles in a consistent and uncompromising way.

Public organisations need the public's trust and confidence to operate effectively, have the impact they are seeking, and achieve their intended outcomes. Public organisations build and maintain the public's trust by demonstrating competence, reliability, and most importantly honesty.

Engagement with our integrity framework

In 2021/22, we published our integrity framework to support leaders and governors in the public sector to take a whole-of-organisation approach to creating a culture of integrity. In 2022/23, we promoted and supported the integrity framework and guidance with a wide range of public organisations.

We met with boards, audit and risk committees, and senior leadership teams to discuss integrity. Many of these organisations have subsequently carried out a gap analysis against the integrity framework, resulting in plans to strengthen integrity practices.

We have been using the framework to improve our own integrity practice. For the last 12 months, we have been taking important steps to develop a stronger "listen up, speak up" culture in the Office. We also published an integrity guide that provides staff with a single point of reference on integrity matters.

The Serious Fraud Office is using the integrity framework as part of its fraud prevention work. The integrity framework has also attracted international interest. We responded to invitations to present on the framework in the Pacific, Australia, Wales, and Brazil.

In 2022/23, we started work to integrate te ao Māori concepts into our integrity framework.

Risks to integrity in the public sector

We sometimes see that pressure to deliver is affecting public organisations in both central and local government, creating additional risks to ensuring that integrity is maintained and appropriate processes are followed when spending public money.

We continue to be concerned about incidents of poorly managed conflicts of interest in the public sector. Although conflicts of interest arise in all walks of life, there are high expectations about how public organisations manage them given their exercise of public powers and spending of public money.

Case study: How well public organisations are supporting Whānau Ora and whānau-centred approaches

Whānau Ora was established in 2010. The Government wants to make more whānau-centred services available, including by increasing public organisations' investment in Whānau Ora. This performance audit looked at how well Te Puni Kōkiri and other public organisations are supporting Whānau Ora and whānau-centred approaches.

We found limited progress had been made. We did not see a significant shift towards implementing these approaches, or structured consideration of where and when they would be appropriate.

To address this, the public service needs to be more deliberate in its support of whānau-centred approaches and Whānau Ora. Some public sector processes and practices will need to change to make it easier to implement these types of approaches. Te Puni Kōkiri also needs a clearer and stronger mandate for broadening whānau-centred approaches.

Our recommendations are intended to support the public service to broaden its understanding and development of whānau-centred approaches.

In 2022/23, we considered several instances of potential conflicts of interest. They included a decision to allocate "shovel-ready" funding to a project in Nelson. One of the funding applicants had previously made a political donation to one of the Ministers responsible for making decisions about shovel-ready funding. We did not consider that a conflict of interest resulted, but the potential conflict of interest should have been identified and managed when the funding decision was made.

We also looked at Horowhenua District Council's procurement of consulting services for the Levin landfill. There was a concern that a potential conflict of interest was not appropriately managed. We did not find any evidence of a conflict of interest, but the Council's procurement did not follow its policy or good practice.

Auditing integrity practices

In 2022/23, we looked into how government agencies support integrity practices and transparency when procuring goods and services during an emergency. We also developed a performance audit methodology that we can use to assess the integrity culture in public organisations.

We published a report on how well the New Zealand Defence Force had designed and reset Operation Respect, a programme aimed at eliminating inappropriate and harmful behaviours and sexual violence in its organisation. We also published a monitoring report that brings together the qualitative and quantitative data we collected to assess the impact of the actions the New Zealand Defence Force was taking. This data will establish a baseline for measuring progress in implementing Operation Respect.

Our next performance audit on Operation Respect will likely start in late 2023/24. It will look at progress that the New Zealand Defence Force has made on the recommendations in our first report.

Case study: Monitoring the New Zealand Defence Force's progress in implementing Operation Respect

Introduced in 2016, Operation Respect aims to prevent inappropriate and harmful behaviour in the New Zealand Defence Force (NZDF). A review commissioned by the Ministry of Defence in 2020 recommended the Auditor-General independently monitor Operation Respect's progress over the next 20 years, and NZDF invited the Auditor-General to do so.

As part of this work, we published two substantial reports[3] on NZDF's progress in implementing Operation Respect. In our view, NZDF needs to act with urgency to create a safe, respectful, and inclusive environment for all its personnel. Our work recognised the critical role that senior leaders have in creating and maintaining a safe and respectful culture. It also underlined the importance of having trusted complaints and disciplinary systems.

We made 11 recommendations designed to ensure that NZDF is putting in place the foundations needed for Operation Respect to succeed. NZDF accepted all our recommendations.

We will continue to independently monitor, assess, and report on the impact of the actions NZDF is taking and, over time, whether it is achieving Operation Respect's outcomes.

3 See *New Zealand Defence Force: Resetting efforts to reduce harmful behaviour* and *A safe and respectful New Zealand Defence Force: First monitoring report*, at oag.parliament.nz.

The need for sustainable audit fees

Central government spends about $160 billion every year. Councils further spend about $19 billion a year. Quality public audits support transparency about how this money has been spent and what has been achieved from it. Our audits also help public organisations identify what and how they can improve.

Auditing public organisations is complex. The public sector operates in an increasingly challenging environment. In recent years we have seen significant reforms in some sectors, the impacts of climate change, and a sharp rise in the cost of living, along with the effects of the Covid-19 pandemic. These challenges have resulted in increases to public spending and add to the complexity of audits.

At the same time, the auditing profession is facing challenges to its sustainability, driven by a global shortage of auditors, increased requirements in auditing standards, increasing scope in the nature of information that is audited, and transitioning audit practices to take advantage of new technologies.

Public sector audits are funded by fees paid for by the public organisations we audit. Under the Public Audit Act 2001, we must set audit fees that are reasonable, given:

- the nature and extent of the service provided;
- the requirements of auditing standards published by the Auditor-General;
- the necessary qualifications and experience of the people who provide the services; and
- any other matters that the Auditor-General sees fit.

In practice, this means that fees need to be reasonable for the public organisation being audited and should cover the cost of the audit and allow for reinvestment in the capacity and capability of audit providers.

Our auditors prepare fee proposals based on a range of factors that affect the time required to do the audit and the staff mix needed. The Office of the Auditor-General then reviews proposed fees to make sure that proposed fees are in keeping with the size, complexity, and risks for the audit. Auditors then negotiate with the public organisation to agree the audit fee, normally to cover a period of three years. We commission an independent review of how we set and monitor the reasonableness of audit fees and include a report from this review in our Annual Report (see Appendix 2). This year, as in previous years, the review concluded we have been consistent and reasonable in the way we have set audit fees.

Why we must move to sustainable audit fees

In recent years, we have been reviewing audit fees in sectors where fees have not kept pace with the rising costs of providing audits. This year, our focus is on agreeing audit fees with councils.

Audit fees have not kept up with audit costs for some time. Costs have continued to rise in response to increased complexity, changing professional standards, and, more recently, high wage inflation reflecting labour shortages in the accounting and audit professions.

Moving to sustainable audit fees earlier for parts of the Auditor-General's portfolio was also constrained during the pandemic. This has contributed to the widening gap between what it costs to carry out a quality audit and the fees charged. The Office has carried the unmet costs of annual audits for several years, but this is no longer sustainable – the fees in some sectors are simply not meeting the costs of the audits we are required to do.

In recent years, Parliament has invested in the Office to address the inefficiencies arising from the Covid-19 pandemic. This has ensured that those costs have not been borne by public organisations. But ultimately fees need to be sustainable so that we can continue to carry out quality audits of the public sector.

We acknowledge the economic challenges facing many public organisations. Moving to more sustainable audit fees is not something that we take lightly, and we are working closely with public organisations to agree audit fees that are reasonable to both parties.

As negotiations are still under way for the 2022/23 audits, we will report in 2024 on our progress toward achieving sustainable fees. There are also steps that public organisations can take together with their auditor to improve the efficiency of the audit.

Key questions to consider are:

- Are plans in place? Is there a clear plan for preparing and auditing your annual report? Is the audit clearance date set, and are the expectations clear between your appointed auditor and your team on the information required for the audit and when it will be provided?
- Are complex issues being managed? What are the complex judgement areas for your organisation (often it is asset valuations or provisions)? Is the information required to prepare and audit the financial statements in these areas available and agreed?
- Has anything out of the ordinary occurred? For example, the recent North Island weather events created significant challenges for many organisations. How are these being managed, funded, and accounted for?
- Have audit recommendations and issues from last year's audit been addressed?

2

Our work

Our purpose

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

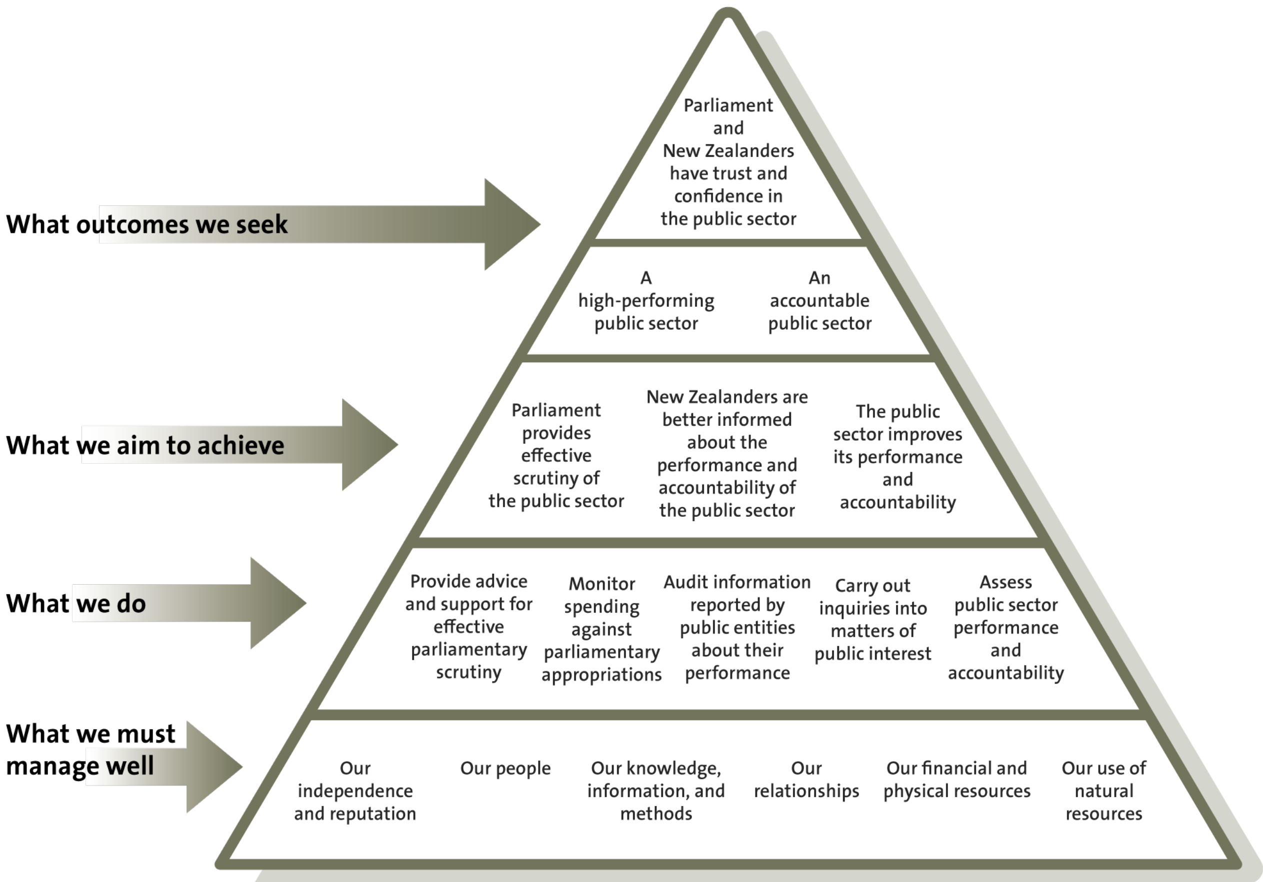
The ultimate outcome we seek is that Parliament and New Zealanders have trust and confidence in the public sector. For this to happen, the public sector needs to perform well and provide reliable, meaningful, and timely information so that public organisations can be held to account for their spending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

Our performance framework

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

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

The data and commentaries in the following sections describe the results for each of our performance indicators for 2022/23.



Overview of our performance

We have summarised whether our performance improved, declined, or was maintained for each group of our measures and targets. Although we completed most of the audits of large public organisations on time, the impacts of the Covid-19 pandemic on staff availability for public organisations and audit service providers affected the timely completion of audits.

Performance area	2022/23*	2021/22*
Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector	Maintained	Maintained
Outcome 2: A high-performing public sector	No data	No data
Outcome 3: An accountable public sector	Maintained	Declined**

Performance area	2022/23*	2021/22*
Impact 1: Parliament provides effective scrutiny of the public sector	Maintained	Maintained
Impact 2: New Zealanders are better informed about the performance and accountability of the public sector	Maintained	Declined
Impact 3: The public sector improves its performance and accountability	Maintained	Improved

Performance area	Measurement	2022/23*	2021/22*
Service 1: Provide advice and support for effective parliamentary scrutiny	Timeliness	Maintained	Maintained
	Quality	Not assessed	Maintained
Service 2: Monitor spending against parliamentary appropriations (our Controller function)	Quantity	Maintained	Maintained
	Timeliness	Maintained	Maintained
Service 3: Audit information reported by public organisations about their performance	Quantity	Improved	Declined**
	Timeliness	Declined	Declined**
	Quality	Declined	Improved
Service 4: Carry out inquiries into matters of public interest	Quantity	Maintained	Declined
	Timeliness	Maintained	Improved
	Quality	Not assessed	Not assessed
Service 5: Assess public sector performance and accountability	Quantity	Declined	Improved
	Timeliness	Declined	Declined
	Quality	Maintained	Improved

* These are judgements based on whether the results for most of the measures in this category improved, declined, or were maintained when compared to the previous year's results.
** This result was affected by the auditing challenges faced during the Covid-19 pandemic.

The outcomes we seek

It is important that public organisations continue to improve how they account for the public resources they use, meet the high standards of governance and integrity expected of them, and continue to improve their performance. Our outcomes are the goals for New Zealanders that we contribute to.

Results for our indicators generally show progress towards our outcomes in 2022/23.

What went well	What didn't go to plan
Results from the Kiwis Count survey showed that experience-based trust in public services remains high. New Zealand remains one of the top-performing countries in the Transparency International Corruption Perceptions Index.	The timeliness of audits continued to be affected by the disruption caused by the Covid-19 pandemic, particularly how it has affected the availability of staff and timely completion of annual reports.

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

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

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

Target: Improving trend (or at least maintained)

Indicators	2022/23	2021/22	2020/21	2019/20	2018/19
Experience-based trust	84%	81%	81%	79%	80%
Perception-based trust	60%	62%	69%	49%	50%

Source: Te Kawa Mataaho.

For experience-based trust, indicators show that New Zealanders' level of trust in 2022/23 was higher than the previous five years. Perception-based trust declined but was higher than before Covid-19.

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

Indicator: Transparency International Corruption Perception score

Target: Improving trend (or at least maintained)

Year	Score
2022	87 (2nd equal)
2021	88 (1st equal)
2020	88 (1st equal)
2019	87 (1st equal)
2018	87 (2nd)

Source: Te Kawa Mataaho.

The Transparency International Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption. The most recent results show that New Zealand ranked second equal with Finland. Denmark was number one. New Zealand's score has remained relatively consistent over the last five years.

Outcome 2: A high-performing public sector

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

Indicator: Quality of public services (Kiwis Count survey)

Target: Improving trend (or at least maintained)

Year	Result
2022/23	No data available
2021/22	No data available
2020/21	No data available
2019/20	77
2018/19	77

Te Kawa Mataaho told us that it no longer collects this information. We are assessing alternative data sources to replace this indicator for 2023/24.

Results reported for 2019/20 and 2018/19 are out of 100.

Outcome 3: An accountable public sector

For Parliament and New Zealanders to have trust and confidence in the public sector, public organisations need to be effectively held to account for their spending and performance.

Each year, we assess trends for aspects of public sector accountability. These aspects include timely and reliable information, sound management, and good governance.

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

Target: The percentage of unmodified audit opinions from our annual audits is an improving trend (or at least maintained)

Year	Number and percentage of unmodified audit opinions
2022/23	2976 (97%)
2021/22	2595 (96%)
2020/21	3356 (97%)
2019/20	2836 (97%)
2018/19	3094 (97%)

The percentage of unmodified audit opinions from our annual audits increased by 1%.

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

Target: At least 80%

Year	Audit reports signed off by the applicable statutory deadline
2022/23	55%
2021/22	57%
2020/21	71%*
2019/20	63%
2018/19	81%

* Revised measure for 2020/21.

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

In 2022/23, 55% of audit reports were signed by the applicable statutory deadlines. The Covid-19 pandemic caused disruptions to the timely completion of financial statements and audits. We have focused on completing the audits of large public organisations that are most critical to public accountability and parliamentary scrutiny. We are pleased to have completed most audits of large public organisations on time.

For small organisations, we completed 54% of audits on time. The Covid-19 pandemic affected staff availability for public organisations and for audit service providers. This affected the timely completion of audits, particularly for schools.

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

Target: Decreasing

Year	Number of audit reports in arrears
2022/23*	1089
2021/22	1078
2020/21**	600
2019/20	848
2018/19	New measure for 2019/20

Note: "In arrears" means not completed within statutory timeframes and remaining outstanding as at 30 June 2023.

* To improve understanding and provide greater transparency of performance, the wording of this performance measure has been changed from "percentage of entities" to "number of entities", and the budget standard for 2022/23 has been changed from "less than 10%" to "decreasing".

** Revised measure for 2020/21.

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

As at 30 June 2023, 33% of audit reports were in arrears. This was mainly due to the Covid-19 pandemic affecting staff availability in public organisations and audit service providers.

More than 70% of the audit reports we must issue each year are for schools, and their statutory deadline for audited financial statements to be completed is 31 May. There were 917 school audits in arrears as at 30 June, which is 84% of the number of organisations with audits in arrears. As at 31 August 2023, 73% of school audits (1,791) had been completed, and arrears of school audits reduced to 27% (672).

Supplementary indicators

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

Indicator: Worldwide governance ranking (Worldwide Governance Indicators)

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

Year	Ranking
2022	Not yet available*
2021	Above 89th percentile
2020	Above 90th percentile
2019	Above 90th percentile
2018	Above 90th percentile
2017	Above 90th percentile

Source: World Bank.

* The 2023 update of the Worldwide Governance Indicators, including data for 2022, will be publicly available after 29 September 2023 at info.worldbank.org/governance/wgi/.

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

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

New Zealand consistently ranked above the 90th percentile for all six governance dimensions from 2017 to 2020. The 2021 results showed that New Zealand ranked above the 90th percentile for five dimensions. However, for Government Effectiveness it ranked 88.9th.

Our intended impacts

What went well	What didn't go to plan
Public organisations responded positively to the findings and recommendations we made in our performance audits and inquiry work. Our work had a greater public profile. Media citations increased by 15% from 2021/22 and is the highest in five years since we started measuring this data.	The Covid-19 pandemic's impact on audit timelines has had a flow-on effect on the ability of public organisations to implement our recommendations in a timely way.

