

The Treasury

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

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Office of the Minister of Finance

Chair, Cabinet Economic Development Committee

Legislative amendments to audit deadlines due to auditor shortages

Proposal

- 1 This paper seeks agreement to make legislative amendments to extend audit timeframes that apply to selected public sector annual reporting to recognise the impacts of a severe auditor shortage on the ability to obtain robust audit opinions.

Executive Summary

- 2 I am concerned about the effect a severe auditor shortage arising from the ongoing impacts of COVID-19 will have on public sector agencies' financial and non-financial end-of-year reporting. The robustness of this reporting is important to the fundamental principles of government accountability and transparency. Retaining the current audit timeframes will create risks to the quality of reporting, cause significant workload stress to auditors, and may result in agencies or the Auditor-General breaching legislative requirements. These issues have been raised by the Auditor-General (letter attached).
- 3 In response, I am seeking your agreement to urgent legislation to extend the audit timeframes in the Crown Entities Act 2004 (CEA). These provisions apply to Crown Entities, organisations listed on Schedule 4 of the Public Finance Act 1989, and companies listed on schedule 4A of the PFA. I propose these amendments provide a two-month extension to the audit timeframes. I propose that this change would apply for the audits relating to the 2020/21 and 2021/22 financial years. I propose that this change would only apply to those entities with financial years ending 30 June.
- 4 In addition to the amendments sought to the CEA, I am also aware of the need for extensions to timeframes for annual reporting in the Local Government Act 2002, which are also impacted by the auditor shortage. I recommend that the Minister of Local Government be given delegated authority to approve a policy to either amend the Local Government Act 2002 to extend the reporting timeframes for local authorities and council-controlled organisations for the 2020/21 and 2021/22 financial years in the same Bill that amends the Crown Entities Act or, alternatively, to extend

these timeframes by Order in Council under section 261 of the Local Government Act 2002.

Issues with audit timeframes due to auditor shortages

- 5 The Auditor-General has advised me that the ability of auditors to meet audit timeframes, and produce sufficiently robust audits, is under pressure due to severe capacity constraints within the auditor profession and the ongoing impacts of COVID-19 caused by:
 - 5.1 An ongoing shortage of auditors in New Zealand and Australia caused by increased demand for auditing expertise, with more complex requirements;
 - 5.2 Current border settings disrupting the traditional model of private audit firms bringing in offshore staff to assist with peak audit workloads, limiting the additional resources these firms can provide for public sector audits; and
 - 5.3 Turnover of Audit New Zealand staff, and a constrained recruitment environment due to difficulties with overseas recruitment under current border settings.
- 6 As the financial year for most public entities ends on 30 June, even in normal circumstances the legislative timeframes require significant effort by the Auditor-General and his appointed auditors. With a shortage of auditors, the current timeframes put further workload stress on auditors and increase the likelihood of compromises in auditing process and reporting quality.
- 7 The Auditor-General is very concerned about the issues outlined above and the associated risks, and wrote to me about extending reporting timeframes as the only option to adequately mitigate these risks in the short-term.
- 8 A failure to meet the audit timeframes is a breach of the legislation by the Auditor-General. It is important for public accountability and transparency reasons that Parliament and the public have access to independently assured reporting.

Extensions to auditing timeframes

- 9 Based on the issues described, I recommend that an amendment be made to the auditing timeframes contained in the Crown Entities Act 2004. I propose that these amendments provide a two month extension to audit timeframes. The proposed amendments to the Crown Entities Act 2004, including the new timeframes, are detailed in Appendix One. The changes would only apply to information relating to annual reports covering the

2020/21 and 2021/22 financial years. I propose that this change would only apply to those entities with financial years ending 30 June.

- 10 I am also aware that the Auditor-General has raised similar concerns with the Minister of Local Government about audits of entities covered by the Local Government Act 2002. I recommend that the Minister of Local Government be given delegated authority from Cabinet to approve a policy to either amend the Local Government Act 2002 to extend the reporting timeframes for local authorities and council-controlled organisations for the 2020/21 and 2021/22 financial years in the same Bill that amends the Crown Entities Act or, alternatively, to extend these timeframes by Order in Council under section 261 of the Local Government Act 2002. The new timeframes are detailed in Appendix One.
- 11 Note that I am not seeking to change the timeframes for the Financial Statements of Government (FSG). Delivering these on time is important to maintaining the confidence of the public, Parliament and capital markets.

