# Alterations to the 2022/23 appropriations for Vote Audit, Vote Ombudsmen, and Vote Parliamentary Commissioner for the Environment, and 2023/24 draft budgets for the Office of the Controller and Auditor-General, the Office of the Ombudsman, and the Office of the Parliamentary Commissioner for the Environment

Report of the Officers of Parliament Committee

Fifty-third Parliament
(Rt Hon Adrian Rurawhe, Chairperson)
April 2023

*Presented to the House of Representatives*

# Contents

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### Recommendation

The Officers of Parliament Committee recommends that the House commend to the Governor-General, by way of an address pursuant to section 26E of the Public Finance Act 1989, alterations to the 2022/23 appropriations for Vote Audit, Vote Ombudsmen, and Vote Parliamentary Commissioner for the Environment, and estimates of expenses to be incurred for each appropriation in 2023/24 in Vote Audit, Vote Ombudsmen, and Vote Parliamentary Commissioner for the Environment, and requests that they be incorporated into an Appropriation Bill.

## Introduction

In order to maintain the independence of the Officers of Parliament, the Public Finance Act 1989 provides for funding for the Office of the Controller and Auditor-General, the Office of the Ombudsman, and the Office of the Parliamentary Commissioner for the Environment to be determined by Parliament through the Officers of Parliament Committee.

We received submissions from each Officer detailing proposed alterations to their 2022/23 appropriations, and their draft budgets for 2023/24 and out-years. We examined these submissions in conjunction with advice from the Treasury. Our recommendations are detailed in this report.

We recommend that the House commend these alterations and estimates to the Governor-General for inclusion in the main Appropriation Bill for the coming financial year, or in the Appropriation Bill dealing with the Supplementary Estimates for the current financial year.

All figures in this report are GST-exclusive or GST-exempt unless otherwise noted.

# Office of the Controller and Auditor-General

## Alterations to the 2022/23 appropriations for Vote Audit

### Audit and Assurance Services revenue-dependent appropriation (RDA)

The appropriation for Audit and Assurance Services covers the expenses incurred by the Auditor-General in auditing Crown agencies, local authorities, and other entities for which the Auditor-General has auditing responsibility. The appropriation is revenue dependent. That is, the annual expense that can be incurred under the RDA is limited to the amount of revenue derived from the entities audited. Audit fee forecasts are updated annually according to the expected amount of audit activity.

The Auditor-General has reforecast expenses and revenue for this appropriation. We were advised that, without intervention, there will be higher expenses than cost-recovered revenue over the forecast period. The Auditor-General is forecasting deficits of:

- $8.527 million in 2022/23
- $9.058 million in 2023/24
- $7.694 million in 2024/25
- $2.145 million in 2025/26.

By 2025/26, the cumulative deficit in the memorandum account is forecast to be $22.133 million. In 2026/27 a surplus of $6.564 million is forecast, which would reduce the deficit in the memorandum account to $15.569 million. We heard from the Auditor-General that these deficits are driven by several core issues: increasing audit complexity (mostly related to COVID-19), pressure on auditors' capacity and availability, and audit costs rising faster than audit fees while Audit New Zealand works to increase its staffing.

To address the forecast deficits, the Auditor-General seeks non-recoverable capital injections totalling $16 million, to be drawn down at the rate of $2 million in 2022/23, and $7 million in each of 2023/24 and 2024/25 in the Audit and Assurance Services memorandum account. We note that a non-recoverable capital injection of $11.4 million was provided in 2022/23.

We were advised by the Treasury that expenses and revenue for audits are known to fluctuate. The long-standing approach to managing variability has been to operate a memorandum account and seek repayable capital injections from the Crown. As surpluses are generated, capital injections are repaid within three years and the overarching principle of cost recovery is maintained.

We recognise, however, that the forecast deficits require significant corrective action.

As a result, we agree with the Auditor-General and the Treasury that non-recoverable capital injections of $2 million in 2022/23, and $7 million in each of 2023/24 and 2024/25 are appropriate.

To ensure that no unappropriated expense is incurred, the baseline includes a buffer. In 2022 the buffer was increased from approximately $700,000 to $6 million per year, on a temporary basis, to reflect the increased uncertainty affecting the forecasts. The Auditor-General now proposes to reduce the buffer to $5 million per year. We were advised by the Treasury that, whilst they support the adjustment, the buffer should return to the previous lower level when uncertainty reduces.