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

Impact 1: Parliament provides effective scrutiny of the public sector

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

We formally measure this by surveying parliamentary select committee chairpersons every two years on whether our advice and reports were helpful.

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

Target: 100%

Year	Score
2022/23	100% when last assessed
2021/22	100%
2020/21	100% when last assessed
2019/20	100%
2018/19	New indicator for 2019/20

Source: Our surveys of select committee chairpersons are carried out every two years.
The most recent was in 2021/22 and the next will be in 2023/24.

Impact 2: New Zealanders are better informed about the performance and accountability of the public sector

We aim to focus our work on issues that are important to New Zealanders.

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

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

Target: Increasing

Year	Score
2022/23	Increasing – 1710
2021/22	Decreasing – 1487
2020/21	Increasing – 1621
2019/20	Increasing – 1454
2018/19	Decreasing – 1277

In 2022/23, the number of citations in the media about our work increased by 15% from the 2021/22 result. This is the highest number of media citations we have measured.

Our comments about public accountability and the need for improved performance reporting to track government spending were reported widely.

Auditor shortages and delays, particularly for councils, also received media coverage.

Impact 3: The public sector improves its performance and accountability

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

We assess whether public organisations have improved aspects of their performance in response to our performance audits and inquiries. We assess whether public organisations have implemented our annual audit recommendations. We also determine whether government departments are spending money only within the authority provided by Parliament (appropriations).

Controller function

The 2022/23 result shows how many times unappropriated expenditure occurred in 2021/22, based on information from the Government's 2021/22 financial statements.

In 2021/22, there were 12 instances of unappropriated expenditure reported. This is the same number as for 2020/21, which was the lowest number of unappropriated expenditure incidents this century. We measure this through the number of instances of expenditure incurred in excess of, or without, appropriation or other authority from Parliament. In the table below, the results in the score column are from the financial statements of the Government, which are prepared for the previous financial year.

As reported in the 2021/22 Financial Statements of the Government, the Ministry of Social Development had been making accommodation assistance payments outside the legal criteria and outside the scope of the relevant appropriation.

In October 2022, we wrote to the Ministry expressing our concerns and requesting urgent remedial action, including that the Ministry stop making unlawful payments as soon as possible. In late November 2022, Parliament enacted urgent legislative change to align the law with the Ministry's practice.

Also in response to our concerns, the Ministry commissioned an independent review of its arrangements for ensuring that its practice is aligned with the law, including its efforts to resolve issues once identified and to minimise future occurrences. At the same time, it put a concerted effort into investigating whether there could be similar alignment issues and addressing them promptly.

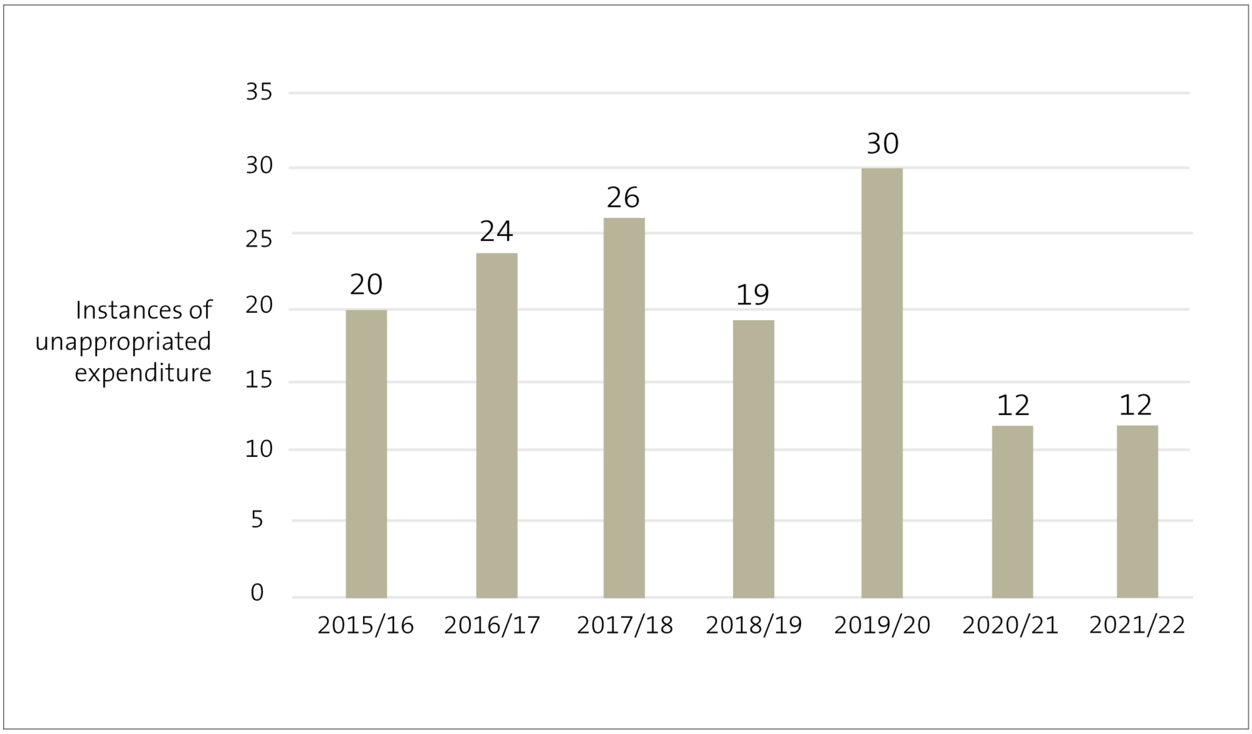
Indicator: Government departments reduce the instances of public spending without parliamentary authority
Target: Reducing

OAG reporting year	Government financial year	Score
2022/23	2021/22	Maintaining – 12
2021/22	2020/21	Reducing – 12
2020/21	2019/20	Increasing – 30
2019/20	2018/19	Reducing – 19
2018/19	2017/18	Increasing – 26

The results are based on the Treasury's data for preparing the Government's financial statements, which are audited by the Auditor-General.

The bar graph shows that the number of instances of unappropriated expenditure fluctuated between 12 and 30 from 2015/16 to 2021/22, with a significant decrease in 2020/21 and 2021/22. The total unappropriated spending during 2021/22 ($162 million) equates to 0.09% of the expenditure authorised in the final (updated) Budget.

Number of instances of unappropriated expenditure, from 2015/16 to 2021/22



Annual audits

To help the public sector improve, at the end of each audit the governors of public organisations receive a report setting out audit findings and recommendations.

Part of our annual audit includes identifying and reporting on how large public organisations have responded to those recommendations. We measure the impact of our work by assessing large public organisations' implementation of our recommendations.

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

Target: Increasing (or at least maintained)

Year	Score
2022/23	36%
2021/22	43%
2020/21	38%
2019/20	46%
2018/19	New indicator for 2019/20

Note: The number of large public organisations can vary. For 2022/23, 116 were considered large organisations (they included district health boards, tertiary education institutions, government departments, and councils). The number for 2021/22 was 128, and 195 in 2020/21. In 2019/20, we only included tertiary education institutions.

Implementing recommendations helps public organisations to manage risks and realise additional benefits of the audit. In 2022/23, we assessed how 116 (2021/22: 128) large public organisations implemented the recommendations from our audits.

Of the 1239 recommendations we made at the beginning of 2022/23, 443 (36%) were implemented by the end of the financial year. Of the 1565 recommendations we made at the beginning of 2021/22, 676 (43%) were implemented. A number of factors affect whether a public organisation implements our recommendations. Timeliness of delivering management reports, including recommendations, the scale of change recommended, and the capacity and willingness of the organisation to make the change all affect the implementation speed. As we improve on our timeliness of reporting, we expect the uptake of recommendations to also improve.

Performance audits

We carry out performance audits to help public organisations improve their effectiveness and efficiency.

We continue to look for ways to increase the impact of our performance audits. We provide more detail in *Service 5: Assess public sector performance and accountability*.

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

Target: Report on one to two follow-ups a year

Year	Score
2022/23	Achieved
2021/22	Achieved
2020/21	Achieved
2019/20*	Results not available
2018/19	Achieved

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

Following up on the implementation of our recommendations

Between 12 and 24 months after a performance audit report is published, we write to the audited organisation to ask for a self-assessment against its progress on each of the recommendations in the report. The public organisation's self-assessment informs decisions about whether we will carry out any further follow-up work and the extent of the work we might do. The approach means we can follow up on more audits than we could previously.

In 2022/23, we followed up on how public organisations had responded to four performance audits, about infrastructure as a service, managing freshwater quality, strategic suppliers, and marine protection planning processes. We published the responses from the audited organisations on our website.

Inquiries

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

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

Target: Report on one to two each year

Year	Score
2022/23	Achieved
2021/22	Achieved
2020/21	Achieved
2019/20	Achieved
2018/19	Achieved

We identify and report on any effects from our inquiries. In 2022/23, we identified "effects" as the public organisation taking action in response to the findings of our inquiry.

In response to our inquiry into Horowhenua District Council using consultants to provide services in relation to the Levin landfill, the Council implemented its new Procurement Policy, established a Procurement Review Group, developed internal staff training programmes (refresher and staff induction) supported by the creation of a staff Procurement Portal, began reporting on major vendor payments, and carried out several other projects to improve its procurement practices.

In December 2022, the Social Services and Community Committee reported on our inquiry report into the Ministry of Social Development's funding of private rental properties for emergency housing. The Committee agreed with our findings that the Ministry of Social Development should have improved its processes for providing emergency accommodation and assessing properties for their suitability, its compliance with the Residential Tenancies Act 1986, and its value for money. The Committee also agreed that the lack of planning and oversight to ensure value for money and acceptable service to clients was unacceptable, and that lessons need to be learned to ensure that this experience was not repeated.

In August 2023, the Government announced new voluntary standards for emergency housing providers. From 2 November 2023, the Ministry of Social Development will give preference to working with emergency housing providers who opt in to the new voluntary supplier standards. These standards set expectations that services provided are of a reasonable standard, safe, suited to client needs, have adequately maintained facilities, and have a dispute resolution process in place.

Our services

In 2022/23, performance results for the services we provided were mixed. Our operating environment continues to be affected by the Covid-19 pandemic, including shortages of suitably qualified staff available in public organisations to prepare information for audits and the ongoing global shortage of auditors. In 2023/24, we will continue to address these challenges.

Five services contribute to our outcomes and impacts. We:

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

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

Service 1: Provide advice and support for effective parliamentary scrutiny

What went well	What didn't go to plan
Despite Covid-19 and challenges for our auditors in completing audits, we worked closely with Parliament to ensure that our advice was given in keeping with select committee schedules. We supported select committees to carry out their scrutiny of public sector performance by improving our briefings with enhanced analysis of performance reporting.	There were no specific issues in this area.

This service is funded through the appropriation Statutory Auditor Function MCA, Supporting Accountability to Parliament Category. The amount appropriated for this category in the Main Estimates for 2022/23 was $6.459 million.

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

In 2022/23, the public sector continued to implement and prepare for fundamental reforms in the tertiary education sector, the health sector, and in three waters services. We are preparing approaches to respond to these changes.

We continued our efforts to understand the effects of the Covid-19 pandemic on public organisations and on public spending.

In 2022/23, we continued looking at cross-agency and sector-level work in the public sector to support select committees' interest in this work. For example, we provided 16 sector briefings that covered multiple public organisations and/or functions to support select committees' efforts to take a broader approach to scrutiny, which the 2020 review of Standing Orders encouraged.

We want our briefings for annual reviews and Estimates of Appropriations to be valuable for select committees in their scrutiny of public organisations.

We provided select committees with 101 briefings for annual reviews and 56 briefings for Estimates of Appropriations. We also issued 153 letters to portfolio Ministers summarising the findings from our audits of public organisations.

We provided input to the review of Standing Orders and have started to prepare for supporting the new Parliament after the general election in October.

Timeliness measures

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

Target: 100%

Year	Result
2022/23	99%
2021/22	99%
2020/21	100%
2019/20	98%
2018/19	100% (Revised measure for 2019/20)

Note: We revised the wording of this measure for 2019/20. Previously, it was "Briefings are given to select committees at least two days before examination, unless otherwise agreed".

Quality measures

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

Target: 100%

Year	Result
2022/23	Not assessed*
2021/22	100%
2020/21	Not assessed*
2019/20	100%
2018/19	Revised measure for 2019/20

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

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

Target: 100%

Year	Result
2022/23	Not assessed
2021/22	100%
2020/21	Not assessed
2019/20	100%
2018/19	Revised measure for 2019/20

Source: Our surveys of select committee chairpersons, which are carried out every two years. The most recent survey was in 2021/22 and the next will be in 2023/24.

Audit delivery during Covid-19

Covid-19 severely affected audit timeliness. Overall, 63% of audits were completed before the statutory deadlines in 2019/20 – compared to just over 80% before the pandemic. Schools were particularly affected by lockdowns from March through to early May 2020, which had a marked effect on the audits. Only 59% of school audits were completed on time, down from 82% pre-Covid.

In 2019/20, we completed 97% of the audits of large public organisations on time. We were assisted by Parliament agreeing to extend the statutory reporting time frames by two months for public organisations with 30 June 2020 balance dates.

In 2020/21, we completed 96% of audits of large public organisations on time. Covid-19 was not in the community and lockdowns were generally short and infrequent. However, we experienced increasing pressures on audit delivery, with borders remaining closed and a global auditor shortage affecting the capacity of audit service providers. In July 2021, Parliament again agreed to extend the statutory reporting deadlines for local authorities and most Crown entities by two months for 2021/22 and 2022/23.

The pressures on audit delivery were strongly felt in 2021/22. New Zealand entered lockdown in August with the arrival of the Delta variant. Auckland remained in lockdown until early December. This, combined with illness due to community transmission and ongoing border closures, presented a serious challenge.

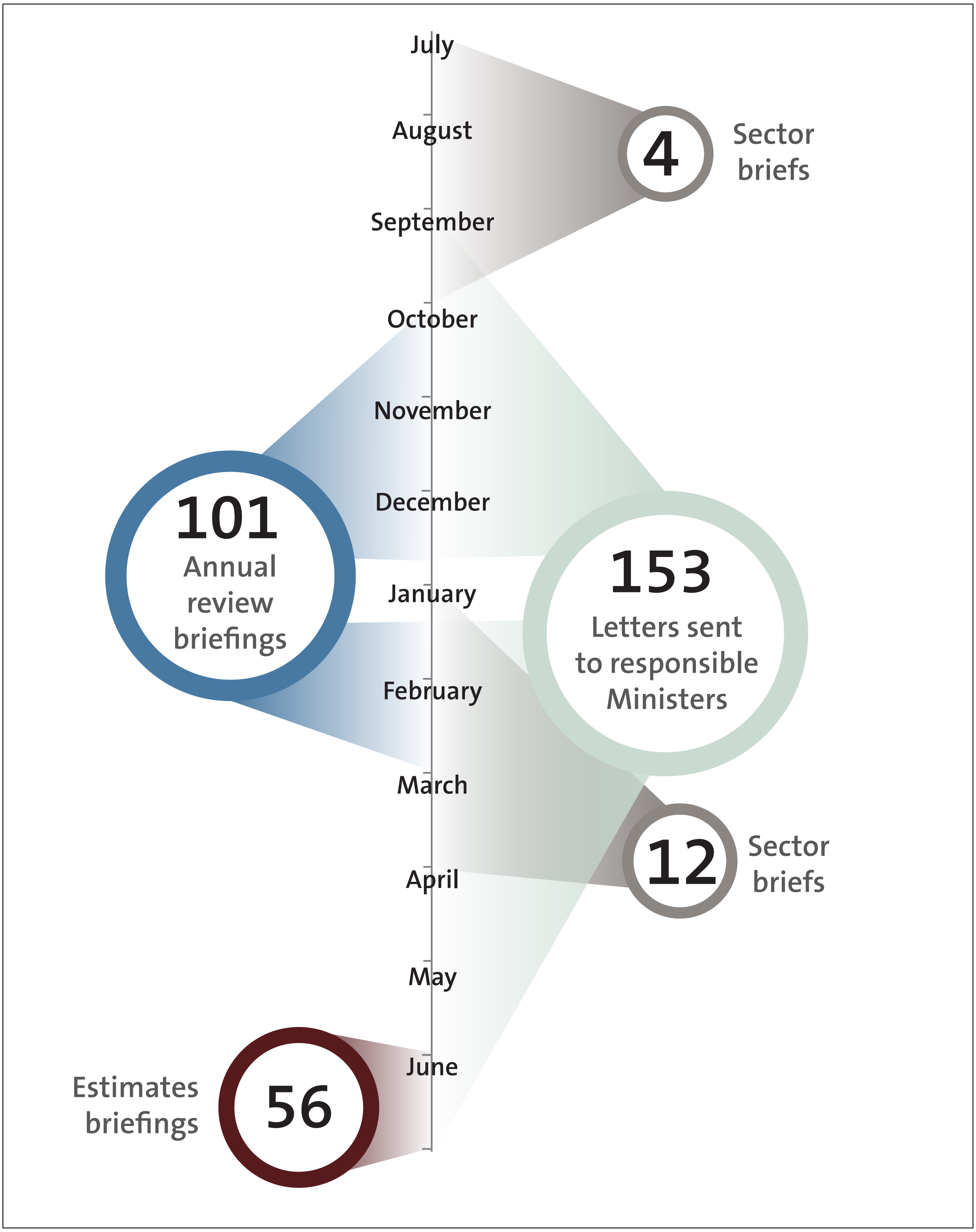
Despite these challenges, 88% of the audits of large public organisations were completed on time. In 2021/22, we began to reallocate audits between audit service providers to ensure that the available auditor capacity was utilised.

Covid-19 continued to affect auditing over the past year, particularly the first half of 2022/23. A number of large public organisations struggled to provide quality information ready to audit, including the disestablished district health boards, institutes of technology and polytechnics, and a number of councils, despite extended deadlines. These were especially complex audits with their own particular issues, including district health boards' compliance with the Holidays Act 2003 and issues stemming from the different disestablishment dates of the tertiary education providers.

In total, as part of our commitment to complete deferred audits, we reallocated 80,000 hours of audits from Audit New Zealand to other audit service providers. In 2022/23, we completed 74% of audits of large public organisations on time.

The following diagram shows the workflow pattern of the support we provided to parliamentary select committees in 2022/23.

Our support to Parliament and Ministers



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

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

This service is funded through the appropriations Statutory Auditor Function MCA, the Audit and Assurance Services RDA, and Audit and Assurance Services. The amount of these appropriations, which includes all mandatory audit work, in the Main Estimates for 2022/23 was $105.526 million.

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

We monitor government expenditure against the authority provided by Parliament. We:

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

Quantity measures

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

Target: At least annually

Year	Result
2022/23*	Achieved
2021/22	We issued four public reports on the Controller function
2020/21	We issued five public reports on the Controller function
2019/20	We issued six public reports on the Controller function
2018/19	New measure for 2019/20

* To improve accuracy of reporting on our Controller activities, this performance measure has been split into two. This measure is focused on our reports to Parliament, and the measure below is focused on our reports to the public.

