

**From:** [Controller and Auditor-General](#)  
**Subject:** Update on current auditing challenges  
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Tēnā koe,

I am aware that delays in completing audits are causing concern for some councils. I hope that the following information provides you with some reassurance about what we are doing to address this.

Councils around New Zealand have newly elected councillors, and some have newly elected mayors or chairpersons. They understandably want to know about their council's financial position and challenges, and the affordability of the council's plans, as do ratepayers and other interested stakeholders.

As well as the economic uncertainty facing the country, there is uncertainty throughout the local government sector about the reforms of the three waters services, the reform of the Resource Management Act, and the Ministerial review into the future for local government. These are all adding to the pressure of delivering council services, while dealing with possible amendments to long-term plans and the need to prepare the 2023/24 annual plan.

Although many councils have been affected by delayed audits, most of these audits either have been or will be completed within the extended statutory deadline of 31 December 2022. However, there are some council audits that we simply cannot complete until early 2023. It is not the situation any of us wanted to be in, but it is the situation we are facing.

### **Why are we in this situation?**

There is currently a global shortage of auditors, with Covid-19 significantly affecting the availability of auditors internationally. Given the concentration of public sector balance dates around 30 June, audit firms would normally supplement their permanent audit staff with senior auditors from overseas.

The extended period for which borders were closed and immigration settings since borders were reopened have meant that we have been unable to secure permanent and supplementation resources in the way we have in the past. These border and immigration settings have been a major contributing factor to the shortage of senior auditors in New Zealand.

### **What are we doing to address this?**

To carry out public sector audits, we have an in-house provider, Audit New Zealand, and contractual arrangements with private sector audit firms. Across the Auditor-General's portfolio, we have reallocated more than 50,000 hours of audit work between providers to where there is suitable capacity to take on work. We are currently testing how many more audits we can reallocate.

Not all audit work can or should be shifted – some private sector audit firms are also unable to complete public sector audits on time this year. We also need to consider auditor independence, the knowledge that different audit firms' hold about public organisations and public sector audits, the particular audit skills required, the results of any recent audit quality reviews, and the Auditor-General's aim of all councils within a region having the same audit service provider. We need to consider those factors for both the short and longer term.

For Audit New Zealand, we have worked to minimise the effects of the challenges brought about by border restrictions, immigration settings, and Covid-19. We have been recruiting experienced public sector and private sector auditors from overseas. We have enabled international remote working options and set up new reciprocal secondment opportunities with audit offices in Australia (and we are seeking similar arrangements with audit offices in the United Kingdom and Canada).

We have also sought to recruit higher numbers of graduates in 2022 and for 2023 and adjusted our remuneration structures, where needed.

We have continued to carefully balance staff welfare with our responsibility to complete high-quality audits and endeavoured to meet extended statutory deadlines for as many public organisations as we can. However, not all of them will be done on time.

### **How did we decide which audits to do first?**

In practice, we have had to make some difficult decisions. We completed the audits that are most important to New Zealand's overall public accountability system – such as the audits of the financial statements of the Government, government departments, Reserve Bank of New Zealand, New Zealand Superannuation Fund, State-owned enterprises, and Financial Markets Conduct reporting entities, such as Auckland Council. These were completed by their usual statutory time frames.

We also prioritised the audits of public sector companies. Late filing of a company's audited financial statements can have legal consequences for the directors.

We did not expect to have to defer audits into 2023. Once it became apparent that doing so was unavoidable, we have prioritised completing audits already under way. This meant a deferral into 2023 for the council audits that were due to start later. It made more sense to defer these audits further than stop working on an audit that could be completed in 2022.

In addition, some councils have needed to secure evidence for measures about drinking water quality. This has also contributed to audit delays.

### **What is our expectation for 2022/23 audits?**

The normal statutory deadline of 31 October will apply in 2022/23. We expect to be able to meet that deadline for council audits next year.

### **Concluding comments**

I hope this information has helped you appreciate the situation we are facing and understand what we have been doing to resolve it. I encourage you to share this email with your council's Audit and Risk Committee and councillors. Please do not hesitate to contact either your Sector Manager, Mark Maloney (Assistant Auditor-General, Local Government), or me if you wish to discuss the contents of this email.

Nāku noa, nā

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