## In-principle expense transfer

We note that the Auditor-General has identified expenses of up to $2.5 million that he wishes in principle to transfer to the 2023/24 financial year. We heard that COVID-19 disrupted the Auditor-General's work programme significantly, and investment in technical systems has been delayed.

The amount to be transferred will be confirmed after the audit is completed on the Auditor-General's 2022/23 financial statements. As in previous years, we expect the Auditor-General to seek a meeting with us to confirm the transfer amount once the 2022/23 financial statements are finalised.

The following table shows the effect of these changes for 2022/23. We recommend that these changes be incorporated into the 2022/23 Supplementary Estimates.

| **Alteration for 2022/23** | | **$000** |
|---|---|---|
| Current annual appropriation | | 26,436 |
| Adjustment for deficit | 2,051 | |
| **New annual appropriation for 2022/23** | | **28,487** |
| PLA | | 1,099 |
| **New baseline (annual and PLA) for 2022/23** | | **29,586** |
| Non-recoverable capital injection to cover forecast deficits | 2,000 | |
| **Capital sought** | | 2,000 |

# 2023/24 draft budget for the Office of the Controller and Auditor-General

## Audit and Assurance Services revenue-dependent appropriation (RDA)

### Forecast deficits in the appropriation

The following adjustments to the appropriation will be required to manage audit deficits:

- $2.051 million in 2022/23
- $6.522 million in 2023/24
- $948,000 in 2024/25
- ($3.809) million in 2025/26
- ($12.518) million in 2026/27.

### Non-recoverable capital injection

As noted above, the Auditor-General is seeking non-recoverable capital injections totalling $16 million, of which $7 million would be drawn down in each of 2023/24 and 2024/25. The Treasury advises that these capital injections sought by the Auditor-General are justifiable given the significant deficits forecast. We support this approach, and ask that the Auditor-General provide regular reports to us on how the memorandum account balance and relevant cost drivers (including personnel and operational efficiency improvements) are tracking.

## Audit delays

We heard that COVID-19 disrupted the Auditor-General's work programme significantly. An increase in public spending and the complexity of audits as a result of the pandemic, alongside staff turnover, have caused audit delays and inefficiencies at Audit New Zealand.

The Auditor-General told us that decisions about deferring audits have been based on their individual public liability, and that audit quality would not be sacrificed for speed. We were told that reviews of Audit New Zealand by the Financial Markets Authority and the New Zealand Institute of Chartered Accountants had both rated Audit New Zealand highly.

### Increasing audit fees and revenue

In response to forecast deficits, the Auditor-General plans to increase audit fees at the rate of 8 percent per annum across all sectors and all contract cycles until 2025/26, when increases will reduce to 5 percent per year.

We asked the Auditor-General how an increase to audit fees would affect local government entities which are already facing financial pressures. We were told that audit fees have not increased much since the beginning of the COVID-19 pandemic, while actual audit costs have risen. We note that Audit New Zealand has kept audit fees low for local government for the last two audit rounds, and was not seeking to recoup lost revenue for previously lower fees, but would need to increase fees to bring them in line with growing audit costs.

### Efficiency and capacity in Audit New Zealand

In addition to raising audit fees, the Auditor-General is seeking greater financial efficiencies in Audit New Zealand. We were told that staff turnover and increased audit complexity are causes of inefficient auditing. We heard that retaining qualified and experienced staff is a priority for the Auditor-General.

We were told that the Auditor-General aims to maintain staffing at a level that would allow 40,000 hours of audit work to be returned to Audit New Zealand, rather than being allocated to private sector audit firms. This approach would restore revenue to Audit New Zealand, and ensure it has sufficient permanent capacity to complete audits.

We support this approach.

## Salaries funded under PLA

The Remuneration Authority determines the salaries of the Auditor-General and Deputy Auditor-General. These costs are funded under permanent legislative authority (PLA), and any adjustments are implemented automatically. We note that no changes are proposed.