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

Target: At least annually

Year	Result
2022/23**	We issued two public reports on the Controller function

** This is a new performance measure for 2022/23.

Timeliness measures

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

Target: 100%; all nine reports

Year	Result	Report quantity result
2022/23	100%	All procedures were followed and agreed time frames were met for all nine reports
2021/22	100%	All procedures were followed and agreed time frames were met for all nine reports
2020/21	100%	All procedures were followed and agreed time frames were met for all nine reports
2019/20	100%	All procedures were followed and agreed time frames were met for all nine reports
2018/19	100%	All procedures were followed and agreed time frames were met

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

What went well	What didn't go to plan
The opening of borders has increased the number of senior auditors, which has resulted in more audits being completed in 2022/23 than 2021/22. The percentage of audit reports in arrears at 30 June has remained stable. Most of the arrears relate to school audits. An independent review confirmed the probity and objectivity of our methods and processes for allocating audits and monitoring the reasonableness of audit fees.	Audit delivery remains a challenge, especially for smaller public organisations. Private sector auditors have a significant number of previously deferred audits to bring up to date, most of which are school audits. Time and resource pressures are impacting the quality of the audit files we reviewed during the year.

This service is funded through the appropriations Audit and Assurance Services RDA and Audit and Assurance Services and the amount appropriated in the Main Estimates for 2022/23 was $105.526 million.

The core work of our Office is annual audits of public organisations. Our annual audits provide assurance that the financial and performance reporting of public organisations is materially correct. Annual audits account for around 85% of our resources. Audit New Zealand and other audit service providers carry out this work on the Auditor-General's behalf.

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

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

We periodically carry out quality assurance reviews of appointed auditors.

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

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

Quantity measures

Indicator: Number of annual audit reports signed and issued

Target: Not applicable

Year	Result
2022/23	3074
2021/22	2704
2020/21	3356
2019/20	2922
2018/19	New measure for 2019/20

We expect to sign and issue about 3300 audit reports each year (because this roughly equates to the number of public organisations within the Auditor-General's mandate). The Covid-19 pandemic has significantly affected the timely completion of audits. The audits falling due in 2022/23 and the previous years' outstanding audits mean we had a total of 4790 audits to complete. Of the audits in arrears as at 30 June 2023, 74% are audits for schools. Our modelling for 2023/24 shows that we are now on track to return to pre-Covid levels of audit delivery for large public organisations in the coming year.

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

Target: Not applicable

Year	Result
2022/23	Not assessed, because it was not a long-term plan year
2021/22	Not assessed, because it was not a long-term plan year
2020/21*	66
2019/20	Not assessed, because it was not a long-term plan year
2018/19	Not assessed, because it was not a long-term plan year

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

Timeliness measures

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

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

Target: At least 80%

Year	Result
2022/23	55%
2021/22	57%
2020/21*	71%
2019/20	63%
2018/19	81%

* Revised measure for 2020/21.

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

In 2022/23, 55% of audit reports were signed by applicable statutory deadlines. The Covid-19 pandemic caused disruptions to the timely completion of financial statements and audits. We have focused on completing the audits of large public organisations that are most critical to public accountability and parliamentary scrutiny. We are pleased to have completed most audits of large public organisations on time. However, for many smaller organisations, including schools, we completed only 54% of the audits on time.

Indicator: Number of public entities with audit reports in arrears as at 30 June 2023

Target: Decreasing

Year	Result
2022/23*	1089
2021/22	1078
2020/21**	600
2019/20	848
2018/19	New measure for 2019/20

Note: "In arrears" means not completed within statutory timeframes and remaining outstanding, as at 30 June 2023.

* To improve understanding and provide greater transparency of performance, the wording of this performance measure has been changed from "percentage" to "number of", and the budget standard for 2022/23 has been changed from "less than 10%" to "decreasing".

** Revised measure for 2020/21.

We have not achieved this target since the onset of Covid-19. As at 30 June 2023, 33% of audit reports were in arrears. This was because of a sustained shortage of auditors and significant impacts of the Covid-19 pandemic on audit service providers and public organisations.

More than 70% of the audit reports we are required to issue each year are for schools. Schools must have their audited financial statements completed by 31 May. As noted above, only 54% of small organisations, including schools, had their audits completed on time.

Many of the audits not completed remained incomplete as at 30 June 2023. This accounted for 92% of the audits in arrears. At 31 August 2023, 73% (1,791) of school audits had been completed, and arrears of school audits reduced to 27% (672).

Indicator: Percentage of finalised reports to governors about the audit (which incorporate responses from management) that are provided within six weeks of signing the audit report

Target: 100%

Year	Result
2022/23	88%
2021/22	88%
2020/21	90%
2019/20	97%
2018/19	97%

We did not achieve our target in 2022/23. This was due to a sustained shortage of auditors and significant impacts of the Covid-19 pandemic on audit service providers. We asked our auditors to prioritise the delivery of audits of large public organisations that are most critical to public accountability and parliamentary scrutiny within statutory time frames. In some cases, this meant that letters to governors were deferred in order to complete other audit work.

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

- where the audit report statutory deadline is 31 October, within 15 weeks of signing the audit report; and
- for all other audits, within 10 weeks of signing the audit report

Target: 100%

Year	Result
2022/23	76%
2021/22	77%
2020/21	61%
2019/20	93%
2018/19	New measure for 2019/20

Similar to 2021, public organisations and auditors have been impacted by the ongoing effects of the Covid-19 pandemic, the extended statutory deadlines, the shortage of auditors, and impact of the additional work done in 2022/23, which delayed the reporting of some audits. This contributed to delays in preparing and finalising some ministerial letters.

Quality measures

We are committed to maintaining high standards of auditing. We periodically carry out a quality assurance review of appointed auditors to ensure that they have complied with the Auditor-General's auditing standards. We expect all our auditors to achieve at least a "satisfactory" grade.

At 30 June 2023, 88% of our auditors achieved at least a satisfactory grade. Where auditors did not achieve a satisfactory grade, our concerns with the audit files related to the compliance of the file rather than the appropriateness of the audit opinion.

We work with auditors who did not achieve a satisfactory grade to address any immediate concerns, create improvement plans, and carry out a follow-up review (typically within a year). Where necessary, we make changes to auditors' audit portfolios.

In 2022/23, resourcing constraints meant we could review fewer audit files than normal. We focused on reviewing higher risk appointed auditors, new appointed auditors, and those for whom we had limited data about the quality of their files. This targeted risk-based approach, together with fewer files being reviewed, helps explain the reduced number of appointed auditors and files rated as "satisfactory" or higher.

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

Target: 100%

Year	Percentage and number
2022/23*	88% (122 of 139)
2021/22	92% (120 of 131)
2020/21	90% (123 of 136)
2019/20	94% (115 of 123)
2018/19	93% (113 of 121)

* To improve transparency, the wording of this performance measure has been changed to include both the percentage and number of appointed auditors, which varies from year to year.

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

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

Target: 100%

Year	Result
2022/23	74%
2021/22	84%
2020/21	69%
2019/20	91%
2018/19	New measure for 2019/20

Indicator: Number of audit reports withdrawn

Target: No audit reports withdrawn

Year	Result
2022/23	0
2021/22	2
2020/21	1 (revised measure for 2020/21)
2019/20	New measure for 2019/20

Note: To improve the accuracy of reporting, we have changed the wording of this performance measure from "audit opinions" to "audit reports".

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

Target: At least 85%

Year	Result
2022/23	69%
2021/22	71%
2020/21	71%
2019/20	82%
2018/19	76%

In 2022/23, overall client satisfaction decreased to 69%. One important reason for the fall in satisfaction was the delay in completing audits. As we address historical fee settings, we expect this measure to remain lower than our target.

Indicator: Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits and to monitor the reasonableness of audit fees

Target: Confirmed

Year	Result
2022/23	Confirmed by annual independent review
2021/22	Confirmed by annual independent review
2020/21	Confirmed by annual independent review
2019/20	Confirmed by annual independent review
2018/19	Confirmed by annual independent review

Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act 2001 requires us to include in the annual report a list of organisations audited by the Auditor-General under an arrangement in accordance with section 19 of the Public Audit Act 2001. At 30 June 2023, arrangements had been entered into for audits of:

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

Changes to standards

The Public Audit Act 2001 requires us to report each year on any significant changes made to the Auditor-General's auditing standards. We are required to publish these standards at least once every three years. In March 2023, we published the latest update, which included:

- a new code of ethics that specified the fundamental principles of the Auditor-General and explained the reasoning that supports the high standards expected by the Auditor-General, particularly for independence;
- two new quality management statements (AG PES 3 and AG PES 4) to align with the updated quality management standards issued by the External Reporting Board (XRB);
- new standards for *Other Auditing Services* (AG-7) and *Statutory Requirements for the Auditor-General to Report*, *Other than Annual Audits* (AG-8). We also updated our standard for *Performance Audits* (AG-5); and
- withdrawing two statements – AG ISA (NZ) 330: *The auditor's responses to assessed risks* and AG ISA (NZ) 450: *Evaluation of misstatements identified during the annual audit* – because they replicated requirements already in the standards.

Other assurance work

Under the Public Audit Act 2001, Audit New Zealand can carry out services that are reasonable and appropriate for an auditor to carry out. This work generally focuses on reviewing procurement and contract management, project management, asset management, risk management, governance, and conflicts of interest. In 2022/23, Audit New Zealand spent just under 3600 hours providing assurance services. We issued 32 assurance reports in the financial year and started 46 new assurance engagements.

Assurance work helps public organisations comply with rules and guidelines and adopt good practice. Audit New Zealand measures client satisfaction after each engagement. In 2022/23, satisfaction was rated 5 out of 5 for all surveyed public organisations.

Audit New Zealand and our other audit service providers also carry out other assurance engagements that are prescribed in legislation other than the Public Audit Act 2001 – for example, work to support disclosure regimes required by the Commerce Commission.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors from Audit New Zealand and private sector auditing firms to carry out the annual audits of public organisations on his behalf. Our processes are designed to ensure that these auditors are independent, that they carry out high-quality audits, and that their audit fees are reasonable. The annual independent review confirmed the probity and objectivity of the methods and processes we use to allocate audits and to monitor whether fees are reasonable.

Service 4: Carry out inquiries into matters of public interest

What went well	What didn't go to plan
We achieved our timeliness targets for our Category 1, Category 2, and Category 3 inquiry work.	There were no specific issues in this area.

This service is funded through the appropriation Statutory Auditor Function MCA, Performance Audits and Inquiries Category and the amount appropriated for the category in the Main Estimates for 2022/23 was $12.419 million.

Inquiries can arise from our audit or other work, requests from members of Parliament or a public organisation, or concerns raised by the public. We receive a considerable number of inquiry requests every year. Although we carefully consider all issues raised with us, not all will result in a full inquiry.

We decide whether issues warrant our investigation when matters of concern arise. The process we use involves three categories:

- **Category 1: Triage/initial view** – We consider new potential inquiry work (either requested or self-initiated) and form an initial view about whether to proceed with further work. We expect to do this within four weeks of receiving the inquiry.
- **Category 2: Assessment** – Having decided, under Category 1, to do more work, we carry out work to understand whether we conclude our work at this point or carry out a major inquiry. We expect to conclude this work within six months of the issue starting in Category 1.
- **Category 3: Major inquiries** – We carry out an in-depth investigation of the issues and prepare a detailed report on that investigation. We expect to complete major inquiries within an agreed time frame.

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

Inquiries

Quantity measures

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

Target: Not applicable

Year	Result
2022/23	47
2021/22	49
2020/21	64
2019/20	48
2018/19	New measure for 2019/20

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

Target: Not applicable

Year	Result
2022/23	1
2021/22	4
2020/21	9
2019/20	6
2018/19	New measure for 2019/20

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

Target: Not applicable

Year	Result
2022/23	46
2021/22	56
2020/21	62
2019/20	42
2018/19	New measure for 2019/20

Indicator: Number of major inquiries concluded during the year

Target: Not applicable

Year	Result
2022/23	3
2021/22	3
2020/21	4
2019/20	2
2018/19	New measure for 2019/20

Timeliness measures

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

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

Target: at least 90%

Year	Result
2022/23	95%
2021/22	96%
2020/21	94%
2019/20	100%
2018/19	New measure for 2019/20

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

Target: At least 90%

Year	Result
2022/23	91%
2021/22	94%
2020/21*	90%
2019/20	81%
2018/19	New measure for 2019/20

* Revised performance standard for 2020/21.

We concluded 46 pieces of inquiry work in this category within six months.

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

Target: At least 75%

Year	Result
2022/23	100%
2021/22	66%
2020/21	75%

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

Quality measures

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

Target: 100%

Year	Result
2022/23	Not assessed, as not a quality assurance review year
2021/22	Not assessed, as not a quality assurance review year
2020/21	100%
2019/20*	Not assessed, as not a quality assurance review year
2018/19	New measure for 2019/20

* New measure for 2019/20.

Local Authorities (Members' Interests) Act 1968

The Auditor-General administers the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest matters in local government. This year, we received 24 requests to approve contracts under the Act.

We measure our timeliness for those requests from the time when we have all the information we need to carry out our work. This year, we completed 100% of requests to approve contracts within our target of 21 days.

Quantity measures

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

Target: Not applicable

Year	Result
2022/23	24
2021/22	23
2020/21*	33
2019/20**	96
2018/19	New measure for 2019/20

* Revised measure for 2020/21. The previous measure included all work related to the Local Authorities (Members' Interests) Act 1968 (contract approvals, investigations, and declarations). The revised performance measure now only measures timeliness for approving contracts.

** New measure for 2019/20.

Timeliness measures

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

Target: At least 90%

Year	Result
2022/23	100%
2021/22	100%
2020/21	88%
2019/20	93%
2018/19	Revised measure for 2019/20

Reporting on issues that matter to New Zealanders

It is important that our performance audits focus on topics that are important to New Zealanders. This year, we completed 11 performance audits (including follow-up work), along with 12 other publications, including research reports, sector reports, and good practice guides.

Our work continues to have an impact. For example:

- We have made recommendations to help improve how social sector services are commissioned to address family violence and sexual violence and to support more productive relationships with tangata whenua and community partners.
- We expect our report on the New Zealand Defence Force's implementation of Operation Respect to contribute to creating a safe, respectful, and inclusive environment, reducing sexual assault and other inappropriate behaviour in the military.
- After a series of recommendations about Crown entity monitoring arrangements, Te Kawa Mataaho Public Service Commission and the Victoria University of Wellington School of Business launched a post-graduate qualification in Public Management for Crown Entity Monitors.
- The Treasury responded to our calls for greater transparency and improved its reporting on significant initiatives by publishing information that had not previously been available.*
- The Office's reporting about the public sector response to Covid-19 is informing the NZ Royal Commission Covid-19 Lessons Learned | Te Tira Ārai Urutā in its work to strengthen New Zealand's preparedness for, and response to, potential future pandemics.

* See "COVID-19 Response and Recovery Funding – Allocation", "COVID-19 Response and Recovery Fund (CRRF) funding decisions", "Reporting on COVID-19 Specific Appropriations", "COVID-19 Response and Recovery – What has been achieved?", "The Climate Emergency Response Fund", and "North Island Weather Event Response and Recovery Funding", at treasury.govt.nz.

Service 5: Assess public sector performance and accountability

What went well	What didn't go to plan
We completed 11 performance audits and published 12 other pieces of work. Audited public organisations continue to rate our performance as at least "satisfactory".	The Covid-19 pandemic continues to affect audit timeliness.

This service is funded through the appropriation Statutory Auditor Function MCA, Performance Audits and Inquiries Category. The amount appropriated for this category in the Main Estimates for 2022/23 was $12.419 million.

Performance audits, special studies, research, and other evaluation and assessment work we do are an important part of our work. Each year, we publish our planned work programme in our annual plan. Appendix 4 describes our progress against our work programme.

Performance audits form a significant part of our work programme. The purpose of our performance audits is to help public organisations improve their performance and to provide assurance to Parliament and the public that they are operating effectively and efficiently.

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

In 2022/23, we worked on 16 performance audits and completed 11 pieces of work. We aim to complete the remaining five performance audits before December 2023. Appendix 3 lists the publications we completed during 2022/23.

Quantity measures

Indicator: Number of performance audit reports issued during the year*

Target: Not applicable

Year	Result
2022/23	11
2021/22	6
2020/21	9
2019/20	4
2018/19	New measure for 2019/20

* "Performance audit reports" includes performance audits, performance audit follow-up reports, and performance audit follow-up self-assessments.

Indicator: Number of other publications issued during the year*

Target: Not applicable

Year	Result
2022/23	12
2021/22	15
2020/21	9
2019/20	14
2018/19	New measure for 2019/20

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

Indicator: Number of audit and risk committee chair forums facilitated

Target: At least eight (two per quarter)

Year	Result
2022/23	6
2021/22	9
2020/21	New measure for 2021/22

This was a new measure from 2021/22 as part of our focus on supporting effective governance, accountability, and transparency of public organisations. This year we facilitated six audit and risk committee chair forums. The forums bring together audit and risk committee chairpersons from the public sector to raise matters of mutual interest and discuss good practice. We did not reach our target of eight forums because some forums planned for the fourth quarter were deferred to 2023/24. However, we expect this will result in the target being exceeded in 2023/24.

Timeliness measures

Our performance audits can be complex and involve managing many dependencies that can affect timeliness. We will continue to look at how we set performance audit time frames, better manage dependencies, and make the insights from our work available in a timely way. In 2022/23, we worked on 16 performance audits and completed 11 of these.

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

Target: At least 10%

Year	Result
2022/23	36%
2021/22	67%
2020/21	11%
2019/20	New measure for 2020/21

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

Target: At least 70%

Year	Result
2022/23	36%
2021/22	75%
2020/21	56%
2019/20	New measure for 2020/21

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

Target: 100%

Year	Result
2022/23	45%
2021/22	75%
2020/21	89%
2019/20	New measure for 2020/21

We revised our timeliness measure in 2020/21 to provide more transparency. The previous measure assessed the timeliness of performance audits against expected time frames. Follow-up work is included in our timeliness measures, which can include public organisations carrying out self-assessments or full follow-up reports.

In 2022/23 we worked on 16 performance audits and completed 11 of these. We aim to complete the remaining five performance audits before December 2023. Of the completed performance audits, four were completed within 10 months and five were completed within 12 months. The remaining performance audits were completed outside of expected timeframes.

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

Target: At least 75%

Year	Result
2022/23	42%
2021/22	60%
2020/21	88%
2019/20	New measure for 2020/21

* This includes research reports, sector reports and letters, good practice guides, and any other publication that has been published on the Auditor-General's website.

Quality measures

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

Target: 100%

Year	Result
2022/23	100% (Quality Assurance team internal review)
2021/22	100% (Australian National Audit Office external review)
2020/21	100% when last assessed in 2019/20
2019/20	100% (Quality Assurance team internal review)
2018/19	Revised measure for 2019/20

The Australian National Audit Office carries out an external peer review of our performance audit function every two years. The most recent external review was in 2021/22. Our Quality Assurance team carries out an internal peer review of our performance audit function every three years. The most recent internal review was in 2022/23.

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

Target: At least 85%

Year	Result
2022/23	100%
2021/22	100%
2020/21	93%
2019/20	88%
2018/19	Revised measure for 2019/20

In 2022/23 we received survey responses from 12 public organisations that we had previously audited.

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

All 12 organisations that responded to our survey rated our performance audits as at least "satisfactory".

3

Our capability

Our independence and reputation

Our independence and strong mandate underpin all our work and activities.

