



# All about the Controller and Auditor-General

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# All about the Controller and Auditor-General

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## Introduction

The Controller and Auditor-General – usually known by the shorter title of Auditor-General – is responsible for auditing all of New Zealand’s public entities. This helps to show whether public money is being spent the way that Parliament intended.



**Lyn Provost**

The current Auditor-General is Lyn Provost. Her vision is to improve the performance of, and the public’s trust in, the public sector.

The Auditor-General is an officer of Parliament.<sup>1</sup> The role and functions of an auditor-general have been in place in New Zealand since the 1840s. The current role and functions are set out in the Public Audit Act 2001 and the Public Finance Act 1989.

As an officer of Parliament, the Auditor-General is independent of the Executive Government.<sup>2</sup>

The Auditor-General is sometimes referred to as a “public watchdog”. The Auditor-General acts as a check and balance on how public money is being collected and spent. The Auditor-General is accountable to Parliament for the use of public money spent to do the job.

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

### Why is there an Auditor-General?

In New Zealand’s system of government, Parliament authorises all government spending and is the source of the statutory powers that public entities have.

Public sector organisations are therefore accountable to Parliament for their use of the public resources and powers that Parliament gives them. As part of this accountability, Parliament seeks independent assurance from the Auditor-General that public sector organisations are operating and accounting for their performance in the way Parliament intended.

The need for independent assurance also covers local government. Local authorities are accountable to the public for how they use the resources they fund through rates and other sources.

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

2 “Executive Government” means the Prime Minister and other Ministers, who are supported by the public service (government departments).

It is not the role of the Auditor-General to question the policies of the Government or local authorities.

## How does the Auditor-General maintain independence?

To be effective and credible, the Auditor-General and the people working for the Auditor-General must be independent of the public sector organisations being audited. To ensure independence, the Public Audit Act provides that the Auditor-General:

- is an officer of Parliament and can report directly to Parliament and anyone else;
- reports to the Officers of Parliament Committee, chaired by the Speaker of the House of Representatives;
- is appointed by the Governor-General on the recommendation of the House of Representatives for a once-only term of no more than seven years;
- has a Deputy who is also an officer of Parliament and can perform all the functions and exercise all the powers of the Auditor-General;
- is paid by standing authority from Parliament, with the amount determined independently by the Remuneration Authority; and
- makes requests for funding directly to Parliament (rather than through the Executive Government).

Auditors are appointed by the Auditor-General to carry out annual financial audits on the Auditor-General's behalf. Appointed auditors must also be independent – both in fact and appearance. There are strict constraints on appointed auditors in the Auditor-General's auditing standards that cover such matters as:

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

## Part 1

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

The Auditor-General employs staff in two business units – the Office of the Auditor-General and Audit New Zealand – and contracts with private sector accounting firms.

### Office of the Auditor-General

The Office of the Auditor-General is responsible for:

- planning the overall work programme for the organisation as a whole;
- carrying out performance audits, special studies, and inquiries;
- planning other audit work;
- Parliamentary reporting and advice;
- setting auditing standards (the Auditor-General’s auditing standards);<sup>1</sup>
- allocating annual audits to appointed auditors;
- monitoring audit fees to ensure that they are fair and reasonable;
- overseeing auditors’ performance; and
- carrying out quality assurance reviews of all work done on behalf of the Auditor-General, including annual audits by appointed auditors.

### Audit New Zealand

Audit New Zealand is responsible for:

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

### Private sector accounting firms

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

<sup>1</sup> The Public Audit Act 2001 requires the Auditor-General to report these auditing standards to Parliament at least once every three years and to describe significant changes to the standards in any year in the Auditor-General’s annual report.



## Part 2

# What does the audit function involve?

The Auditor-General is responsible for auditing all entities in the public sector. This includes the financial statements of the Government and all types of public entity:

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

The Auditor-General audits about 4000 public entities, of which 3000 are schools and other very small entities.

### What does the Auditor-General look for?

As auditor of the public entities listed above, the Auditor-General has five main concerns:

- **Performance:** Have public entities carried out activities in keeping with Parliament's intentions in an effective and efficient manner?
- **Authority:** Have activities been carried out, and accountability requirements observed, within the authority granted by Parliament?
- **Waste:** Have resources been obtained and applied in an economical manner? Are taxpayers' dollars being wasted?
- **Probity:** Are entities meeting Parliament's and the public's expectations of an appropriate standard of behaviour?
- **Accountability:** Have entities given full and accurate accounts of their activities? Are governance and management arrangements able to address any concerns?

The Auditor-General's staff and appointed auditors apply audit procedures that address the five main concerns. These audit procedures are set out in the Auditor-General's auditing standards.

## Quality assurance and monitoring audit fees

The Auditor-General appoints auditors who have relevant sector expertise to ensure that the audit will be consistent with the Auditor-General's auditing standards, and that the auditor's expertise can be maintained and enhanced. Quality assurance processes regularly review the performance of auditors.