Financial Implications

- 12 There are no direct financial implications arising from the proposals in this paper.

Legislative Implications

- 13 Amendment of the timeframe for audits in the Crown Entities Act will require a legislative amendment, and therefore a Bill to be introduced to the House. Should the Minister of Local Government also decide that a legislative amendment is required to the Local Government Act 2002, both amendments could be progressed in an Omnibus Bill. This Bill will need to be enacted before the existing audit deadline of 31 October for entities subject to the Crown Entities Act, and possibly earlier if amendments are necessary to the Local Government Act 2002 for local authorities and council-controlled organisations.
- 14 I have consulted with the Leader of the House who has advised that it is possible to include either a Bill or an Omnibus Bill in the legislative programme and pass the legislation before the House rises for the July recess on 8 July 2021.
- 15 I am consulting with parties across Parliament to endeavour to get a cross party consensus to support the legislation.

Impact Analysis

Regulatory Impact Statement

- 16 Treasury's Regulatory Impact Analysis team has determined that the proposal to extend audit deadlines relating to annual reports for 2020/21 and 2021/2022 under the Crown Entities Act and the Local Government

Act 2002 is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor impacts on businesses, individuals, and not-for-profit entities.

Climate Implications of Policy Assessment

- 17 There are no climate change implications arising from the proposals in this paper.

Population Implications

- 18 No significant population implications arise from the proposals in this paper.

Human Rights

- 19 The proposals in this paper appear to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. A final view as to whether the proposals will be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 will be possible once the legislation has been drafted.

Consultation

- 20 The Department of Internal Affairs and the Parliamentary Counsel Office has been consulted on the proposals in this paper.
- 21 The Office of the Auditor-General has been informed about the intent and purpose of this paper.

Communications

- 22 None.

Proactive Release

- 23 The paper will be proactively released subject to redaction as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Finance recommends the Committee:

- 1 **note** that the Auditor General has written to me advising that a shortage of auditors available in New Zealand due to the ongoing impacts of COVID-19 has created a high risk of insufficient auditor capacity for robust assurance on public sector financial and non-financial end-of-year reporting, within the current legislative auditing timeframes;
- 2 **note** that robustly assured end-of-year reporting supports the fundamental principles of government accountability and transparency;
- 3 **agree** to amend the Crown Entities Act 2004 to extend (as set out in Appendix One), by two months, the timeframes in which auditors must audit those reports and statements for the 2020/21 and 2021/22 financial years for:
 - 3.1 organisations listed at Schedule 4 of the Public Finance Act 1989;
 - 3.2 companies listed in Schedule 4A of the Public Finance Act 1989; and
 - 3.3 Crown entities;
- 4 **agree** to the development of a Bill to provide the amendments recommended at paragraph 3;
- 5 **authorise** the Minister of Finance to issue drafting instructions to the Parliamentary Counsel Office for the amendments recommended at paragraph 3;
- 6 **authorise** the Minister of Local Government to approve a policy to either:
 - 6.1 amend the Local Government Act 2002 to extend the reporting timeframes for local authorities and council-controlled organisations for the 2020/21 and 2021/22 financial years in the same Bill that amends the Crown Entities Act; or
 - 6.2 extend those reporting timeframes by Order in Council under section 261 of the Local Government Act 2002;
- 7 **authorise** the Minister of Local Government to issue drafting instructions to the Parliamentary Counsel Office to implement the policy approved in accordance with paragraph 6;
- 8 **agree** that the Minister of Finance and the Minister of Local Government are authorised to further clarify and develop policy matters relating to the proposals in this Cabinet paper in a manner not inconsistent with the policy recommendations contained in the paper;
- 9 **note** that the Minister of Finance will report back with a draft Bill;

- 10 **authorise** the Minister of Finance to take the draft Bill to Cabinet for consideration, without going through the Cabinet Legislation Committee, so that the Bill may be introduced to the House before it rises for the July recess;
- 11 **approve** the inclusion of the bill in the 2021 Legislation Programme, with a priority of category 1 (must be passed as a matter of law in 2021).

