

The Treasury

Material Related to the Annual Reporting and Audit Time Frames Extensions Legislation Bill Information Release

August 2021

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Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



5 July 2021

John Ryan
Controller and Auditor-General
Office of the Auditor-General

Dear John

Considerations on audit extensions beyond the passing of the legislation

Thank you for your letter of 17 June 2021 (titled *Auditor Capacity Constraints and Statutory Deadlines*) seeking our support for legislative amendments to extend statutory reporting deadlines to address severe capacity constraints in the auditor profession. Your letter reflected our conversations with you on 16 June 2021 on the same topic.

As you know, since then we have made rapid progress towards progressing legislative amendments to both the Crown Entities Act 2004 and the Local Government Act 2002. We are hoping to be able to introduce legislation to the House before the July recess that helps address the issues raised in your letter.

In light of the fast pace of this legislative work and the nature of the extensions (blanket across authorities and entities, and relating to just the next two years) we have four questions for you. These reflect the short timeframe in which the policy work to support the legislative process has occurred, as well as our ongoing interests in public accountability (including the intent of the relevant sections of the Public Finance Act, the Crown Entities Act and the Local Government Act).

1) Is consultation being planned with all affected Crown entities and local authorities to identify any unintended consequences?

Although the extensions apply across all Crown entities (and other entities subject to provisions of the Crown Entities Act) with 30 June balance dates, local authorities and council controlled organisations, we are aware that you will be using a prioritisation framework and the available auditor capacity to prioritise more significant audits. This framework considers some very important flow-on factors, such as contribution to the financial statements of Government and engagement with capital markets. We think this is a sensible approach. However, there is a risk that this framework does not fully consider all possible consequences on agencies (including associated agencies) should their audit be delayed. We consider it important that all Crown entities and local authorities affected by the extended deadline have the opportunity to identify and comment on any unintended consequences so these might be factored into your prioritisation process. We would encourage you to consult with all entities whose audits will be delayed to identify any unintended consequences arising from the delays for these entities.

2) Are you planning to engage with Parliament on your prioritisation framework and process?

We have consulted with the Opposition about this proposal. They are broadly supportive of it, but have raised the issue of the importance of prioritising audits of significant entities. We suggest you engage with parties across Parliament to explain how you will address this concern. The Opposition has also raised the question as to why it is necessary to cover two years of audits within the legislation. It would be useful if you could provide feedback on this matter as well.

3) Are you planning to engage with Parliament on possible impacts for annual reviews?

The extensions to audit report deadlines for Crown entities will impact on Select Committee timelines and processes for undertaking annual reviews. We are concerned this may lead to reduced parliamentary accountability. We look forward to hearing how any impacts on the between annual reports and annual reviews are being managed.

4) Will you be engaging with Parliament on long-term solutions to resolving auditor shortages?

The extensions will apply to the audits of the 2020/21 and 2021/22 financial years. Some of the underlying causes you have identified are longer term in nature. We encourage you to engage with Parliament on the work you are undertaking to address the underlying causes of auditor shortages.

We look forward to hearing from you on the matters we have raised in this letter.

Regards

Hon Grant Robertson
Minister of Finance

Hon Nanaia Mahuta
Minister of Local Government