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

In 2022/23, we continued to:

- actively monitor and manage potential conflicts of interest for our staff, appointed auditors, and the audit service providers carrying out audits on behalf of the Auditor-General;
- focus on our key relationships with Parliament and public organisations; and
- focus on risks to our independence and reputation in our strategic risk register.

Our people

Our culture and engagement, skills, and capability enable us to deliver high-quality, professional work.

We continued to support our people by focusing on:

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

Culture and well-being

We have an organisation-wide commitment to creating an environment where all differences are valued, practices are equitable, personal well-being is prioritised, and our people-related initiatives lead to a strong and supportive Office culture. Some of the initiatives we worked on included:

- embedding a "Listen Up, Speak Up" culture, where employees feel confident that when someone speaks up, our organisation listens and responds appropriately;
- continuing to maintain a Covid-19 response team, including a welfare stream set up to help support the well-being and safety of our staff. This included regular check-ins, resources to support well-being and effective remote working, and up-to-date guidance on applying changing health measures and Covid-19 frameworks;
- supporting employee-led networks, including He Tāngata (dedicated to improving our people's well-being and feeling of connectedness), a Pasifika Network, a Rainbow Network, and a Women's network; and
- providing professional supervision for our staff working on sensitive audits, such as the Operation Respect audit.

Māori capability

In line with our strategic intention to enhance our impact in te ao Māori, we:

- are developing a te ao Māori strategy, a capability-building framework, and learning pathways that will be tailored to staff needs;

- continued to build capability and competence across the organisation by providing te reo and tikanga Māori training opportunities;
- continued to deliver a coaching-based programme to support our staff who work with Māori and Māori organisations; and
- partnered with a cultural capability-building organisation to help maximise Māori and Pacific potential in the workplace and build pathways for Māori and Pacific leaders.

Capability development

We continued to develop capability across the organisation by implementing diverse learning opportunities for our people, including:

- organisation-wide training to enable our desired "listen up, speak up" culture;
- group-specific training programmes tailored to the role and work our people perform, and aligned to our competency framework;
- specific training and development opportunities for our Office of the Auditor-General and Corporate Services staff through our Career Boards; and
- continuing professional development for all staff.

Audit New Zealand's chartered accountant pathway

Audit New Zealand continues to be a Recognised Training Employer (RTE). We provide our employees with the professional study programme and support needed to gain the chartered accountant qualification, as well as providing on-going development. We also support people with other similar qualifications from other international accounting bodies.

In the reporting period, the pass rate of our staff in the Chartered Accountants Program stands at 88.8%. Of these, there were 13 Merit passes. Merit passes are awarded to candidates who are in the top 5% of all candidates who sit the same exam.

Leadership

Developing our leaders continues to be a priority. In 2022/23, we:

- offered training and development opportunities for our people in different stages of their leadership journey, from aspiring leaders to experienced leaders;
- continued to support our leaders by providing coaching programmes to further develop their leadership skills; and
- continued to run our Office of the Auditor-General and Corporate Services Group people leaders' forum to support the development of our leaders.

Recruitment, retention, and remuneration

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

- actively managing workloads and other pressure points within our pipeline to help the flow of our work;
- dedicating significant extra resource and effort into an international and domestic recruitment drive to help source auditors from overseas due to the domestic shortage of auditors;
- continuing to implement a modern remuneration and reward system that is in line with market best practice and attracts and retains top talent;
- exploring the expansion of our employee value proposition to our people through extending the ways we provide benefits and opportunities; and
- providing varied and engaging work to help lift employee engagement and career development, which also includes international secondment opportunities.

International relationship-building

We dedicated considerable time to building strong and enduring relationships with international audit institutions, to help us meet immediate audit needs and to create an international secondment pathway for our top talent to develop.

Equal employment opportunities

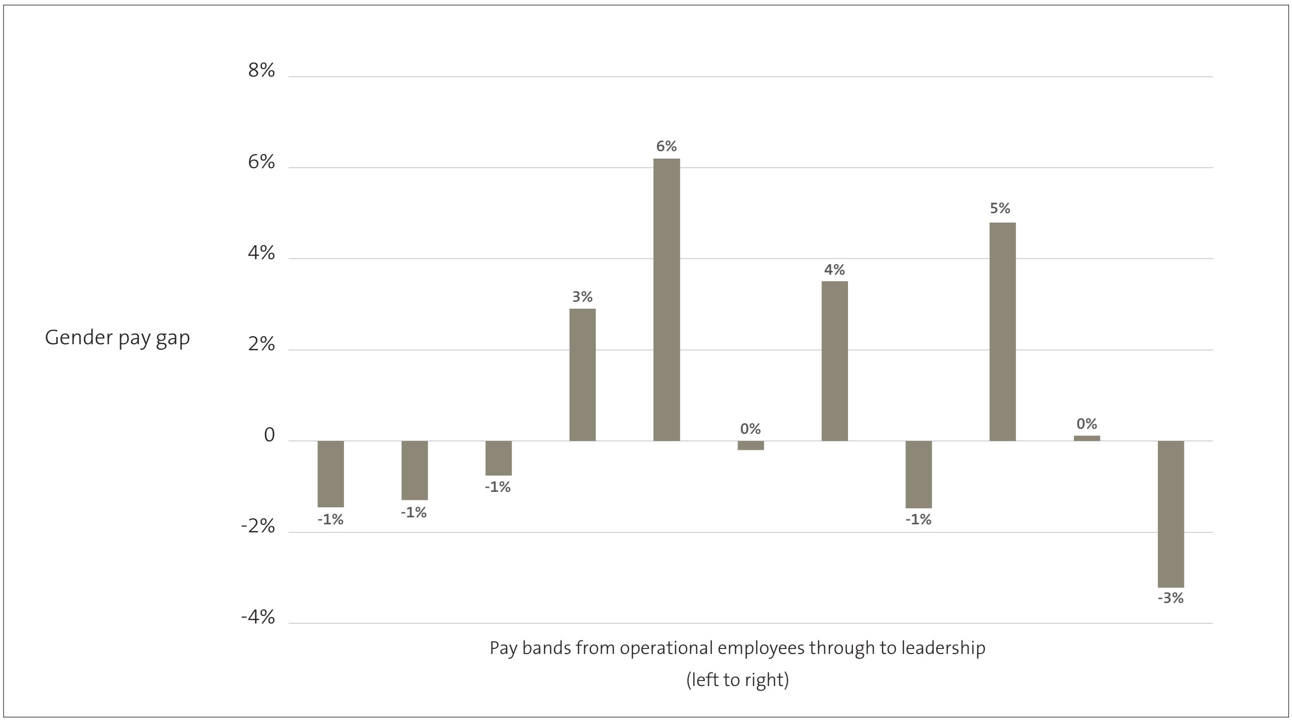
Under the Public Audit Act 2001, the Auditor-General must prepare and publish an equal employment opportunities programme, comply with it, and describe in the annual report how it was met. In our view, the quality of employment opportunity is critical to creating a workplace that enables our people to reach their full potential.

The principles and practice of equal employment opportunities are embedded in our people policies and practice. We provide equality of opportunity throughout the employee life cycle and consider diversity an asset to the Office and the work we do.

After investment by Parliament in our remuneration system, we have been able to build a modern, fit-for-purpose framework, which helps to ensure that gender pay gaps can be minimised.

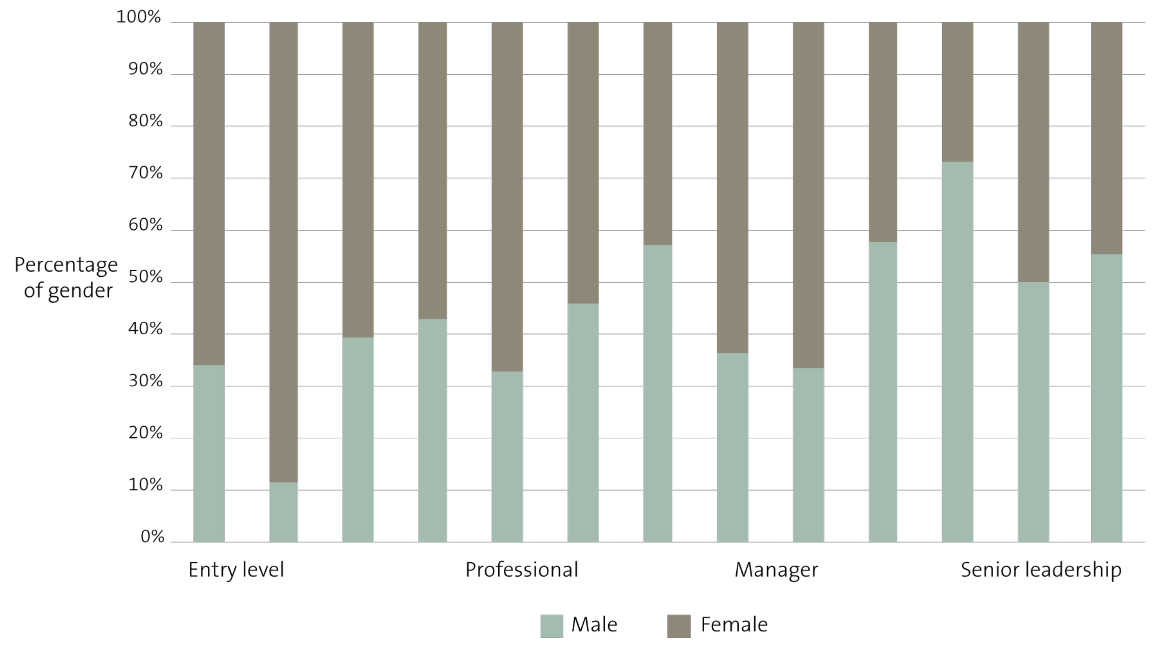
The gender pay gap currently remains at 17.6%, 10.2% for Office of the Auditor-General/Corporate Services Group and 18.9% for Audit New Zealand. The average gender pay gap in like-for-like roles is 1%. In different remuneration bands, the highest gender pay gap is 6% and the lowest is -3%. A negative gap indicates that female employees are paid more than male employees at the same position level.

Gender pay gap by position level



The national accounting industry gender pay gap is 30%, according to a survey by Chartered Accountants Australia and New Zealand at the end of 2022. Audit New Zealand's gender pay gap is 18.9%. Our challenge continues to be in addressing vertical segregation (where there are more men than women in senior positions, and a higher number of women in administrative roles) and occupational drivers (where traditionally higher-paid roles are held by men).

Gender distribution by position level



We are currently re-shaping our diversity and inclusion programme to help ensure that we are creating an environment that is supportive and equitable for all employees across the whole employee life cycle. This work includes considering a gender lens through our recruitment processes, for example, more actively profiling the work that our female managers and directors do in Audit New Zealand to demonstrate that the pathway can be both aspirational and manageable for both genders. We are also collecting more information on our workforce to better understand and report on broader diversity indicators and any ethnicity pay gaps.

Although we are challenged by low turnover at senior levels in Audit New Zealand (4% turnover at Audit Director level), we continue to see an increase in women in senior roles across the organisation. In Audit New Zealand, the percentage of women in a manager or director role has lifted from 33% in 2019 to 46% in 2023.

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

Our knowledge, information, and methods

Our collective knowledge and expertise about the public sector, and the processes we use to do our work.

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

We are making a significant change to our foundational infrastructure to address modern security threats by adopting, and transitioning to, cloud-first services. This includes developing and delivering the cloud service security model and implementing the first stage of our new cloud production environment. To support this programme of work, we continue to improve our project management, architecture, and information security practices.

The cloud-based system for Audit New Zealand's portfolio of annual audits was piloted in May. It will replace a system that is more than 20 years old. Functionality in the new system is still being extended, with the next release due in November 2023.

New systems for external audit service providers have progressed to plan. The systems will improve connectivity between the Office and audit service providers and are on track to go live in early 2024.

Work has also been done to implement the next phase of moving from on-premise systems, including improved network and device security. The requirements for document management have been prepared and a vendor selected to re-architect and modernise our document management services for the cloud, including automation and analysis. We are also investing in our data and analytics capability, which includes new data assets, publishing more analysis work, a new data and analytics platform, and refreshing our data and knowledge strategy.

We also strengthened our tools and processes to continue to enable staff to work productively and securely anywhere, any time, through a more resilient and flexible working environment. Our Information Services Group continues to improve service quality, including implementing real-time security monitoring and management services to increase cyber resilience.

Our relationships

Our mutually productive and respectful relationships with all our stakeholders are important to us.

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

Understanding what Parliament and our other stakeholders are concerned about, and where risks might arise, helps to inform our work. It also allows us to target how we can best assist public organisations with the challenges they face and shape how we communicate the key messages from our work to influence improvements in the public sector.

In 2022/23, we regularly held events for public sector employees and their audit and risk committees about governance and accountability, good practice, accounting and auditing developments, and other topics of interest with governors, managers, finance teams, and other public sector staff.

For example, we:

- continued our six-monthly meetings with the Speaker of the House of Representatives and all select committee chairpersons to discuss our work to support parliamentary scrutiny;
- strengthened our relationships with Parliament, the public sector, and audit profession groups by providing briefings and presentations on good practice, emerging risks, and sector insights;
- maintained our focus on liaising with audit and risk committees and chairpersons and continuing our forums for audit and risk committee chairpersons, which have been well received;
- established a Rōpū Māori to advise the Auditor-General as the Office works to enhance our impact in te ao Māori;
- continued to provide briefings for members of Parliament on reports and briefings for select committees to aid their scrutiny of public sector spending and performance. This year we provided enhanced analysis of the quality of performance reporting; and
- continued to host events with Transparency International New Zealand in person and online, which focused on strengthening public sector integrity and transparency.

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

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

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

Our Sector Managers work with various stakeholders in the local government sector and report the findings from our audits and share good practice. These stakeholders include select committees, councils, audit and risk committees, Local Government New Zealand, Taituarā, and professional bodies.

During the year, our local government team:

- briefed the Governance and Administration Committee on the audits of 2021-31 consultation documents and long-term plans;
- delivered induction sessions to elected members at 22 newly elected councils. These sessions focused on the role of the Office, what public accountability means for councils, the importance of a strong integrity culture and practices, managing conflicts of interest, improving the effectiveness of audit and risk committees, and areas of focus for the upcoming 2024-34 long-term plans;
- worked with Taituarā and the Institute of Professional Works Engineers Australasia (IPWEA), delivering training to the local government sector on good practice in climate change reporting, insights from the 2021-31 long-term plan audits, expectations for the upcoming 2024-34 long-term plans, and asset management planning; and
- published good practice expectations on audit and risk committees, communications during the 2022 local government pre-election period, and issues to be aware of when setting rates.

International relationships

Our international team co-ordinates activities to strengthen accountability, transparency, and good governance in the Pacific region and around the world. This work provides opportunities for staff from across the organisation to contribute their expertise for the benefit of our Pacific counterparts. The Office works in collaboration with the International Organization of Supreme Audit Institutions (INTOSAI).

Our financial and physical resources

Our use of financial and physical resources to support our work.

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

The Covid-19 pandemic significantly affected our fee-funded functions, particularly Audit New Zealand, our in-house audit service provider. The pandemic increased the time taken for public organisations and our auditors to complete their work due to the inefficiencies of working remotely, additional audit work required, and stricter border conditions reducing the mobility and availability of auditors. In the past two years, auditors have experienced extended high workloads to catch up on audits deferred from previous years. We have had to reallocate 80,000 hours of audits across the portfolio, and increase the size of our workforce, to help manage deferred audits and continue to progress our current audits.

The above factors, along with higher costs and a higher inflationary environment, have led to forecast deficits in the medium term in the fee-funded parts of the business (which are managed through the Audit and Assurance Services memorandum account).

After a decade of restraint, increases in audit fees are now essential to address rising costs in the audit profession and to invest for the future. Audit New Zealand and other audit service providers typically negotiate contracts with public organisations once every three years. We have seen double-digit fee increases in recently negotiated contracts as we review the scope and costs of audits for the local government sector. We also sought, and received in Budget 2023, a capital injection of $16 million to address increased costs arising from Covid-19 for various audits that could not be recovered through fees and to address funding issues through the reallocation of audit work.

With the increases in audit fees, the capital injections from the Crown, and the implementation of further efficiencies from Audit New Zealand, we expect the Audit and Assurance Services memorandum account to break even in 2026/27.

Our use of natural resources

Our use of natural resources and managing the environmental impact of our activities.

Public organisations need to use their resources wisely – including the natural resources they consume – and minimise their impact on the environment. We have been assessing our activities for the past few years, looking for opportunities to reduce or mitigate that impact.

We have:

- implemented a policy that does not allow business class travel in our international air travel;[4]
- updated our flexible working practices and adapted our audit practise (partly through technology) to reduce time working at client sites, which helped reduce travel and emissions;
- determined the number of employees working from home and their modes of travel between work and home;
- enhanced our financial processes to produce higher quality data, including an improved mileage claim form;
- implemented a pilot programme to record emissions from our outsourced audits for next year;
- reported on our greenhouse gas emissions for 2022/23, as a voluntary contribution to the Government's Carbon Neutral Government Programme; and
- committed to designing and implementing reduction targets and plans from 2023/24.

As part of our commitment to reporting on our greenhouse gas emissions, we started measuring emission sources (where we had enough data) for 2018/19 (our base year). This year, 2022/23, is the second year we have measured our emissions. Although we could measure more emission sources this year, such as employee commuting, we could not reflect our entire carbon footprint. We currently exclude some sources of emissions (such as our outsourced audits to other audit service providers). Work is under way to collect emissions data from external audit service providers from 1 July 2024.

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

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

4 As part of measuring our emissions we must measure indirect greenhouse gas (GHG) emissions from transportation, including air travel. There are different emissions factors for each class of travel, and the Office previously allowed employees to book business class in limited circumstances for overseas travel. Prohibiting the use of business class is expected to reduce the amount of emissions incurred.

Our emissions inventory complies with the ISO 14064-1:2018 standard and reflects a financial control consolidation approach to determine the scope of our emissions reporting. This means we have included only those entities and assets that we have financial control of within categories 1 and 2. Other emissions outside of the organisational boundary are reported in categories 3-6.

Changes to emission factors and additional sources in 2022/23

This year, we were able to calculate emissions from three new sources: employee commuting, number of employees working from home, and recycling.

- **Employee commuting and number of days worked from home:** We designed and sent out an employee survey for one week to extrapolate how many employees worked from home and the modes of travel used between home and work. There was a high level of estimation and extrapolation involved; however, this was a good indicator of the employee commuting habits and the number of days worked from home. There is no comparative data in our base year for these two new sources.
- **Recycling:** This is the first year that we disclosed emissions produced from recycling in our offices with recycling facilities. The emissions from recycling were not material.

In 2022/23, the Ministry for the Environment updated a number of emission factors as new underlying data became available. The new emission factors have been applied to the 2022/23 year and did not affect our baseline year. The overall impact of changing these emissions factors on the 2022/23 results was less than 5% of the total emissions.

Inventory summary

Based on the sources we are currently able to measure, our emissions for 2022/23 are in the table below. Comparative figures for our baseline are also shown.

Category (ISO 14064-1:2018)	Scopes (ISO 14064-1:2006)	2018/19 tCO_2e	2022/23 tCO_2e	Difference
Category 1: Direct emissions and removals	Scope 1	104	100	(4)
Category 2: Indirect emissions from imported energy	Scope 2	47	29	(18)
Category 3: Indirect emissions from transportation	Scope 3	663	1,095	432
Category 4: Indirect emissions from products used by organisation	Scope 3	44	44	0
Category 5: Indirect emissions associated with the use of products from the organisation	Scope 3	0	0	0
Category 6: Indirect emissions from other sources	Scope 3	0	0	0
Total direct emissions		**104**	100	(4)
Total indirect emissions		**754**	1,168	414
Total gross and net emissions		**858**	1,268	410

Note: tCO_2e stands for tonnes (t) of carbon dioxide (CO_2) equivalent (e).