## Summary of proposed changes

The following table shows the effect the proposed changes would have on the Vote Audit baseline.

| Adjustments for 2022/23 and out-years | 2022/23 $000 | 2023/24 $000 | 2024/25 $000 | 2025/26 $000 | 2026/27 $000 |
|---|---|---|---|---|---|
| Current annual appropriation | 26,436 | 30,504 | 27,713 | 32,078 | 31,286 |
| Adjustment to manage audit deficits | 2,051 | 6,522 | 948 | (3,809) | (12,518) |
| **New annual appropriation** | **28,487** | **37,026** | **28,661** | **28,269** | **18,768** |
| Current PLA | 1,099 | 1,099 | 1,099 | 1,099 | 1,099 |
| **New baseline (annual and PLA)** | **29,586** | **38,125** | **29,760** | **29,368** | **19,867** |

| | 2022/23 $000 | 2023/24 $000 | 2024/25 $000 | 2025/26 $000 |
|---|---|---|---|---|
| Non-recoverable capital injections to cover forecast deficits | 2,000 | 7,000 | 7,000 | – |
| **Total capital sought** | 2,000 | 7,000 | 7,000 | – |

# Office of the Ombudsman

## Alterations to the 2022/23 appropriations for Vote Ombudsmen

### Expense transfer from 2021/22

The Chief Ombudsman has requested an expense transfer of $2.070 million from 2021/22 to 2022/23. The impact of COVID-19 on the office's work plan necessitated a review. A number of projects, mainly information technology, were delayed and will be completed in 2022/23. Unspent funding for these projects in 2021/22 needs to be transferred to 2022/23 to enable this to occur. We support the transfer.

### Summary of recommendations

The following table summarises the alterations for 2022/23 that we recommend be incorporated into the 2022/23 Supplementary Estimates.

| **Alterations for 2022/23** | | **$000** |
|---|---|---|
| Current annual appropriation | | 50,793 |
| Adjustment for expense transfer from 2021/22 | 2,070 | |
| Adjustment for expense transfer to 2023/24 & 2024/25 | (5,563) | |
| **New appropriation for 2022/23** | | **47,300** |
| Current PLA | | 463 |
| **New baseline (annual and PLA) for 2022/23** | | **47,763** |

## 2023/24 draft budget for the Office of the Ombudsman

### OPCAT role

The Government's response to COVID-19 included the establishment of 32 managed isolation and quarantine (MIQ) facilities throughout the country. The Chief Ombudsman is the monitor of health detention facilities under the Optional Protocol to the Convention against Torture (OPCAT). In 2022, public health orders came into effect that enabled the Government to mandate that people be detained in places of self-isolation and quarantine such as designated Alternative Isolation Accommodation (AIA) facilities. These facilities now also fall within the Ombudsman's OPCAT oversight role and further extend the mandate for the Chief Ombudsman.

The Chief Ombudsman told us that this expanded mandate required reprioritisation of his work programme. Additional work included carrying out unexpected visits to high-risk sites, redeploying resources to undertake shorter targeted inspections, and increasing the number of unexpected inspections.

We heard that the pressure of this work caused delays in completing the establishment of the permanent additional OPCAT inspection teams in Wellington and Auckland until this current 2022/23 reporting year.

The Chief Ombudsman told us that recruitment to support this function is well under way, but has proven challenging as some preferred candidates have accepted higher-paying roles elsewhere.

We note these increased pressures, but also note that the Chief Ombudsman is not seeking any additional funding for inspection resources in this budget round.

## Protected Disclosures Act investigations

The Protected Disclosures Act 2000 (PDA) places a responsibility on the Chief Ombudsman for a number of statutory functions and has therefore increased the office's workload. These functions have been carried out within baselines.

The Chief Ombudsman is not seeking additional funding for this function at this time, but emphasised the challenge of recruiting and retaining qualified and experienced staff to fulfill the Ombudsman's obligations under the Act.

## Retaining trained, experienced staff

The Chief Ombudsman has sought additional resources to maintain remuneration levels for staff at the "All Orgs" rates. He is also seeking an additional amount to enable him to make performance payments to incentivise and reward current staff for high performance.

The Treasury advises that performance payments are rare in the Public Service, and that when the performance payments are included, the total remuneration increase sought by the Ombudsman appears slightly above the rest of the public sector.

We note that the Treasury does not support funding performance payments, and recommends that any performance pay funding should be by one-off targeted payment for high-performing staff, rather than an increase to the Ombudsman's appropriation.

In assessing the Ombudsman's request for this increase we noted that the amount being sought for performance payments represents close to a 6 percent increase to baseline funding, which is close to the current rate of inflation.