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Appendix One – proposed extensions to audit timeframes

The table below sets out how timeframes are proposed to be amended:

Entity type and relevant statutory provision	Current dates for auditor to provide auditor's report	Proposed dates for auditor to provide auditor's report
	2020/21 and 2021/22 financial years	2020/21 and 2021/22 financial years
<i>Crown entities</i>	By 31 October 2021 and 2022	By 31 December 2021 and 2022
<i>Organisations listed on Schedule 4 of the Public Finance Act 1989</i>	By 31 October 2021 and 2022	By 31 December 2021 and 2022
<i>Companies listed on Schedule 4A of the Public Finance Act 1989</i>	By 31 October 2021 and 2022	By 31 December 2021 and 2022
<i>Local authorities under the Local Government Act 2002 Section 98</i>	By 30 October 2021 and 2022	By 30 December 2021 and 2022
<i>Council-controlled organisations under the Local Government Act 2002 Section 67</i>	By 30 September 2021 and 2022	By 30 November 2021 and 2022



17 June 2021

| John Ryan

Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington

Tēnā koe Minister

AUDITOR CAPACITY CONSTRAINTS AND STATUTORY DEADLINES

As discussed with you on 16 June, I am writing to seek your support for a legislative amendment extending statutory reporting deadlines by two months for certain public entities for their 30 June 2021 year end reporting. This is a similar extension to that provided in 2020 for a broader range of entities.

I am requesting this extension because of severe capacity constraints within the audit profession. These constraints affect most audit firms I use to carry out public sector audits but are particularly acute for Audit New Zealand (my in-house audit provider).

Background

There is a shortage of audit staff in both Australia and New Zealand. Chartered Accountants Australia and New Zealand recently surveyed the largest audit firms and identified approximately 1000 current vacancies in Australia and 200 current vacancies in New Zealand for skilled and experienced audit staff. Disruptions at the border have also impacted on the traditional model of private audit firms who bring in offshore staff to assist with peak workloads. These firms are then able to provide additional resources for Audit New Zealand to address the peak in 30 June audits in the public sector. Because of the above issues extra resource for Audit New Zealand's peak workload from the private sector firms has been severely constrained.

These constraints have been compounded by the recent resignation of a larger than usual number of Audit New Zealand staff (many of whom have moved to roles in the public sector) and a constrained recruitment environment (before Covid-19 qualified staff were often recruited from offshore).

There are no viable short-term solutions to the capacity constraints that auditors face. Recognising the broader constraints in the audit profession the Financial Markets Authority has recently provided relief to FMC reporting entities if their reporting is delayed because of auditor capacity constraints.

My approach to 30 June 2021 audits

Given these capacity constraints I have decided to prioritise audit activity to match the resources I have available. This priority will ensure that the Financial Statements of Government, Government Departments, FMC reporting entities and significant Crown Entities and significant Councils will be audited within their current statutory reporting deadlines. Long term plan audits for local government will also be a priority.

However, based on current resourcing levels, many public entities who report as at 30 June 2021 (currently estimated to be more than 200) would not be audited by their statutory deadlines.

Request for an extension to reporting deadlines

Statutory deadlines are a significant element of New Zealand's public accountability system. Boards, Councils, Governors and their auditors take these deadlines seriously and work to meet them. While in most cases there are not penalties for missing a deadline, the accountability system would be undermined if a significant number of public entities were to report late (even though this would be driven by factors outside their control). Not moving deadlines would also create confusion in reporting and accountability arrangements more generally.

By Parliament amending legislation to move statutory deadlines for Crown Entities and Local Government by two months, all public entities could report their 30 June 2021 audited results within the statutory deadlines set by Parliament. This would support the continued integrity of our world class public accountability system.

Going Forward

Auditor capacity constraints will remain part of our landscape while Covid-19 continues to impact on global mobility. We, together with the broader auditing profession in New Zealand, are supporting work to establish an audit industry class border exception for auditors. There are also more fundamental issues in terms of attracting and retaining staff within the audit profession which all firms are actively working on but will take time to address.

I have also briefed the Minister of Local Government on the matters raised in this letter. I understand that she supports in principle extending 30 June 2021 reporting timelines for local government and council-controlled organisations.

Please contact me if you require further information or would like to discuss this letter with me.

Nāku noa, nā

John Ryan

Controller and Auditor-General

cc Hon Nanaia Mahuta
Minister of Local Government