



| John Ryan

6 August 2020

Tēnā koe

As a result of the Covid-19 pandemic, the amount of work that will be required by your organisations and my auditors to complete statutory reporting is likely to be significantly increased. This letter updates you on the key matters regarding statutory reporting time frames and audits.

30 June 2020 statutory time frames extended

Parliament passed legislation¹ on 5 August to extend the statutory reporting time frames by up to two months for organisations with 30 June 2020 balance dates that report under the Crown Entities Act 2004, Crown Research Institutes Act 1992, Local Government Act 2002, Public Finance Act 1989, and State-Owned Enterprises Act 1986. Some other types of organisations, like ports, have had reporting dates amended without the need to change legislation.

The Financial Markets Authority and the New Zealand Stock Exchange have already extended the reporting time frames for many organisations that they regulate, including some public organisations.

The legislation² extends the reporting time frames for audited annual reports by up to two months as set out in the table below:

Type of organisation	Current deadline	New deadline
Departments and departmental agencies	30 September 2020	30 November 2020
State-owned enterprises	30 September 2020	30 November 2020
Crown research institutes	30 September 2020	30 November 2020
Crown entities	31 October 2020	18 December 2020
Local authorities	31 October 2020	31 December 2020
Council-controlled organisations	30 September 2020	30 November 2020

The statutory time frames have been extended to ensure that there is no reduction in the quality of your financial and performance reporting of our audits because of the impact of Covid-19.

The extension does not apply to the consolidated financial statements of the Government. If your organisation contributes financial information to the financial statements of the Government, you will need to prioritise the end-of-year Crown financial information system (CFIS) reporting, and my auditors will prioritise this as well. This will add another aspect to the audit process and the different reporting dates between the

¹ See the [COVID-19 Response \(Further Management Measures\) Legislation Bill \(No 2\)](#) at legislation.govt.nz.

² The legislation also extends the time frame for presenting end-of-year performance information on appropriations under section 19B of the Public Finance Act 1989 from 31 October 2020 to 21 December 2020.

Government's financial statements and those of public organisations may require a more defined "two step" clearance process this year.

Consequences for you and for my auditors

The effects of Covid-19 on financial and performance reporting have been significant. Many public organisations have had to work under extraordinary circumstances, dealing with changes to their spending, revenue, and their service delivery. Many have also had to address complex issues such as the effect of Covid-19 on valuations, expected credit losses, contractual commitments, going concern considerations, and additional performance information about how Covid-19 has affected their activities. Organisations also need to ensure that systems, processes, and underlying data associated with any new Covid-19 spending and related performance information are sufficiently robust for external reporting and audit purposes.

To ensure a high quality of reporting, you will need time to fully consider all the risks and issues affecting your organisation, make the required judgements, document the rationale for those judgements, and make those judgements transparent through enhanced disclosures. Preparers, governors, and auditors will all need time to properly consider these matters.

We expect the year-end financial and performance reporting to reflect the implications of Covid-19, including the judgements, assumptions, and decisions made by public organisations.

Covid-19 has also affected the work of my auditors. Independent assurance is even more critical at a time when unprecedented amounts of public money are being spent, complex issues are arising, and the public sector is being asked to work at speed and under significant pressure.

Covid-19 has added significant complexity to many audits, which requires more time. To ensure a high-quality audit, auditors need to fully consider the estimates and judgements made by public organisations and the supporting evidence. This is likely to require a change in audit approach and require additional work, including matters relating to fluctuations in revenue patterns, additional expenditure, future expectations and assessments of an organisation's control environment, and changes to delegations and other control processes during the lockdown.

We also expect that, in the current circumstances, the audit report might look different to normal. Auditors will, at a minimum, draw the readers' attention to your organisation's Covid-19 disclosures. In some instances, auditors might need to provide a qualification of the audit opinion (for example, due to a lack of audit evidence or a significant level of uncertainty). Often, this won't be due to any fault of your organisation, but simply a reflection of the circumstances.

Although effects will vary between organisations, the impact is system-wide. For example, the Chief Executive of the External Reporting Board has noted that up to 40% additional audit effort may be needed on certain audits.

We are anticipating a level of inefficiency this year, given the disruption caused by Covid-19. In a Covid environment, there are likely to be several effects on audit time and cost. I have considered those carefully and decided on the following approach:

- Where an auditor has been less efficient than normal (such as through the lockdown or arising because of the different reporting dates), my auditors will not be able to seek additional audit fees from public organisations for those inefficiencies.
- As usual, where inefficiencies result from the public organisations providing poor quality information for audit, or where public organisations have not met the timetable that has been agreed with the auditor, my auditors will be able to seek additional audit fees.
- Where there is additional audit effort for the year ended 30 June 2020 as a result of Covid-related risks and issues affecting judgements and disclosures, my auditors will be able to seek additional audit fees for this work.

As usual, my Office will review the additional fees that auditors seek to recover, to ensure that the fees are reasonable. I expect auditors to keep you and my Office informed during the course of the audit to avoid surprises and allow you to work with them to reduce the impact on audit time, where possible.

As always, I ask you to keep the lines of communication open with your auditor. There are likely to be a number of challenges in completing this year's audits and it will be particularly important for auditors and organisations to work closely together in addressing them.

If you wish to discuss this letter further, please do not hesitate to contact your appointed auditor.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'John Ryan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General