We note that the request for performance pay is not a new practice for the Ombudsman. We support this request.

## Office accommodation cost increase

The Ombudsman told us he needs additional funding to meet increased building rental and operating costs, as well as to provide additional office space in Wellington and Auckland to accommodate an increase in staffing. He seeks $325,000 in 2023/24 and out-years.

We support this request.

## Oversight of Oranga Tamariki

In 2018 the Ombudsman acquired an enhanced oversight role of New Zealand's Oranga Tamariki system. This role requires the Ombudsman to respond to and investigate complaints regarding children in the care system, including:

- providing guidance to relevant agencies about complaint handling
- monitoring serious and significant incidents
- investigating and resolving systemic or thematic issues of concern
- reporting on independent findings
- making any recommendations.

The Chief Ombudsman told us that since 2018 there has been a steady increase in complaints and other contacts about children in the care system. This trend is continuing, with a projected intake of over 700 matters in 2022/23

We were advised that legislation coming into force on 1 May 2023 will expand the Ombudsman's jurisdiction to cover providers of care and custody under Oranga Tamariki. The legislation will also require the Ombudsman to engage with and develop arrangements with hapū, iwi, and Māori organisations to progress this work. We were told that the Chief Ombudsman welcomes this change, and notes that the effect of the new legislation will be to increase the work for his Office.

## Expense transfers from 2022/23

We note the Treasury's support for two expense transfers sought by the Ombudsman.

The Chief Ombudsman has requested an expense transfer of $5.413 million from 2022/23 to 2023/24 due to the impact of COVID-19. A number of projects, mainly related to information technology, were delayed and are planned to be completed in 2023/24.

The Chief Ombudsman has also requested an expense transfer of $150,000 from 2022/23 to 2024/25 for the implementation of a Learning Management System.

We support these expense transfers.

## In-principle expense transfers

We note that the Chief Ombudsman has identified up to $4.919 million that he wishes in principle to transfer from 2022/23 to 2023/24. This in-principle expense transfer is sought for many of the work programmes or projects covered by the expense transfer mentioned above, in case there are further delays or disruptions

The amount to be transferred will be confirmed after the audit is completed on the Chief Ombudsman's 2022/23 financial statements. We expect the Chief Ombudsman to seek a meeting with us to consider the confirmed transfer amount once the 2022/23 financial statements are finalised.

We support this in-principle transfer

## Projected increase in complaints

The Chief Ombudsman is forecasting an increase in complaints driven by Cyclone Gabrielle in February 2023 and flooding in January 2023. We were told that, historically, increases in complaints tend to follow a significant event, and that the surge in complaints usually peaks at 30 to 50 percent above normal levels. The forecast increase follows a record number of complaints in 2021/22. The Chief Ombudsman is seeking $797,000 in each of 2024/25 and 2025/26 to retain and recruit staff to meet this expected increase in workload.

The Treasury supports the additional operating funding for this initiative and notes that the Chief Ombudsman could return this funding if there is no increase in the number of complaints.

We support this increase.

## Adjustment for salaries funded under PLA

The salary of the Chief Ombudsman is revised annually on the basis of determinations by the Remuneration Authority, and funded under permanent legislative authority (PLA).

We note an increase in the PLA of $42,000 in 2023/24 as a result of a determination by the Remuneration Authority. Such adjustments are implemented automatically.

## Summary of proposed changes

The following table shows the effect of our recommended changes on the 2023/24 appropriation for Vote Ombudsmen and the baseline for subsequent years.

| **Adjustments for 2022/23 and out-years** | **2022/23 $000** | **2023/24 $000** | **2024/25 $000** | **2025/26 $000** | **2026/27 $000** |
|---|---|---|---|---|---|
| Current annual appropriation | 50,793 | 45,464 | 44,527 | 44,667 | 43,606 |
| Forecast Increase in complaints - Temporary | | - | 797 | 797 | - |
| Retaining trained experienced staff | - | 2,563 | 2,563 | 2,563 | 2,563 |
| Office accommodation | - | 325 | 325 | 325 | 325 |
| Expense transfer from 2021/22 | 2,070 | - | - | - | |
| Expense transfer from 2022/23 | (5,563) | 5,413 | 150 | - | - |
| **New annual appropriation** | **47,300** | **53,765** | **48,362** | **48,352** | **46,494** |
| Current PLA | 505 | 506 | 506 | 506 | 506 |
| **New baseline (annual and PLA)** | **47,805** | **54,271** | **48,868** | **48,858** | **47,000** |
| **Capital expenditure PLA** | **2022/23 $000** | **2023/24 $000** | **2024/25 $000** | **2025/26 $000** | **2026/27 $000** |
| **Current PLA** | 3,035 | **200** | **200** | **20** | **200** |
| Adjustment | - | 2,383 | - | - | - |
| **New total** | **3,035** | **2,583** | **200** | **200** | **200** |