We plan to establish emission reduction targets and to reduce our emissions in 2023/24.

The main increase in emissions in 2022/23, compared to our base year, was caused by an increase in Category 3 indirect emissions of 432 tCO_2e.

The increase Category 3 emissions arose from:

- increased recruitment and relocation of new auditors from overseas to support audit delivery (316 tCO_2e);
- recognising emissions for employees commuting between work and home, which were not measured in our base year (290 tCO_2e);
- recognising emissions for employees working from home, which were not measured in our base year (11 tCO_2e); and
- increases in freight emissions (10 tCO_2e).

The above increases were offset by reductions in emissions from:

- international air travel, excluding travel from overseas relocations (37 tCO_2e);
- domestic air travel (96 tCO_2e); and
- rental cars, taxis, accommodation, and fuel from Office fleet vehicles (62 tCO_2e).

Excluding emissions from new sources (employee commuting and working from home), our gross and net emissions only increased by 109 tCO_2e rather than 410 tCO_2e noted above in our inventory summary.

Inherent uncertainty

There is some uncertainty associated with preparing a greenhouse gas emissions inventory. To minimise this uncertainty, source data has been obtained directly from suppliers, where possible. In some instances, we have had to estimate or extrapolate information, such as emissions from employees' mileage claims and employees commuting to work. This estimation process increases the level of uncertainty.

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

We calculated our emissions based on supplier sources and the most up-to-date emission factors available from the Ministry for the Environment at the time our inventory was produced and independently verified. Electricity was the only emission factor that could be applied to our base year because the Ministry for the Environment changed its methodology in 2022.

We have assessed the effect of the change on our base year figure for electricity as not material to our performance and have not restated our baseline figure using the updated emission factor.

Our international work

Our work promotes and supports the transparent, accountable, effective, and efficient use of public sector resources in the Pacific. There are three main components to our international work:

- We are contracted by the New Zealand Ministry of Foreign Affairs and Trade to work with the Pacific Association of Supreme Audit Institutions (PASAI) Secretariat to improve PASAI processes, programmes, and governance, and to ensure regional co-ordination with other development organisations working to develop the public financial management system in the Pacific region.
- The Auditor-General of New Zealand is also the Auditor-General of the Governments of Niue and Tokelau.
- We work with the global auditing community to tackle common problems faced by Supreme Audit Institutions (SAIs), hosting visiting international delegations and collaborating with the International Organization of Supreme Audit Institutions (INTOSAI).

Supporting PASAI to enhance outcomes for Pacific people

This year we supported PASAI to produce its fourth Accountability and Transparency Report. This report highlights the successes of SAIs in the region and the challenges they currently face to progress their independence and build the capability needed to deliver their mandates.

We continue to provide support and technical expertise to our twinning partnerships with SAI Samoa and SAI Cook Islands. Both twinning partners are demonstrating increasing maturity, regional leadership, and commitment to improving public accountability in their countries.

We supported PASAI to host an in-person Congress in Palau, the first since the pandemic, and we managed an independent evaluation of PASAI's delivery against its 2014-2024 Strategy. Overall, PASAI is recognised as a key enabler for change, supporting SAIs across the region to build capacity and capability, and advocating for integrity system improvements in their countries. We will continue our work with the PASAI Secretariat and the Governing Board as they consider a strategic reset of PASAI's work.

Progressing audits for the governments of Niue and Tokelau

The Auditor-General of New Zealand is also the Auditor-General of the governments of Niue and Tokelau. This year we addressed the delayed audits of the financial statements of government of Niue for the years ended 30 June 2016 to 30 June 2021. This was a significant achievement and sets up the basis for improved accountability for the people of Niue. A similar project is under way for Tokelau, which we expect to complete in 2023/24.

Collaborative work with INTOSAI

In November 2022, the Auditor-General, in his capacity as Secretary-General of PASAI, attended the International Congress of Supreme Audit Institutions (INCOSAI) in Brazil. Participants from more than 160 countries discussed key issues faced by the public audit community and potential solutions. The Auditor-General presented on our Integrity Framework for the public sector.

The Office is active in INTOSAI. This includes the Regional Working Group on Environmental Auditing, which gathered in Sydney in May 2023 to discuss environmental issues for our region, notably climate change and biodiversity in the Pacific. From this conference a number of Pacific SAIs committed to a co-ordinated audit about climate change.

We also supported IntoSAINT (INTOSAI's Self-Assessment of Integrity Tool). In June, the Tongan Public Services Commission and the Tongan Office of the Auditor General undertook this assessment process to examine the values, systems, and norms of their own workplaces. This work helped staff assess ways of working that will help to build and sustain integrity across their organisations.

Another international achievement in 2022/23 includes continuing to run a webinar series promoting topics to support good governance, transparency, and accountability for effective national integrity systems. Participants include those from SAIs, the Ombudsman, Te Kawa Mataaho, other public organisations, and civil society organisations across the Pacific region.

Speakers included Helen Clark, the Auditor-General, the Palau and Tongan Auditors-General, the Ombudsman, the Tongan Ombudsman, the Public Service Commissioner, the Tongan Public Service Commissioner, representatives of the Pacific branch of Transparency International, and the Executive Director of the Pacific Islands Association of Non-Governmental Organisations (PIANGO).

The Office and our staff continue to be highly respected in the international audit community. This year, our Office was invited by the Comptroller General of the United States Government Accountability Office to contribute two members to an international review team to perform a peer review of that office. The peer review was led by the Norwegian Audit Office and began in the second quarter of 2022/23. The peer review team's final report is expected to become publicly available in the second quarter of 2023/24.

Our former Deputy Auditor-General Greg Schollum joined the International Auditing and Assurance Standards Board (IAASB) in January 2023 after being nominated by the External Reporting Board of New Zealand. Todd Beardsworth, our Assistant Auditor-General Audit Quality, has continued as a member of the International Public Sector Accounting Standards Board (IPSASB) since 2018.

4

Our finances

Our appropriations

Our services are funded through the appropriations for Vote Audit 2022/23. In the table below, we show the links between the appropriations and our services.

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

Appropriation statements

Statement of budgeted versus actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2023

This statement reports actual expenses incurred against each appropriation we administer. End-of-year performance information for all appropriations is reported in this annual report.

Annual and permanent appropriations for Vote Audit	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Output expenses					
*Audit and Assurance Services RDA***	110,928	93,468	93,900	109,155	118,026
Audit and Assurance Services	5,422	5,078	11,626	13,527	13,833
Total appropriations for output expenses	**116,350**	**98,546**	**105,526**	**122,682**	**131,859**
Other expenses					
*Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority)****	**1,099**	**1,099**	**1,099**	**1,099**	**1,099**
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	9,824	8,612	12,419	14,419	13,126
Supporting Accountability to Parliament	8,784	7,461	6,459	6,459	6,901
Total Statutory Auditor Function MCA	**18,608**	**16,073**	**18,878**	**20,878**	**20,027**
Total appropriations for operating expenditure	**136,057**	**115,718**	**125,503**	**144,659**	**152,985**
Capital expenditure					
*Controller and Auditor-General Capital Expenditure PLA*****	2,818	2,283	4,257	3,924	4,297
Total annual and permanent appropriations	**138,875**	**118,001**	**129,760**	**148,583**	**157,282**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2022/23, revenue under this appropriation was $110.928 million – see *Financial performance for Audit and Assurance Services RDA*.

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

**** Costs incurred pursuant to section 24(1) of the Public Finance Act 1989.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority for the year ended 30 June 2023

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority in the year ended 30 June 2023 (2022: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2023

The Office did not receive any capital injections without, or in excess of, appropriation or other authority in the year ended 30 June 2023 (2022: Nil).

Statutory Auditor Function MCA

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

The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources. It includes two categories.

Supporting accountability to Parliament

This category is limited to reporting to Parliament and others as appropriate on matters arising from audits and inquiries, reporting to and advising select committees, and advising other agencies in New Zealand and abroad to support Parliament and the public in holding public organisations to account for their use of public resources.

This category is intended to provide advice and assistance to Parliament and our other stakeholders to assist them in their work to improve the performance and accountability of public organisations. Our Controller function operates under this category and provides independent assurance to Parliament and the public that public money has been spent lawfully and within parliamentary authority.

Performance audits and inquiries

This category is limited to carrying out and reporting on performance audits and inquiries of public organisations under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.

This category is intended to provide Parliament and the public with assurance about how well public organisations use resources and manage a range of matters and programmes. We make recommendations where we consider improvements could be made.

Financial performance for *Statutory Auditor Function MCA*

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Income					
Crown	20,508	18,744	18,508	20,508	19,657
Other	474	437	370	370	370
Total income	**20,982**	**19,181**	**18,878**	**20,878**	**20,027**
Expenditure	**(18,608)**	**(16,073)**	**(18,878)**	**(20,878)**	**(20,027)**
Surplus	**2,374**	**3,108**	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

Statutory Auditor Function MCA costs were $2.270 million lower than in the Supplementary Estimates. This was mainly due to the deferral of some projects to 2023/24 within the Office's Information Systems Strategic Plan due to delays in contract negotiations and more time spent than anticipated on implementing our foundational cloud infrastructure.

The surplus of $2.374 million is subject to an In-Principle Expense Transfer (IPET) of $2.270 million approved by the Officers of Parliament Committee (OPC) in March 2023. OPC will be requested to confirm or approve an amended amount in October 2023. The IPET currently allows the Office to increase the available budget in 2023/24 by up to $2.270 million for the deferral of projects that were not completed in 2022/23.

Audit and Assurance Services RDA

RDA means revenue-dependent appropriation. The amount the Office can spend depends on the audit fees charged for audits of public organisations.

This appropriation is limited to audit and related assurance services as authorised by statute. It provides for audit services to all public organisations (except smaller public organisations, such as reserve boards) and other audit-related assurance services. The audit services we provide are funded by audit fees charged to public organisations.

Financial performance for *Audit and Assurance Services RDA*

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Income from third parties	110,928	93,468	93,900	109,155	118,026
Expenditure	(110,928)	(93,468)	(93,900)	(109,155)	(118,026)
Surplus**	-	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

The higher level of actual income and expenditure in 2022/23 compared to the Main Estimates primarily arose because contracted audit service providers completed more work on the audits of public organisations. This additional work was partially offset by a lower level of work completed by Audit New Zealand on audit engagements with a 30 June 2023 balance date because of capacity constraints.

Because this is a revenue-dependent appropriation, expenditure appropriations for this output class are capped at the revenue total for the year. In years where there is a deficit, the remainder of the costs relating to these outputs are reported in the *Audit and Assurance Services* appropriation.

Audit and Assurance Services

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. It provides for audit and related assurance services of smaller organisations, such as reserve boards, which are funded by the Crown, rather than by audit fees charged to these organisations.

This appropriation also provides for when costs exceed revenue under the *Audit and Assurance Services RDA* appropriation. Deficits reported through this appropriation are attributed to the Audit and Assurance Services memorandum account.

Financial performance for *Audit and Assurance Services*

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Income	150	150	150	150	150
Expenditure	(5,422)	(5,078)	(11,626)	(13,527)	(13,833)
(Deficit)**	**(5,272)**	**(4,928)**	**(11,476)**	**(13,377)**	**(13,683)**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

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

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

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Income from Crown	150	150	150	150	150
Income from third parties	110,928	93,468	93,900	109,155	118,026
Total income	111,078	93,618	94,050	109,305	118,176
Expenditure	(116,350)	(98,546)	(105,526)	(122,682)	(131,859)
Surplus/(Deficit)**	**(5,272)**	**(4,928)**	**(11,476)**	**(13,377)**	**(13,683)**

Note: The increase in actual expenditure between 2021/22 and 2022/23 is mainly due to an increase in personnel costs and travel in Audit New Zealand and additional spending by audit service providers.

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

** Note 15 to the financial statements provides more information about the transfer of surpluses and deficits to and from the Office's memorandum account.

Remuneration of Auditor-General and Deputy Auditor-General PLA

This appropriation is limited to remuneration expenses for the Auditor-General and the Deputy Auditor-General, as authorised by clause 5 of Schedule 3 of the Public Audit Act 2001. This permanent appropriation provides for payment to the Auditor-General and Deputy Auditor-General as determined by the Remuneration Authority.

Financial performance for *Remuneration of Auditor-General and Deputy Auditor-General PLA*

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Income	1,099	1,099	1,099	1,099	1,099
Expenditure	(1,099)	(1,099)	(1,099)	(1,099)	(1,099)
Surplus	-	-	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

The Auditor-General and Deputy Auditor-General lead the performance of the Office. The performance of the Office's activities, including this appropriation, is reflected in the information provided in this annual report.

Controller and Auditor-General – Capital Expenditure PLA

This appropriation is limited to the purchase of assets by, and for the use of, the Auditor-General, as authorised by section 24(1) of the Public Finance Act 1989. It is intended to achieve the renewal and replacement of assets that support the delivery of the Auditor-General's operations.

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

	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Property, plant, and equipment	1,451	1,989	1,978	2,148	2,671
Intangible assets	1,160	146	1,937	1,776	1,626
Other	207	148	342	-	-
Total capital expenditure	**2,818**	**2,283**	**4,257**	**3,924**	**4,297**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

Our capital expenditure programme provides for the purchase of facilities and tools to enable our staff to carry out their work – for example, hardware and software for information systems, vehicles, building fit-outs, and furniture and fittings.

This year, we spent significantly less on software assets than planned. This was because we deferred the implementation of several software projects related to our Information Systems Strategic Plan until 2023/24 while we negotiated significant contracts with suppliers and implemented our foundational cloud infrastructure.

The lower amount spent on property, plant, and equipment reflects delays in the purchase of some replacement vehicles and supply chain delays with replacing some hardware.

Our financial results

Overview of our financial results

Operating result

For 2022/23, our Office had a deficit of $2.897 million (excluding gains on sale of assets). Our net operating results by appropriation are summarised below.

	Audit and Assurance Services $000	Statutory Auditor Function $000	Remuneration of Auditor-General and Deputy Auditor-General $000	Total $000
Revenue	111,078	20,982	1,099	133,159
Costs	(116,350)	(18,607)	(1,099)	(136,056)
Surplus/(Deficit)*	**(5,272)**	**2,375**	-	**(2,897)**

* The operating deficit excludes gains on sale of assets, which were $19,000 for the year.

The deficit of $5.272 million relating to our Audit and Assurance Services reflects the limited availability of auditors in the first half of the year, arising from Covid-19, which affected our progress to complete annual audits. The deficit is also attributable to higher costs incurred in resourcing audits (such as relocations, costs of attracting staff from overseas, and higher personnel costs) and inflationary pressures (such as insurance) throughout the year. The deficit amount is transferred to our memorandum account, which was set up to help us manage the peaks and troughs in our audit fee revenue cycle.

The surplus of $2.375 million on the Statutory Auditor Function arose from the deferral of some projects to 2023/24 within the Office's Information Systems Strategic Plan due to longer contract negotiations with some suppliers and more time spent than anticipated on implementing foundational cloud infrastructure. The surplus is subject to an In-Principle Expense Transfer (IPET) of $2.500 million approved by the Officers of Parliament Committee (OPC) in March 2023. OPC will be asked to confirm or approve an amended amount in October 2023. The IPET currently lets us increase the available budget in 2022/23 by up to $2.270 million for the deferral of projects that were not completed in 2022/23.

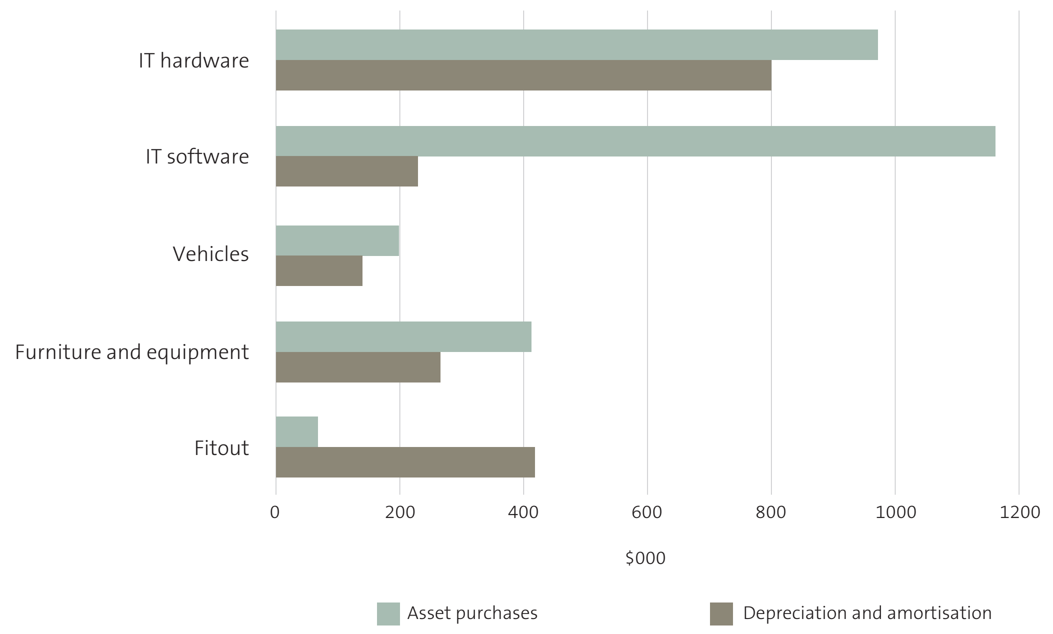
Memorandum account

The deficit for the year reflected higher costs and longer timeframes to complete our annual audits. The deficit was offset by capital contributions from the Crown to address the increased time and non-recoverable costs of audits arising from Covid-19.

Investment in our assets

In 2022/23, we continued our replacement programme for IT hardware, furniture, and vehicles. We also continued implementing our Information Systems Strategic Plan, which covers a five-year programme of work to improve our information systems and services across the Office. Due to delays in contract negotiations and spending more time than anticipated on implementing our foundational cloud infrastructure, we did not spend as much as we anticipated on IT software implementations. Supply chain issues also reduced the amount we spent on IT hardware.

Audit and Assurance Services memorandum account	$000
Opening balance at 1 July 2022	(410)
Audit and Assurance Services deficit	(5,272)
Capital contribution	7,700
Closing balance at 30 June 2023	**2,018**



Statement of comprehensive revenue and expense

for the year ended 30 June 2023

This statement reports the revenue and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are in the *Our appropriations* section.

	Notes	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Revenue						
Crown funding	2	21,757	19,993	19,757	21,757	20,906
Audit fee revenue	3	110,906	93,468	94,040	109,145	118,016
Other revenue		496	437	230	230	230
Gains on sale of plant and equipment		19	7	-	-	-
Total revenue		**133,178**	**113,905**	**114,027**	**131,132**	**139,152**
Expenditure						
Personnel costs	4	64,242	57,276	61,774	65,754	67,429
Other operating costs	5	69,199	56,552	54,423	71,213	76,640
Depreciation and amortisation expense	10, 11	1,865	1,569	2,365	1,941	2,685
Capital charge	6	751	321	941	751	1,231
Total expenditure		**136,057**	**115,718**	**119,503**	**139,659**	**147,985**
Surplus/(Deficit)		**(2,879)**	**(1,813)**	**(5,476)**	**(8,527)**	**(8,833)**
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		**(2,879)**	**(1,813)**	**(5,476)**	**(8,527)**	**(8,833)**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023 and prepared in March 2023.