The Auditor-General also carries out independent fee monitoring to ensure that audit fees are fair and reasonable – so that the public entity gets the right level of audit effort for its circumstances and risks, and the auditor is fairly paid, in line with the market for audit services.

## Part 3

# What does the Controller function involve?

The Controller function provides independent assurance to Parliament that the expenses and capital expenditure of government departments and officers of Parliament have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.<sup>1</sup>

The Controller function supports the important constitutional principle that the Government cannot spend, borrow, or impose a tax without the consent of Parliament.

The main features of the Controller function are:

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

<sup>1</sup> The Public Finance Amendment Act 2004 made a number of significant changes to the Controller function to modernise and strengthen it. These changes took effect from 1 July 2005 and are explained in our report *Central Government: Results of the 2003-04 audits*.



## Part 4

# What type of work does the Auditor-General do?

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

- annual audits;
- performance audits; and
- inquiries into any matter relating to a public entity's use of its resources.

Under the Local Government Act 2002, the Auditor-General must audit every local authority's long-term council community plan.

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

### Annual audits

Annual audits are carried out in keeping with the Auditor-General's auditing standards, which incorporate the auditing standards of the Institute of Chartered Accountants of New Zealand. Annual audits involve auditing the financial statements and other information (for example, performance information) that a public entity is required by Parliament to have audited.

In an annual audit, the auditor:

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

The audit involves gathering all the information and explanations needed to obtain reasonable assurance that financial statements and other information do not have material misstatements caused by fraud or error. The auditor also evaluates the overall adequacy of the presentation of information.

This audit of the annual financial statements and other information of every public entity results in two kinds of report. One is the audit report (including the audit opinion) that is included in the public entity's published annual report, and the other is a report to the entity's governing body and management on matters arising from the audit.

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

The report to the governing body and management of a public entity sets out the findings from the audit and draws attention to areas in the underlying environment, systems, and controls where the public entity is doing well or where recommendations for improvement have been made.

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

## Performance audits

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

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

The findings, conclusions, and recommendations from that examination are usually reported to Parliament.

There are two constraints on examining effectiveness and efficiency:

- The effectiveness and efficiency of the Reserve Bank or a registered bank cannot be examined.
- It is not the Auditor-General's role to question the policies of the Government or local authorities.

The Auditor-General's staff choose the issues to be examined by performance audits and other discretionary work through an annual work planning process. This involves examining each sector that the Auditor-General operates in, and identifying the main areas of actual and potential concern that would benefit from being examined by a performance audit or other special study. The Auditor-General's annual plan includes a list of proposed performance audits.

## Inquiries

The Auditor-General can inquire into any matter relating to a public entity's use of resources.

In general, an inquiry involves:

- looking into a matter of concern raised with the Auditor-General by a member of the public, a member of Parliament, the Government, or an organisation about a significant financial, accountability, or governance issue in a public entity; and/or
- conducting a formal inquiry into, and reporting to Parliament on, a matter of high public interest.

The Auditor-General cannot be ordered to conduct an inquiry. Before deciding on whether to go ahead with an inquiry, the Auditor-General considers whether the matter is within the Auditor-General's mandate under the Public Audit Act 2001, is of substance and relevant to the Auditor-General's role, and is reasonably recent. Other considerations are whether the person or entity requesting the inquiry has taken reasonable steps to resolve the matter with the entity concerned, and whether the Auditor-General has the staff and resources to look into the matter.

In conducting an inquiry, the Auditor-General is subject to the same two constraints that apply to a performance audit.

Many inquiries are conducted simply and at minimal cost, and are followed by a brief report to the person or entity who asked for the inquiry. However, other inquiries address complex matters and assume a high public profile. The Auditor-General has wide powers to request information, and decides what information to disclose or include in a report. The Auditor-General may, if the issues are significant, produce a public report that is presented to Parliament, a Minister, or a local authority and published on our website.

## Long-term council community plans

The Local Government Act 2002 requires the Auditor-General to audit every local authority's draft and final long-term council community plan.

## Reports and assistance to others

### Parliament and its committees

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

This assistance will be for one or more of five purposes:

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

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

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

### Public entities

As well as providing annual audit reports to all public entities, and performance audit reports about selected entities, the Auditor-General provides reports and assistance to central agencies (the Department of the Prime Minister and Cabinet, the State Services Commission, and the Treasury) on matters to do with financial management and accountability.

The Auditor-General also provides advice and assurance to public entities on a range of matters – for example, to government departments about government advertising and publicity.

### Local authorities

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

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

- conduct audits of, and provide reports to, individual local authorities that are supported by sector-wide knowledge; and
- speak authoritatively on matters of financial management and accountability in local government.

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

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

### **Other stakeholders**

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



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