# Parliamentary Commissioner for the Environment

## Alterations to the 2022/23 appropriations for Vote Parliamentary Commissioner for the Environment

### Fiscally neutral adjustment

We were advised that one of the Commissioner's staff is currently seconded to another agency. As a consequence, the Commissioner is seeking an increase to the Reports and Advice appropriation of $40,000 in 2022/23 only.

This adjustment is fiscally neutral as the income received is a reimbursement of salary costs. We support this adjustment.

### Adjustment for salaries funded under PLA

The salary of the Commissioner is revised annually on the basis of determinations by the Remuneration Authority, and funded under permanent legislative authority (PLA).

We note an increase in the PLA of $55,000 in 2022/23 as a result of a determination by the Remuneration Authority. Such adjustments are implemented automatically.

The following table shows the effect of these changes for 2022/23. We recommend that these changes be incorporated into the 2022/23 Supplementary Estimates.

| **Alteration for 2022/23** | | **$000** |
|---|---|---|
| Current annual appropriation | | 3,946 |
| Fiscally neutral adjustment | 40 | |
| **New appropriation for 2022/23** | | **3,986** |
| Current PLA | | 343 |
| Adjustment for remuneration determination | 55 | |
| New PLA | | 398 |
| **New baseline (annual and PLA) for 2022/23** | | **4,384** |

# 2023/24 draft budget for the Office of the Parliamentary Commissioner for the Environment

## Cost pressures

The Commissioner told us that his office continues to face growing cost pressures, and an increasingly complex environment.

We were told that the extent of the Government's current environmental reforms have made sourcing additional external analysis on technical and legal issues challenging. The Commissioner told us the resource and planning reforms would be a decade-long process, and that additional resources would be needed in future budget rounds to provide high-quality advice to Parliament about the impact of the reforms.

We heard that finding and retaining highly competent staff with relevant expertise has remained a challenge for the Commissioner. The Commissioner has only one legal counsel on staff, but faces a growing need to source external legal and scientific advice. The Commissioner's recruitment has focused on a broad range of skills, but it remains necessary to commission external advice on many issues.

The Commissioner told us he has continued to meet these additional cost pressures within baseline, but this would not be sustainable in the long term.

We note that although the Commissioner is not seeking an increase to his appropriation in this budget round, he foresees the need for additional funding in a budget round in the near future.

The following table shows the effect of these changes on the Vote's baseline.

| Adjustments for 2022/23 and out-years | 2022/23 $000 | 2023/24 $000 | 2024/25 $000 | 2025/26 $000 | 2026/27 $000 |
|---|---|---|---|---|---|
| Current annual appropriation | 3,946 | 3,946 | 3,946 | 3,946 | 3,946 |
| Other income received | 0.040 | - | - | - | - |
| **New annual appropriation** | **3,986** | **3,946** | **3,946** | **3,946** | **3,946** |
| Current PLA | 398 | 398 | 398 | 398 | 398 |
| **New baseline (annual and PLA)** | **4,384** | **4,344** | **4,344** | **4,344** | **4,344** |

# Appendix

## Committee procedure

We met between 15 March and 5 April 2023 to consider the alterations to the 2022/23 appropriations and the draft budgets for 2023/24 for the Officers of Parliament. We heard evidence from the Controller and Auditor-General, the Chief Ombudsman, and the Parliamentary Commissioner for the Environment, and received advice from the Treasury.

## Committee members

Rt Hon Adrian Rurawhe (Chairperson)
Hon Jacqui Dean
Jan Logie
Dr Tracey McLellan
Debbie Ngarewa-Packer
Maureen Pugh
David Seymour

## Advice and evidence received

The documents we received as advice and evidence are available on the Parliament website, www.parliament.nz.