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

Statement of financial position

as at 30 June 2023

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

	Notes	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Assets						
Current assets						
Cash and cash equivalents	7	6,509	8,623	10,721	6,599	3,934
Receivables	8	15,521	11,055	8,200	9,700	10,100
Prepayments		1,928	872	822	900	900
Work in progress	9	2,977	2,285	2,046	2,308	2,308
Total current assets		***26,935***	***22,835***	***21,789***	***19,507***	***17,242***
Non-current assets						
Plant and equipment	10	4,487	4,520	5,423	4,962	5,682
Intangible assets	11	1,650	721	3,155	2,262	3,154
Total non-current assets		***6,137***	***5,241***	***8,578***	***7,224***	***8,836***
Total assets		***33,072***	***28,076***	***30,367***	***26,731***	***26,078***
Liabilities						
Current liabilities						
Payables and deferred revenue	12	9,869	9,172	7,308	9,383	9,562
Repayment of surplus due to the Crown	13	2,393	3,115	-	-	-
Employee entitlements	14	7,946	7,159	7,437	7,793	8,035
Total current liabilities		***20,208***	***19,446***	***14,745***	***17,176***	***17,597***
Non-current liabilities						
Payables and deferred revenue	12	245	289	-	-	-
Employee entitlements	14	476	530	628	666	687
Total non-current liabilities		***721***	***819***	***628***	***666***	***687***
Total liabilities		**20,929**	**20,265**	**15,373**	**17,842**	**18,284**
Net assets		**12,143**	**7,811**	**14,994**	**8,889**	**7,794**
Taxpayers' funds		10,125	8,221	8,325	10,125	10,863
Memorandum account	15	2,018	(410)	6,669	(1,236)	(3,069)
Total equity		**12,143**	**7,811**	**14,994**	**8,889**	**7,794**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

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

Statement of changes in equity

for the year ended 30 June 2023

Equity is the Crown's investment in the Office and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds and a memorandum account.

	Notes	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Taxpayers' funds						
Balance at 1 July		**8,221**	**6,421**	**6,421**	**8,221**	**10,125**
Total comprehensive revenue and expense		(2,879)	(1,813)	(5,476)	(8,526)	(8,833)
Transfer of memorandum account net (surplus)/deficit for the year		5,272	4,928	5,476	8,526	8,833
Capital contribution		1,904	1,800	1,904	1,904	738
Surplus repayment due to the Crown		(2,393)	(3,115)	-	-	-
Balance at 30 June		**10,125**	**8,221**	**8,325**	**10,125**	**10,863**
Memorandum account						
Balance at 1 July		**(410)**	**(2,282)**	**6,445**	**(410)**	**(1,236)**
Memorandum account net surplus/(deficit) for the year		(5,272)	(4,928)	(5,476)	(8,526)	(8,833)
Capital contribution		7,700	6,800	5,700	7,700	7,000
Balance at 30 June	15	**2,018**	**(410)**	**6,669**	**(1,236)**	**(3,069)**
Total equity						
Balance at 1 July		7,811	4,139	12,866	7,811	8,889
Balance at 30 June		**12,143**	**7,811**	**14,994**	**8,889**	**7,794**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

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

Statement of cash flows

for the year ended 30 June 2023

This statement summarises the cash movements in and out of the Office during the year. It takes no account of money owed to the Office or owing by the Office, and therefore differs from the Statement of comprehensive revenue and expense.

	Notes	Actual 2022/23 $000	Actual 2021/22 $000	Main Estimates 2022/23 $000*	Supplementary Estimates 2022/23 $000*	Main Estimates 2023/24 $000*
Cash flows from operating activities						
Receipts from the Crown		19,968	19,993	19,757	21,757	20,906
Receipts from public entities**		53,786	48,660	62,268	58,618	62,946
Payments to suppliers**		(18,658)	(13,693)	(15,631)	(21,635)	(23,854)
Payments to employees		(60,424)	(54,947)	(59,534)	(62,406)	(64,873)
Net GST received/(paid)***		222	285	-	(172)	-
Capital charge paid		(751)	(321)	(941)	(751)	(1,231)
Net cash flow from (used in) operating activities	16	***(5,857)***	***(23)***	***5,919***	***(4,589)***	***(6,106)***
Cash flows from investing activities						
Receipts from sale of plant and equipment		72	63	136	-	-
Purchase of plant and equipment		(1,657)	(2,137)	(2,320)	(2,148)	(2,671)
Purchase of intangible assets		(1,161)	(147)	(1,937)	(1,776)	(1,626)
Net cash flow from (used in) investing activities		***(2,746)***	***(2,221)***	***(4,121)***	***(3,924)***	***(4,297)***
Cash flows from financing activities						
Capital contributions		9,604	8,600	7,604	9,604	7,738
Surplus repayment to the Crown		(3,115)	(1,617)	-	(3,115)	-
Net cash flow from (used in) financing activities		***6,489***	***6,983***	***7,604***	***6,489***	***7,738***
Total net increase (decrease) in cash and cash equivalents		(2,114)	4,739	9,402	(2,024)	(2,665)
Cash and cash equivalents at the beginning of the year		8,623	3,884	1,319	8,623	6,599
Cash and cash equivalents at the end of the year		**6,509**	**8,623**	**10,721**	**6,599**	**3,934**

* All Estimates information is unaudited. The figures under Main Estimates 2022/23 reflect the forecasts published in Budget 2022 and in the Office's 2021/22 annual report, and the figures under Supplementary Estimates 2022/23 reflect the updated forecasts published in Budget 2023.

** The Statement of cash flows does not include the contracted audit service provider audit fee revenue or expense, as these do not involve any cash transactions with the Office.

*** The GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Statement of commitments

as at 30 June 2023

This statement records expenditure to which the Office is contractually committed at 30 June 2023.

Non-cancellable operating lease commitments

The Office may lease property, plant, and equipment in the normal course of its business. These leases are for premises, which have a non-cancellable leasing period ranging from less than a year to four years.

The Office's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Office by any of its leasing arrangements.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2022/23 $000	Actual 2021/22 $000
Non-cancellable operating lease commitments		
Not later than one year	778	697
Later than one year and not later than five years	679	1,696
Later than five years	1,055	185
Total non-cancellable operating lease commitments*	***2,512***	***2,578***
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	***2,512***	***2,578***

* In 2021/22, we provided our landlord with a notice of our intention to renew our Wellington Office lease but the contract was not signed by 30 June 2023. Therefore, the future commitment for our Wellington office lease has been excluded from the statement of commitments presented for 2021/22 and 2022/23. The contract was signed in July 2023 for a further six years at $2.404 million per annum.

Statement of contingent liabilities and contingent assets

as at 30 June 2023

This statement discloses situations that existed at 30 June 2023, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2023 (2022: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2023 (2022: Nil).

Notes to the financial statements

for the year ended 30 June 2023

Note 1: Statement of accounting policies

Reporting entity

The Controller and Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, is an Office of Parliament for the purposes of the Public Finance Act 1989, and is domiciled and operates in New Zealand.

The relevant legislation governing the Office's operations is the Public Audit Act 2001. The Office's ultimate parent is the New Zealand Crown.

Our primary objective is to provide independent assurance to Parliament and the public about how public organisations are performing, through auditing public organisations, carrying out performance audits, providing reports and advice to Parliament, and carrying out inquiries and other special studies.

We have designated the Office as a public benefit entity (PBE) for the purposes of the accounting standards framework issued by the New Zealand External Reporting Board (XRB).

Our financial statements are for the year ended 30 June 2023 and were authorised for issue by the Controller and Auditor-General on 26 September 2023.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year. For further information on the Office's financial sustainability and going concern assumption, see the *Our financial and physical resources* section.

Statement of compliance

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

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

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

Presentation currency and rounding

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

Standards issued and not yet effective and not early adopted

Standards and amendments issued but not yet effective, which have not been early adopted and which are relevant to the Office, are:

Amendments to PBE IPSAS 1: Presentation of Financial Reports

An amendment to PBE IPSAS 1 requires entities to describe the services provided by their audit or review firm and to disclose the fees incurred by the entities for those services using prescribed categories. This amendment is effective for the year ending or after 01 January 2024, with early adoption permitted. This amendment will result in additional disclosures. We have not adopted the amendment early.

Budget and forecast figures

The forecast financial statements (Main Estimates 2023/24) have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures (all Estimates information) are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2022/23 Main Estimates and Supplementary Estimates

The 2022/23 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2022 and in the Office's 2021/22 annual report.

The 2022/23 Supplementary Estimates forecast financial statements are based on the updated forecasts published in Budget 2023.

2023/24 Main Estimates

The 2023/24 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2023. They have been prepared in keeping with PBE FRS 42: *Prospective Financial Statements* and comply with that standard.

The 2023/24 forecast financial statements were approved for issue by the Auditor-General on 13 April 2023. The Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

Although we regularly update our forecasts, updated forecast financial statements for the year ending 30 June 2024 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what might occur during 2023/24. The forecast figures have been compiled on the basis of existing government policies and after the Auditor-General consulted with the Speaker and the Officers of Parliament Committee.

The main assumptions, which were adopted as at 13 April 2023, were:

- The Auditor-General's portfolio of entities will remain substantially the same as for the previous year and reflect the same allocation approach across the audit service providers as was in place at 13 April 2023.
- The Office will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand.
- The Auditor-General will continue to use audit expertise from Audit New Zealand and contracted audit service providers.
- Forecast personnel costs are based on expected staff numbers necessary to deliver the work of the Office, incorporating remuneration rates that are based on current costs adjusted for anticipated market changes.
- Operating costs are based on estimates of costs that will be incurred under the Office's current operating model, with small allowances for price increases.
- Forecast capital expenditure and depreciation are based on planned replacement of motor vehicles and IT equipment, plus continued investment in developing the Office's software programs.

The actual financial results achieved for 2023/24 are likely to vary from the forecast information presented, and the variations might be material. There are likely to be flow-on effects from Covid-19, including demand and supply impacts on the audit profession generally, which is likely to put pressure on the completion of audits in the short term and might reduce the forecasts of revenue and increase the expenditure in 2023/24.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

Goods and Services Tax

All items in the financial statements are presented exclusive of Goods and Services Tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (Inland Revenue) is included as part of receivables or payables in the Statement of financial position.

The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

We are exempted from paying income tax by section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

Output cost allocation

We have determined the cost of outputs using allocations as outlined below.

Direct costs are those costs directly attributable to a single output. Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contracted audit service providers is charged directly to output class *Audit and Assurance Services RDA*.

Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output. These costs include corporate services costs, variable costs such as travel, and operating overheads such as property costs, depreciation, and capital charges. Indirect costs are allocated according to the time charged to a particular activity.

There have been no other changes in cost allocation policies since the date of the last audited financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made about the future. These estimates and assumptions might differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are:

- Audit fee revenue, work in progress, and income in advance – see Notes 3, 9, and 12.
- Depreciation and amortisation – see Notes 10 and 11.
- Retirement leave – see Note 14.

Effects of Covid-19

On 11 March 2020, the World Health Organisation declared the outbreak of the Covid-19 pandemic, and two weeks later the New Zealand Government declared a State of National Emergency. Since that time, the country and certain regions within it have entered several lockdowns and the Government has imposed stricter border conditions.

Covid-19 significantly affected the ability of public organisations and our auditors to complete their work within the statutory reporting deadlines, due to inefficiencies of working remotely, additional audit work required, and stricter border conditions reducing the global mobility and availability of auditors.

Parliament passed legislation in August 2020 and July 2021 to extend statutory reporting time frames in the Crown Entities Act 2004 and the Local Government Act 2002 for certain entities with 30 June balance dates in 2021 and 2022.

In 2022/23 our auditors experienced extended high workloads to catch up on audits deferred from previous years due to Covid-19. We have also had to increase the size of our workforce to help manage the backlog of deferred audits and continue to progress audits with a 2023 balance date.

The above factors along with higher costs due to the higher inflationary environment have resulted in a larger annual deficit in the Audit and Assurance Services Revenue Dependent Appropriation than previous years.

The deficit has been offset by capital contributions (cash injections) received from the Crown of $7.7 million to address the increased time and non-recoverable costs of audits arising from Covid-19.

We have also considered the possible effect on trade receivables and formed the view that no impairment has needed to be recognised.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of commitments at the value of that penalty or exit cost.

Note 2: Crown funding

The Crown provides revenue to meet the costs of the Office in assisting Parliament in its role of ensuring accountability for the use of public resources. The services provided to Parliament include reports to Parliament and other constituencies; reports and advice to select committees; responding to taxpayer and ratepayer enquiries; advice to government bodies, professional bodies, and other agencies; and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

Accounting policy

Revenue from the Crown is measured based on the Office's funding entitlement for the year. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments approved in the Appropriation (Supplementary Estimates) Act for the year.

There are no conditions attached to the funding from the Crown. However, we can incur expenses only within the scope and other limits of its appropriations.

The fair value of revenue from the Crown has been determined to be equivalent to the funding entitlement.

Note 3: Audit fee revenue

Accounting policy

The specific accounting policies for audit fee revenue are explained below.

Fee revenue generated by the Office for audits and other assurance services

Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised. When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Fee revenue generated by contracted audit service providers for audits

Fee revenue generated by contracted audit service providers (other than Audit New Zealand) for audits of public organisations is also recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public organisations.

Critical accounting estimates and assumptions

Assessing the value of audit fee revenue and associated work in progress or income in advance for engagements open at balance date is the most significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of fee revenue

	Actual 2022/23 $000	Actual 2021/22 $000
Fee revenue generated by the Office for audit and assurance services	55,985	49,234
Fee revenue generated by contracted audit service providers for audits of public entities*	54,921	44,234
Total audit fee revenue	**110,906**	**93,468**

* Revenue generated by contracted audit service providers (other than Audit New Zealand) does not involve any cash transactions with the Office.

Note 4: Personnel costs

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Obligations for contributions to The Auditor-General's Retirement Savings Plan, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution plans and are recognised as an expense in the surplus or deficit as incurred.

Breakdown of personnel costs

	Actual 2022/23 $000	Actual 2021/22 $000
Salaries and wages	60,322	54,608
Other employee-related costs	1,950	1,234
Employer contributions to defined contribution plans	1,643	1,546
Increase/(decrease) in employee entitlements	327	(112)
Total personnel costs	64,242	57,276

Note 5: Other operating costs

Accounting policy

Expenses of audit service providers

Fees for audits of public organisations carried out by contracted audit service providers are recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public organisations.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term. All leases entered into by the Office are operating leases.

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other operating costs

	Actual 2022/23 $000	Actual 2021/22 $000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	126	104
Operating lease payments	3,119	3,010
Fees for audits of public entities carried out by contracted audit service providers*	54,922	44,234
Other expenses	11,032	9,204
Total other operating costs	69,199	56,552

* Expenditure relating to audits carried out by contracted audit service providers does not involve any cash transactions with the Office.

Note 6: Capital charge

Accounting policy

The capital charge is recognised as an expense in the financial year to which the charge relates.

Further information on the capital charge

We pay a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year.

The capital charge rate is determined by the Treasury, and for the year ended 30 June 2023 was 5% (2022: 5%).

Note 7: Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand and funds on deposit with banks and is measured at its face value.

Further information on cash and cash equivalents

We have the use of an overdraft facility to manage seasonal cash flows during the second half of the financial year. The overdraft limit is $500,000, and interest is charged on the daily balance at Westpac New Zealand Limited's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (2022: Nil).

Note 8: Receivables

Accounting policy

Short-term receivables are recorded at their face value, less an allowance for expected losses and any provision for impairment.

A receivable is considered impaired when there is sufficient evidence that we will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amount expected to be collected.

The expected credit loss rates for receivables at 30 June 2023 and 30 June 2022 are based on the payment profile of revenue on credit over the previous two years at the measurement date and the corresponding historical credit losses experienced for that period.

The allowance for credit losses at 30 June 2023 and 30 June 2022 was determined as 0%.

Breakdown of receivables and further information

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

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

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

The receivables balance at 30 June 2023 also reflects a debtor from the Crown of $1.789 million (June 2022: Nil) arising from the recognition of Crown revenue earned in 2022/23 but not reflected by the equivalent receipt (drawdown) of cash as at 30 June 2023.

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

	Actual 2022/23 $000	Actual 2021/22 $000
Balance at 1 July	**-**	**13**
Additional provisions made during the year	-	-
Receivables written off during the year	-	(13)
Balance at 30 June	**-**	**-**

Note 9: Work in progress

Accounting policy

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents unbilled revenue.

Critical accounting estimates and assumptions

The value of work in progress is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Note 10: Property, plant, and equipment

Accounting policy

Property, plant, and equipment includes furniture and fittings, leasehold improvements, office equipment, information technology hardware, and motor vehicles. Property, plant, and equipment is measured at cost, less accumulated depreciation, and impairment losses.

Additions

Individual assets, or groups of assets, are capitalised if their cost is greater than $1,000.

The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

In most instances, an item of property, plant, and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and fittings	4 years (25%)
Office equipment	2.5-5 years (20%-40%)
IT hardware	2.5-5 years (20%-40%)
Motor vehicles	3-4 years (25%-33%)

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Impairment of property, plant, and equipment

Property, plant, and equipment assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is determined using an approach based on a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is also recognised in the surplus or deficit.

Critical accounting estimates and assumptions

Determining the depreciation rates for physical assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for depreciation costs, accumulated depreciation, and net book values.

Breakdown of property, plant, and equipment and further information

	Furniture and fittings $000	Office equipment $000	Leasehold improvements $000	IT hardware $000	Motor vehicles $000	Total $000
Cost						
Balance at 1 July 2021	***1,964***	***686***	***3,384***	***3,515***	***1,067***	***10,616***
Additions	144	4	1,075	766	148	2,137
Disposals	-	-	-	(576)	(169)	(745)
Balance at 30 June 2022	***2,108***	***690***	***4,459***	***3,705***	***1,046***	***12,008***
Additions	268	145	68	970	206	1,657
Disposals	(64)	(91)	-	(125)	(99)	(379)
Balance at 30 June 2023	***2,312***	***744***	***4,527***	***4,550***	***1,153***	***13,286***
Accumulated depreciation and impairment losses						
Balance at 1 July 2021	***1,595***	***508***	***1,886***	***2,527***	***332***	***6,848***
Depreciation expense	168	71	322	617	131	1,309
Elimination on disposal	-	-	-	(576)	(93)	(669)
Balance at 30 June 2022	**1,763**	**579**	**2,208**	**2,568**	**370**	**7,488**
Depreciation expense	182	87	422	800	143	1,634
Elimination on disposal	(64)	(91)	-	(123)	(45)	(323)
Balance at 30 June 2023	**1,881**	**575**	**2,630**	**3,245**	**468**	**8,799**
Carrying amounts						
Balance at 1 July 2021	369	178	1,498	988	735	3,768
Balance at 30 June 2022	345	111	2,251	1,137	676	4,520
Balance at 30 June 2023	**431**	**169**	**1,897**	**1,305**	**685**	**4,487**

Note 11: Intangible assets

Accounting policy

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by the Office are recognised as an intangible asset.

Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred, as are costs associated with hosted software or “as a service” arrangements.

Costs associated with development and maintenance of the Office’s website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised.

The amortisation charge for each year is recognised in the surplus or deficit.

The useful life and associated amortisation rate of intangible assets have been estimated at between 2.5 and 5 years (20%-40%).

Impairment

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment.

For further details, refer to the policy for impairment of property, plant, and equipment in Note 10.
The same approach applies to the impairment of intangible assets.

Critical accounting estimates and assumptions

Determining the amortisation rates for intangible assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for amortisation costs, accumulated amortisation, and net book values.

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows.

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2021	***4,293***	***1,225***	***5,518***
Additions	-	147	147
Disposals	-	-	-
Balance at 30 June 2022	***4,293***	***1,372***	***5,665***
Additions	-	1,161	1,161
Disposals	-	-	-
Reclassificaton	3	(3)	-
Balance at 30 June 2023	***4,296***	***2,530***	***6,826***
Accumulated amortisation and impairment losses			
Balance at 1 July 2021	***4,224***	***459***	***4,683***
Amortisation expense	10	250	260
Elimination on disposal	-	-	-
Balance at 30 June 2022	***4,234***	***709***	***4,943***
Amortisation expense	28	203	231
Elimination on disposal	-	-	-
Balance at 30 June 2023	**4,262**	**912**	**5,174**
Carrying amounts			
Balance at 1 July 2021	69	764	833
Balance at 30 June 2022	**59**	**661**	**720**
Balance at 30 June 2023	**34**	**1,616**	**1,650**

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

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at the amount payable.

Income in advance is recognised where amounts billed are in excess of the amounts recognised as revenue.

Critical accounting estimates and assumptions

The value of income in advance is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement might result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of payables and deferred revenue

	Actual 2022/23 $000	Actual 2021/22 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,680	1,811
Income in advance	5,943	5,290
Accrued expenses	1,021	1,069
Total payables under exchange transactions	***8,644***	***8,170***
Current payables and deferred revenue under non-exchange transactions		
GST payable	1,225	1,002
Total payables and deferred revenue under non-exchange transactions	***1,225***	***1,002***
Total current payables and deferred revenue	**9,869**	**9,172**
Non-current payables and deferred revenue under exchange transactions		
Other payables	245	289
Total non-current payables and deferred revenue	**245**	**289**

Payables are non-interest-bearing and are normally settled on 30-day terms. The carrying value of creditors and other payables therefore approximates their fair value.

Note 13: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year. The amount to be repaid includes any unused Crown funding and/or gains on sale of assets from the financial year. Any surplus arising from audit fees collected under the revenue-dependent appropriation is transferred to the memorandum account and held for use in the Audit and Assurance Services RDA output class in future years. The memorandum account is explained further in Note 15.

	Note	Actual 2022/23 $000	Actual 2021/22 $000
Surplus/(Deficit) current year		(2,879)	(1,813)
Less: Surplus/(Deficit) transferred to/from memorandum account	15	(5,272)	(4,928)
Total provision for payment to the Crown		**2,393**	**3,115**

Note 14: Employee entitlements

Accounting policy

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave, time off in lieu earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where it is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows.

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

The measurement of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factors.

Any changes in these assumptions will affect the carrying amount of the liability.

The discount rate is based on New Zealand Government bond data at 30 June 2023. The salary inflation factor has been determined after considering Consumer Price Index.

If the discount rate were to increase/decrease by 1% from our estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $21,221 lower and $23,125 higher respectively.

If the salary inflation factor were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $27,106 higher and $25,609 lower respectively.

Breakdown of employee entitlements

	Actual 2022/23 $000	Actual 2021/22 $000
Current employee entitlements		
Salary and other accruals	2,800	2,394
Annual leave	4,577	4,369
Time off in lieu of overtime worked	208	156
Retiring leave	206	108
Sick leave	155	132
Total current employee entitlements	***7,946***	***7,159***
Non-current employee entitlements comprise:		
Retiring leave	476	530
Total non-current employee entitlements	***476***	***530***
Total employee entitlements	**8,422**	**7,689**

Note 15: Memorandum account

The memorandum account summarises the accumulated surpluses and deficits incurred in the provision of audit and assurance services by the Office on a full cost recovery basis. These transactions are included as part of our operating income and expenses in the surplus/deficit, but are excluded from the calculation of our repayment of surplus (see Note 13).

The memorandum account helps us manage fluctuating revenue flows and keep audit fees at reasonable levels over time. The memorandum account balance will be taken into account when setting audit fees in future years.

	Actual 2022/23 $000	Actual 2021/22 $000
Audit and assurance services		
Balance at 1 July	**(410)**	**(2,282)**
Revenue	111,637	93,618
Expenses	(116,909)	(98,546)
Surplus/(Deficit) for the year	***(5,272)***	***(4,928)***
Capital contribution	7,700	6,800
Balance at 30 June	**2,018**	**(410)**

In 2022/23 we drew down capital contributions from the Crown of $9.604 million. $7.700 million was a non-repayable capital injection approved in Budget 2022 ($5.700 million) and Budget 2023 ($2.000 million) to address the increased time and non-recoverable costs of audits arising from Covid-19.

Note 16: Reconciliation of cash flow statement activities

This reconciliation discloses the non-cash adjustments applied to the deficit reported in the Statement of comprehensive revenue and expenses to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows.

	Actual 2022/23 $000	Actual 2021/22 $000
Net Surplus/(Deficit)	**(2,879)**	**(1,813)**
Add/(Less) non-cash items		
Depreciation and amortisation	1,865	1,569
Total non-cash items	***1,865***	***1,569***
Add/(Less) movements in working capital items		
(Increase)/Decrease in prepayments	(1,057)	61
(Increase)/Decrease in receivables	(4,464)	(1,117)
(Increase)/Decrease in work in progress	(38)	189
Increase in payables	(3)	1,046
Increase in employee entitlements	735	29
Total movements in working capital items	***(4,827)***	***208***
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	(16)	13
Total items classified as investing activities	***(16)***	***13***
Net cash flow from operating activities	**(5,857)**	**(23)**

Reconciliation of liabilities arising from financial activities

	2021/22	Cash flows	Non-cash changes	2022/23
Repayment of surplus to the Crown	3,115	(3,115)	2,393	2,393

Note 17: Related party transactions

The Office is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that we would have adopted in dealing with the party at arm's length in the same circumstances.

Key management personnel compensation

	Actual 2022/23 $000	Actual 2021/22 $000
Key management personnel remuneration	3,245	2,911
Full-time equivalent key management personnel	11	11

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

Key management personnel at 30 June 2023 comprised the 11 members of the Office of the Auditor-General and Audit New Zealand Leadership Teams.

The 11 members include a newly established fixed-term position in 2022/23 of Assistant Auditor-General, Audit New Zealand Strategy and Change. The new position leads the implementation of improved practice management in Audit New Zealand. An appointment to the position was made on 11 April 2023.

Note 18: Financial instruments

Our financial instruments are limited to cash and cash equivalents, receivables, and creditors and other payables. These activities expose the Office to low levels of financial instrument risks, including market risk, credit risk, and liquidity risk.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

We incur a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2022: Nil).

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

We have no interest-bearing financial instruments and, accordingly, no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Office, causing the Office to incur a loss.

In the normal course of the Office's business, credit risk arises from receivables and deposits with banks.

We are permitted to deposit funds only with Westpac New Zealand Limited, a registered bank with high credit ratings. For other financial instruments, we do not have significant concentrations of credit risk.

Our maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net receivables (see Notes 7 and 8).

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting liquidity requirements, we closely monitor forecast cash requirements with expected debtor receipts and cash draw-downs from the New Zealand Debt Management Office. We maintain a target level of available cash to meet liquidity requirements.

Our financial liabilities are outlined in Note 12.

Current creditors and other payables are all due to be settled on 30-day terms.

Categories of financial instruments

The carrying amounts of financial instruments are as follows.

	Notes	Actual 2022/23 $000	Actual 2021/22 $000
Loans and receivables			
Cash and cash equivalents	7	6,509	8,623
Receivables	8	15,521	11,055
Total loans and receivables		**22,030**	**19,678**
Financial liabilities measured at amortised cost			
Payables		9,869	9,172
Total creditors and other payables	12	**9,869**	**9,172**

Note 19: Capital management

The Office's capital is its equity, which comprises taxpayers' funds and a memorandum account. Equity is represented by net assets.

We manage revenue, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which we have been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, and liabilities and compliance with the Government Budget processes, Treasury Instructions, and the Public Finance Act 1989.

Note 20: Explanations of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2022/23 budget figures (2022/23 Main Estimates) are as follows.

Statement of comprehensive revenue and expense

The overall deficit for 2022/23 was $2.879 million, compared to a deficit of $5.476 million budgeted in the Main Estimates. Revenue was $19.151 million higher than the Main Estimates and expenditure was $16.554 million higher. The revenue and expenditure increases primarily reflect more work completed and more fees earned on audits of public entities carried out by contracted external auditor service providers who were allocated more audits during 2022/23.

Audit New Zealand's direct expenditure also increased due to the recruitment of more FTEs to support the completion of deferred audits from prior years.

Statement of financial position and Statement of changes in equity

Net assets at 30 June 2023 were $2.851 million less than the Main Estimates. This reflects higher asset balances than anticipated, partially offset by higher liabilities.

Assets at 30 June 2023 were $2.705 million higher than the Main Estimates. This reflects higher increased receivables from billing clients in advance. The increase in our receivables has been partially offset by reduced software expenditure related to the Office's Information Systems Strategic Plan and supply chain delays in replacing some of our hardware.

Liabilities at 30 June 2023 were $5.556 million higher than the Main Estimates. This reflects higher levels of income received in advance and the repayment of surplus to the Crown.

Note 21: Events after the balance date

There were no significant events after the balance date that required adjustment or disclosure in the financial statements (2022: Nil).

Independent auditor's report

PKF Goldsmith Fox Audit
Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

We have been appointed by the House of Representatives to carry out the audit of:

- the financial statements of the Controller and Auditor-General (the Auditor-General) in the section *Our financial results* that comprise the statement of financial position, statement of commitments, and statement of contingent liabilities and contingent assets as at 30 June 2023, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2023 in the section *Our work*; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2023 in the section *Our appropriations*.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
  - present fairly, in all material respects, the:
    - financial position as at 30 June 2023;
    - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General;
  - complies with generally accepted accounting practice in New Zealand;
  - presents fairly, in all material respects, for the year ended 30 June 2023:
    - what has been achieved with each appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the appropriation statements of the Auditor-General for the year ended 30 June 2023, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 26 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Auditor-General and our responsibilities and explain our independence.

Basis for our Opinion

We carried out the audit in accordance with the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we applied the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* that is also applied to the audit of performance information in many other public sector entities in New Zealand. Our responsibilities under those standards are further described in the Responsibilities of the Auditor section of our report.

We have fulfilled our responsibilities in accordance with International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

- financial statements that present fairly the Auditor-General's financial position, financial performance, and cash flows, that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- a statement of output expenses, other expenses and capital expenditure against appropriations, and a statement of unappropriated expenditure, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

The Auditor-General is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Auditor-General is responsible for assessing its ability to continue as a going concern. The Auditor-General is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate its activities, or there is no realistic alternative but to do so.

The Auditor-General's responsibility arises from the Public Finance Act 1989.

Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the published Estimates of the Auditor-General.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports*, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auditor-General's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor-General.
- We evaluate the appropriateness of the reported performance information within the Auditor-General's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Auditor-General and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Auditor-General's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Auditor-General to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor-General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information included in the sections *Overview*, *Highlights*, *Our Capability* and the Appendices, but does not include the information we audited, and our auditor's report thereon.

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

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Auditor-General in accordance with the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

The engagement partner on the audit resulting in this independent auditor's report is Dawn Alexander.

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit Limited
Christchurch, New Zealand

Dated: 26 September 2023

Appendix 1
Report of the Audit and Risk Committee

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

Members (1 July 2022 to 30 April 2023)	Members (1 May 2023 to 30 June 2023)
Warren Allen FCA, FCIS, MinstD, Chair	Warren Allen FCA, FCIS, MinstD, Chair
Linda Robertson BComm, Dp.Bank, GAICD, INFINZ, FGNZ, CFInstD, CS, CGP	Linda Robertson BComm, Dp.Bank, GAICD, INFINZ, FGNZ, CFInstD, CS, CGP
Howard Fancy MComm(Hons), BSc(Hons) Chemistry	Howard Fancy MComm(Hons), BSc(Hons) Chemistry
Greg Schollum, BMS, FCA Deputy Controller and Auditor-General	Andrew McConnell, Deputy Controller and Auditor-General

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

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

In the last year, the Committee met on five occasions to fulfil its role and responsibilities. The Committee:

- received regular updates on the Office's key focus areas and discussed risks for the Office to ensure they are appropriately managed;
- reviewed the Office's strategic risks with the Auditor-General;
- received regular briefings on the Controller function;
- obtained briefings on the internal audit programme, findings and audit challenges;
- monitored the implementation of audit recommendations by internal and external auditors;
- discussed with the external auditors their plans and findings;
- considered and queried various team updates;
- reviewed the 2021/2022 Annual Report and annual financial statements of the Office prior to the approval by the Auditor-General; and
- deliberated on major projects: new Audit Quality Standard; new Audit Tool (Auvenir); rapid review of Audit New Zealand; delayed audits; recruitment challenges; the Health Sector Reform; final Strategic Intentions; te ao Māori.

The Committee reported on the above and on all other relevant matters to the Auditor-General. At the time of this report, there were no outstanding matters.

The Committee acknowledged Greg Schollum, former Deputy Controller and Auditor-General, for his contribution and mana during his term.

The Committee welcomed Andrew McConnell as the newly appointed Deputy Controller and Auditor-General in May. We look forward to working together with Andrew.

Warren Allen
Chair, Audit and Risk Committee

14 August 2023

Appendix 2
Report of the independent reviewer

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

20 July 2023

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

Dear Mr Ryan

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES 2023

Background and instructions

Under s 14 of the Public Audit Act 2001 (the Audit Act), you are appointed as the auditor of all public entities. Section 42 of the Audit Act authorises you to fix the fee payable for all such audits, which must be reasonable.

Audit New Zealand, a business unit of your Office, has a large and competent staff. However, with approximately 3,800 public entities in New Zealand, of which approximately 3300 must be separately audited, it is impractical for Audit New Zealand itself to carry out all these audits. Therefore, you contract auditors from the private sector to carry out many of these audits on your behalf. In the year under review Audit New Zealand carried out approximately 40% of all public sector audits (measured by audit hours and including schools).

The Office of the Auditor-General (OAG) sets strategy, policy and standards, and appoints and oversees auditors, both from Audit New Zealand and the auditors contracted from the private sector, who carry out audits on your behalf.

You have retained me as an independent person to review the basis upon which auditors, both from Audit New Zealand and the private sector, are appointed to act on your behalf, and to review the basis upon which the audit fees for these audits are determined. This is the first year that I have carried out this review.

This is my report on that review for the year ending 30 June 2023. I hold an LLB (Hons) and Bachelor of Commerce and Administration (majoring in accounting) from Victoria University of Wellington. I am a Barrister and Commercial Mediator with Kate Sheppard Chambers. Before that I spent 22 years employed by the Crown Law Office latterly as Senior Crown Counsel; and between 1998 and 2002 I was employed in the financial services area of a large accounting firm in the United Kingdom. I consider that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit service providers (ASP).

My instructions are:

- To review and confirm the probity and objectivity of the methods and systems used by the Office of the Auditor-General to:
    - Allocate and tender audits;
    - Fix and monitor the reasonableness of audit fees; and
    - Anything else that impacts on those activities.

There has been no limitation placed on the manner in which I may carry out my work. I have been free to inspect any documents or files that I consider appropriate to the review; and to discuss any matters arising with staff of your office. I confirm that in the conduct of my review I have been given free access to all matters I have requested; and I have received full co-operation from your Office. I have also discussed the allocation of audits and the processes of fixing fees and your Office's involvement in resolving disputes, with three major private sector audit service providers used by your Office.

The review undertaken for this report was not an audit of every decision made of which there are many. My review is based on a consideration of various material issues that arose during the year based on information provided by your Office.

Types of Audit Appointments

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

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

Appointments for new entities

In the financial year 2022-2023, the Auditor-General appointed auditors for 20 new public entities including 5 schools and 15 non schools.

All of these appointments were made following the principles set out in the "Allocation Model". I reviewed the reasons given for each appointment, which appeared reasonable; and I did not observe any dissatisfaction by any of those entities to the appointment made, the terms of appointment, or the proposed audit fee.

Re-appointments

Existing auditors were re-appointed during the past financial year to audit 294 public entities and their subsidiaries for a further term. For most of the appointments covered by this paragraph I observed no dissatisfaction from the entities. In the very small number of cases where the appointment of different auditors was sought, including where concern about audit fees was expressed, I reviewed the considerations taken into account having regard to the published principles used to appoint auditors and to set audit fees, and the reasons given for the decisions appeared reasonable.

New appointments for existing entities in the non school sector

In the year under review there were 46 new appointments made for existing entities in the non school sector. This was similar to the number in the 2021-2022 year; again as a consequence of the re-allocation of audits from Audit New Zealand. This occurred to free up resources in Audit New Zealand, by re-allocating some of its current audits to private sector providers, to ensure that all public sector audits could be completed in a timely manner.

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

Applying the principles of the Allocation Model, and considering the available resources of the private sector providers, recommendations were then made and new appointments were made by you. Limited consultation was possible with the entities concerned.

No tender process was undertaken.

I have reviewed the processes undertaken and the explanation given for each appointment. Nothing has come to my attention which would suggest that either the process undertaken or the decisions made were other than reasonable and appropriate in the circumstances. When the affected entities having a change of auditor were advised, the vast majority expressed no objection. With the very small number who questioned the proposed changes, the usual process was followed in considering any concerns expressed.

Moderating of fees for local authority audits

There are several emerging reporting and auditing challenges in the local authority sector for the period 2023-2025. So the decision was taken to moderate fees in three tranches: 1) city councils; 2) regional councils; and 3) district councils. Moderation of the first two tranches has been completed; and the Audit Service Providers in this sector are in the process of negotiating audit fees with the entities.

Audit Allocation Model

In the past year all appointments of auditors to both new and current entities, and including all re-appointments, have been made using the Allocation Model rather than the use of a contestable tender process. The Allocation Model has been the principal method used for auditor appointments since it was first adopted in 2003 and later revised in 2010. It is a well-established set of principles and they are summarised in a public document entitled: "Appointing public sector auditors and setting audit fees". The principles summarised in that document are:

- auditor independence;
- auditor knowledge about public entities and public sector audits;
- the particular audit skills required;
- the audit's quality and cost; and
- the need for the Auditor-General always to have access to enough audit capacity and capability.

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

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

I continue to support the use of the Allocation Model as an appropriate basis for allocation decisions for most appointments. Before its adoption most audit appointments were made following a contestable tender process. The conduct of audits in the public sector requires specialist expertise, and a careful balance to ensure good quality and consistent auditing at reasonable cost. I remain of the view that these objectives and the balancing required to retain a consistent level of quality and reasonable cost, is best achieved by use of the Allocation Model as opposed to a pure contestable process in the vast majority of cases. This is a view shared by all of the Audit Service Providers that I consulted as part of undertaking my review. I understand that the contestable process will continue to be used in individual cases where appropriate. I consider that when the work on the principles and practical application is completed, it is important that an accurate summary is published, to ensure transparency and consistency of decision-making.

By making appointments in accordance with such a model, given the inherent discretion available a disciplined and consistent application of the principles of the model is required when decisions are made. From my review of appointments and re-appointments made during that past year, a careful and consistent process has been followed.

Audit fees

Section 42 of the Audit Act authorises the Auditor-General to set the fees for all audits of public entities, which must be reasonable. The factors to be taken in to account when determining whether the fee is reasonable are set out in that section. If the Auditor-General and the public entity fail to agree as to the reasonableness of a fee, the matter must be submitted to arbitration.

As has been the case in previous years, your Office provided updated advance guidance to all auditors for upcoming appointments of your approach to and factors that would be acceptable and unacceptable reasons for any movement in the current level of fees. This clearly set out those reasons where a change may be suggested; and those reasons which would be considered unacceptable. In every case the guidance stresses that regardless of the reasons for any proposed fee movement, the Audit Proposal to the entity must properly explain them and include why any change is suggested.

I consider it good practice to provide in advance this guidance to auditors before the fee proposal is submitted. I would encourage this approach continuing at the commencement of each year.

At an individual entity level, at the commencement of every audit appointment, the fee proposed by the auditor, which is expected to be based on the guidelines previously provided, including a clear explanation of any material change is first referred to the OAG by the auditor for review to ensure its reasonableness. Considerable detail including a clear breakdown of appropriate team mix and rates is expected. Once the OAG has approved the draft, it is then provided to the entity by the auditor, who then has authority to seek to agree the fee with the entity. The OAG will assist in that process and has available a comprehensive database of fees in the sector. It is the strong preference of the Auditor-General for the entity and the appointed auditor to reach agreement without further involvement of the OAG.

In the year under review there are currently no active outstanding disputes over audit fees but there remain some limited cases where additional fees have been sought, which are still under discussion. In no case over the past year has the Auditor-General had to exercise the power to fix a fee and not since 2009 has there been a reference to arbitration.

Most issues that arise over fees are during or after the end of an audit. Some arise from the constrained financial position of particular small entities. Some arise from misunderstandings about what is required, some about additional work not covered in the original scope of works being necessary, and sometimes the quality of and speed in which information is provided by the entity and rework by the auditor as a result, leads to tension. In the year under review a number of requests were received from auditors for an additional fee for additional work requirements. You have given permission for auditors to discuss increases directly with the entities within certain limits without the need to obtain your consent first. I consider this additional flexibility to be reasonable.

Overall, I am satisfied that the approach of the Auditor-General has been consistent and reasonable in the process of setting and resolving issues over audit fees, including additional recoveries.

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

Conclusion
I have been provided with full access to all relevant material; and free access to the relevant files and personnel of the OAG. I have met with and obtained full explanations to all my queries by OAG personnel; and have observed the relevant internal processes of the OAG regarding both appointments and fee setting and monitoring. On the basis of that review and the explanations provided, nothing has come to my attention that would impact on my conclusion that:

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

Yours sincerely

Pauline Courtney
Barrister

Appendix 3
Work published in 2022/23

During 2022/23, we published 41 products.

Inquiry work
Cost of Living payment
Project Te Matapihi – structural engineering services for the central library
Engagement of consultants by Horowhenua District Council
Letter in response to concerns about funding to Transport Choices projects
Letter in response to concerns about funding for the Port Nelson Slipway project
Response to concerns about the Measles Catch-up Campaign
Performance audit work
Co-ordination of the all-of-government response to the Covid-19 pandemic in 2020
How well public organisations are supporting Whānau Ora and whānau-centred approaches
New Zealand Defence Force: Resetting efforts to reduce harmful behaviour
Review of the Provincial Growth Fund reset
Four initiatives supporting improved outcomes for Māori
Meeting the needs of people affected by family violence and sexual violence
Auckland Council: Preparedness for responding to an emergency
Response to our recommendations about infrastructure as a service
Responses to our recommendations about managing freshwater quality
Responses to our recommendations about strategic suppliers
Follow-up on marine protection planning processes
Other published work
Māori perspectives on public accountability
Matters arising from our audits of the 2021-31 long-term plans
Submission on the Water Services Entities Bill
A safe and respectful New Zealand Defence Force: First monitoring report
Setting up a council's Audit and Risk Committee
Submission on "A fair chance for all – Breaking the cycle of persistent disadvantage"
Letter to the Officers of Parliament Committee about accountability concerns
Observations from our central government audits: 2021/22

Insights into local government: 2021
Update on 2021 school audits
Getting the most out of your department's Audit and Risk Committee
Submission on draft water services legislation
Submission on the Natural and Built Environment Bill
Controller update: July to December 2022
Results of the 2021 school audits
Tertiary education institutions: 2021 audit results and what we saw in 2022
Managing public funding in an emergency response or recovery – Observations from our work
Summary of unappropriated expenditure: 2015/16 to 2021/22

Corporate publications
Annual report 2021/22
Draft annual plan 2023/24
Auditor-General's mid-term review
Annual plan 2023/24
The Auditor-General's strategic intentions to 2028
The Auditor-General's auditing standards

Appendix 4
Progress against our 2022/23 work programme

For each item listed in Appendix 3 of our Annual plan 2022/23, we provide the published title and publication date or provide an update.

Planned work	Published title or current state
Understanding the all-of-government response to Covid-19	Publication: *Co-ordination of the all-of-government response to the Covid-19 pandemic in 2020* (December 2022)
How well are agencies working together and with the non-government sector to meet the needs of people affected by family violence and sexual violence?	Publication: *Meeting the needs of people affected by family violence and sexual violence* (June 2023)
Leadership of the housing and urban development system	Publication: *Leading New Zealand's approach to housing and urban development* (August 2023)
Planning of significant housing and urban development projects	Planned to begin work in 2023/24
Understanding and addressing educational disparities	In progress, planned to be completed in 2024
Effectiveness of mental health and addiction services for young people	In progress, planned to be completed in December 2023
Progress of the Government's efforts to reduce child poverty	Planned to begin work in 2023/24
Climate change and local government	In progress, planned to be completed in July 2024
Immigration New Zealand resident visa processing – accountability and effectiveness of the visa process	Planned to begin work in 2023/24
Understanding how well the public sector is delivering outcomes that matter for Māori	Publication: *Four initiatives supporting improved outcomes for Māori* (May 2023)
How effectively the public sector is supporting the Whānau Ora approach	Publication: *How well public organisations are supporting Whānau Ora and whānau-centred approaches* (February 2023)
How well prepared are public organisations to meet Treaty settlement obligations	Planned to begin work in 2023/24
Cyber security maturity and preparedness	Planned to begin work in 2023/24
Reset of the Provincial Growth Fund and reprioritisation of investments	Publication: *Review of the Provincial Growth Fund reset* (June 2023)
Systems and processes underpinning government decisions on major infrastructure investment	Planned to be completed in 2024

Planned work	Published title or current state
Looking at integrity in central government procurement	Publication: *Getting it right: Supporting integrity in emergency procurement* (August 2023)
Monitoring progress: Operation Respect (New Zealand Defence Force)	Publication: *A safe and respectful New Zealand Defence Force: First monitoring report* (March 2023) Publication: *New Zealand Defence Force: Resetting efforts to reduce harmful behaviour* (March 2023)
Commentary on the Wellbeing Report	Publication: *Commentary on Te Tai Waiora: Wellbeing in Aotearoa New Zealand* (August 2023)
Public sector accountability to communities – research	Planned to begin work in 2023/24
Presenting a picture of sector-level performance reporting	In progress, planned to be completed in November 2023
Performance information in sectors undergoing major change	In progress, planned to be completed in December 2023
Observations from our central government audits: 2021/22	Publication: *Observations from our central government audits: 2021/22* (December 2022)
Results of the 2021 audits of tertiary education institutions	Publication: *Tertiary education institutions: 2021 audit results and what we saw in 2022* (March 2023)
Results of the 2021/22 district health board audits	District health boards were disestablished in 2022. Audit results have been reported to Te Whatu Ora and a letter with our observations will be shared with relevant health sector chief executives.
Main matters arising from our audits of councils' 2021-31 long-term plans	Publication: *Matters arising from our audits of the 2021-31 long-term plans* (July 2022)
Local government: Results of the 2020/21 audits	Publication: *Insights into local government: 2021* (December 2022)
Local government: Results of the 2021/22 audits	In progress, planned to be completed in 2024
Auckland landscape scan	In progress, planned to be completed by November 2023
Auckland Council review of service performance – Disaster resilience and preparedness	Publication: *Auckland Council: Preparedness for responding to an emergency* (June 2023)
Auckland Council review of service performance (topic to be confirmed)	Planned to begin work in 2023/24
Half-year Controller update	Publication: *Controller update: July to December 2022* (March 2023)
Examination of equity initiatives in the Covid-19 Vaccination Programme	Cancelled, reprioritisation of resources into higher-priority work

Appendix 5
Report on the quality of annual audits

This describes how the Office of the Auditor-General monitors the quality of annual audit work.

The way we operate

The Auditor-General appoints auditors to carry out annual audits of public organisations. These auditors are appointed from Audit New Zealand (the Auditor-General's in-house audit service provider) and from about 25 private sector audit service providers. There are about 160 auditors with the authority to issue audit reports for the public organisations they have been appointed to audit.

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

- the appointment of auditors considered to be independent to carry out audits;
- the Auditor-General's auditing standards that auditors are required to apply;[5] and
- the quality of the work that auditors perform.

Our system of quality

Professional and ethical standards[6] require us to operate a system of quality management. That system has to provide reasonable assurance that we comply with standards and applicable legal and regulatory requirements, and issue appropriate reports in the circumstances arising from our work. The system of quality management is based around seven components that manage the quality of our work.[7] These are:

- governance and leadership;
- our risk assessment process;
- relevant ethical requirements;
- engagement performance;
- resources;
- information and communication; and
- monitoring and remediation.

We report below on the processes, policies, and procedures that support each component of audit quality, as it applies to the Office of the Auditor-General, including Audit New Zealand and other audit service providers who carry out audits on behalf of the Auditor-General. We also include some quality indicators, which measure performance for 2022/23.

5 The Public Audit Act 2001 requires the Auditor-General to set auditing standards for carrying out audits. These are referred to as the Auditor-General's auditing standards. These standards incorporate the New Zealand auditing standards and include professional and ethical standards specific to independence and audit quality.

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

7 PES 3 has eight components. The component *Acceptance and Continuance of Client Relationships and Specific Engagements* in not directly relevant to us because we cannot refuse to be the auditor of a public organisation. We require our audit services providers to tell us about issues that might lead them to decline performing an audit, so we can manage the situation.

Governance and leadership responsibilities

Our governance and reporting structure contributes to audit quality

The Auditor-General is ultimately responsible for the system of quality management for all audits carried out on his behalf.

Audit quality is governed through the Office's Audit Performance and Quality Governance Committee. The role of the committee is to monitor audit delivery and quality. The Auditor-General and Deputy Auditor-General are committee members. The committee meets six times each year and its remit includes:

- monitoring the strategic and operational risks associated with audit quality;
- monitoring the operating effectiveness and efficiency of the quality framework against the audit quality indicators;
- monitoring the findings of internal and external reviews of audit quality; and
- monitoring progress in addressing the findings and recommendations made in internal and external reviews.

The committee met six times during 2022/23.

We also have an Audit and Risk Committee that provides independent advice to the Auditor-General (see Appendix 1 for that committee's report).

Our values underpin audit quality

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

The Auditor-General is the Office's Integrity Officer and has taken on this role to reinforce the importance of integrity in our work. The Integrity Officer leads the integrity work, which includes:

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

We updated our integrity framework in November 2022. Our framework includes the building blocks a public organisation should have in place for a strong and effective integrity system and is consistent with the good practice material we have published for use by public organisations.[8]

We measure and report progress internally to staff.

We obtain independent views about audit quality

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

The Financial Markets Authority reviewed both the system of quality control and a sample of audit files. The report identified only low-rated findings about the system of quality control. It also identified low- and medium-rated findings for the sample of audit files. This means there is nothing that would change the audit reports that were issued.

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

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

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

Our risk assessment processes

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

Strategic risks are those risks that affect the Office achieving its strategic objectives. Audit failure that leads to a loss of trust and confidence is one of our strategic risks. Such a failure could occur if an audit report was issued with an incorrect audit opinion, or a report was issued containing a significant error that undermined the credibility of our work.

Within our system of quality management, we have identified risks related to our quality objectives and the systems, processes, and responses designed to mitigate the risks. We identified some improvements to policies and procedures that will enhance our risk mitigation. We have set up a work programme to address these.

Ethical requirements

Our policies, procedures, and methods promote an ethical workplace

Independence is fundamental to our ability to act with integrity, be objective, and maintain an attitude of professional scepticism. Professional and ethical standards require auditors to be independent of the organisation they are auditing. The Auditor-General's auditing standards, which incorporate these professional and ethical standards, set a high standard for independence, both of mind and in appearance.

The Auditor-General's auditing standard on independence applies to all staff, including Audit New Zealand and the private sector audit service providers that carry out public sector audits. The standard is based on the requirements of the New Zealand standard issued by the External Reporting Board, to the extent there is not a conflict with the Auditor-General's legislated mandate and responsibilities. The Auditor-General's standard goes further and restricts the work auditors can carry out for an organisation they audit to work of an assurance nature only.

We monitor compliance with audit independence requirements

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

For staff, including Audit New Zealand, the work that can be done is limited by the Public Audit Act 2001. The independence of those involved in annual audits is closely monitored, including as part of our quality assurance review program for annual audits.

For private sector audit service providers, we monitor the other services they carry out for public organisations they audit on behalf of the Auditor-General. We also pre-approve or decline work they propose carrying out where independence might be questioned, and we consider independence as part of our quality assurance review program for annual audits.

In 2022/23, 51 independence queries about proposed non-audit work were referred for approval. Of these, we approved 45 and declined the other six. There were three instances where we identified a threat to independence and took action to manage or mitigate the threat.

For 2022/23, we were satisfied that independence standards were upheld.

We monitor how long key audit staff audit the same organisation

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

For 2022/23, we complied with the Auditor-General's standard.

Resources

All audits are allocated either to Audit Directors in Audit New Zealand or to partners in private sector audit service providers. Therefore, recruiting, hiring, retaining, and promoting qualified audit staff is performed by audit service providers. Our expectation is that audit work is completed by staff with the right skills and experience. We monitor the skills of audit teams as part of our quality assurance reviews.

For 2022/23, we were generally satisfied with the skills and experience of staff allocated to audits based on our quality assurance reviews.

There have been challenges throughout the auditing profession to recruit and sometimes retain sufficient auditor capacity (particularly for our in-house provider, Audit New Zealand) due to border closures and the subsequent re-opening of those borders. This has affected the timing of completion of annual audits.

Performing our audit work

We establish, maintain, and communicate audit expectations

The Office of the Auditor-General requires all audit service providers to have their own audit methodology and to apply the professional quality standards. This typically results in multiple levels of review of audit files. Auditors carry out audits based on the Auditor-General's auditing standards and requirements and guidance provided through an audit brief.

In December 2022, we published and communicated the mandatory quality requirements we place on providers carrying out audits or other engagements on behalf of the Auditor-General.[9]

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

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

The Auditor-General's auditing standards require auditors to consult on specific matters that could result in a non-standard audit report. The Office has an Opinions Review Committee that meets as required to determine the modifications to be included in audit opinions and other matters to be highlighted in audit reports. For 2022/23, the committee met on 45 occasions (compared to 40 in 2021/22).

We analyse the nature of matters considered by the committee and communicate to auditors so that they can maintain an awareness for these in their audit work. In 2022/23, potential probity matters were considered during eight meetings (compared to seven in 2021/22) and uncertainties with estimates were considered during ten meetings (compared to eight in 2021/22).

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

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

Sometimes during an audit an auditor discovers, or is made aware of, an error or misstatement in the prior year's financial statements or performance information. If known at the time, this would have resulted in changes to the financial statements or performance information, or a qualification of the opinion in the auditor's report. The number and impact of these errors or misstatements can signal potential problems with the audit.

Such errors or misstatements in financial information require the previous year's financial statements to be restated, and information included in the current year's financial statements about the error or misstatement and its impact.

During the past year, there were 33 errors reported to us, which is 1.16% of the total number of audit reports issued in the year. Most of the errors related to incorrect classification or measurement of financial instruments, error in recognition or derecognition of property, plant, and equipment, and incorrect accounting entries recorded in the prior years.

In 2021/22 there were 49 errors reported to us (1.8% of the total number of audit reports issued in the financial year). In 2020/21, 31 errors were reported (0.9% of the total number of audit reports issued in the financial year).

We follow up the errors with auditors as necessary to understand why the error was not identified during the audit and whether improvements can be made in future audits.

We also incorporate the findings of our analysis in our future Quality Assurance reviews.

We have engagement quality review for complex and large audits

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

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

We assess compliance of engagement quality review as part of our quality assurance reviews, including evidence that the review met the requirements of the standard. For 2022/23, based on our quality reviews we were satisfied that all audits that required an engagement quality review had had one. We noted in some instances that the evidence and timing of the review needed to be improved.

Monitoring the quality of audit work and remediating deficiencies

Quality reviews and findings

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

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

During 2022/23 we monitored 31 auditors (34 in 2021/22). Our monitoring covers all auditors appointed to carry out audits on a cyclical basis. The frequency of reviews is informed based on quality risk and other monitoring information. We choose the audit files we want to review in accordance with our quality assurance policy, which considers the size and complexity of the audit.

Our monitoring activities in 2022/23 included:

- quality reviews of 47 completed audits (79 in 2021/22); and
- quality reviews of 11 in-process audits (six in 2021/22).

Of the 47 audit files reviewed, 14 contained deficiencies (compared to 14 in 2021/22). There were no deficiencies that put into question the appropriateness of the opinion included in the audit report.

We will monitor the remediation of the deficiencies or perform further quality reviews of audits carried out by that auditor.

A high number of findings from quality reviews indicate issues with audit quality, particularly when these are repetitive. Timely identification and appropriate remediation of issues is needed to support improvements in audit quality.

We evaluate findings identified in internal and external quality reviews and determine any repetitive issues. We ask our auditors to carry out "root cause analysis" for repetitive issues to understand the underlying drivers of quality deficiencies and address them with targeted action plans.

The repetitive issues where we want audit improvement include procedures to test fair value and other estimates, evaluating the design of internal controls for information technology systems, assessing completeness of revenue, and testing performance information.

How we determine the cause of quality review findings

We asked audit service providers to perform root cause analysis for the significant findings from our quality reviews. This analysis provides a deeper understanding of improvements that are needed, including improvements to audit methodologies.

We are monitoring the planned interventions that audit service providers are implementing to help prevent the significant findings from recurring. Where necessary, we have agreed a monitoring programme.

How we assess timely and effective remediation of quality review findings

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

We require our auditors to remediate all significant deficiencies and, where necessary, make changes to the audit approach for subsequent audits. For 2022/23, auditors are responding to our quality review findings and remediating where necessary. Our follow-up work to assess remediation will be part of our 2023/24 quality review programme.

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