

Tēnā koe

Satutory time frame extensions and Covid-19 – Implications for your audit

We at Audit New Zealand understand the real challenges for clients involved with financial reporting in this evolving Covid-19 situation. Yesterday's shift in alert levels has highlighted the importance of Parliament's decision on 5 August, to extend statutory reporting time frames for most public organisations with a 30 June balance date.

The specific dates that apply to your entity are covered in an [Auditor-General's letter](#), dated 6 August 2020, written to chief executives of public organisations affected by this.

The Auditor-General notes in his letter that the extension of statutory time frames is "intended to ensure that there is no reduction in the quality of your financial and performance reporting and or of our audits." He goes on to reinforce that "it allows your staff and my auditors to balance the welfare of people and the additional complexity that Covid-19 has brought with meeting realistic statutory reporting time frames."

The extension does not apply to the consolidated financial statements of the Government because of their significance to the country. If your organisation contributes financial information to the financial statements of the Government, you will need to continue to prioritise the end-of-year Crown financial information system (CFIS) reporting, and my auditors will prioritise the audit of that information for consolidation purposes.

It is clear that Covid-19 has created a set of system-wide issues and requires a set of system-level responses, and extending reporting time frames is an important system response. Below, I have set out what these time frame extensions mean for your reporting, our audit, and what can you expect from your engagement with us.

Being clear about priorities

We have been preparing for some time, for challenges produced by the Covid-19 situation. During the last few months it's been important for us to develop a clear understanding of the implications of Covid-19 for quality reporting, our audit work, and our people. It has also helped us clarify our priorities and how we need to respond.

Quality reporting supported by quality audits

This is not a new focus, however Covid-19 has significantly elevated audit and reporting risks. This means that high quality reporting supported by high quality auditing is even more important for safeguarding trust and confidence in the public sector, and in individual public organisations. It's important to note that reporting and auditing will also likely be harder and more complex.

For quality reporting, it's essential that governors, senior management and preparers take time to fully consider all risks and issues affecting their organisation and make the required judgements. This includes assessing and addressing complex issues such as, the effect of Covid-19 on valuations, impairment assessments, expected credit losses, onerous contracts, going concern considerations, and additional performance information. It also includes documenting the rationale for those judgements, and making sure those judgements are transparent through enhanced disclosures.

For quality auditing, the Auditor-General's and Audit New Zealand's audit quality management approach has been enhanced. This includes implementing a range of professional risk management and professional consultation expectations. While your Appointed Auditor will still be fully responsible for issuing your audit opinion, they will be directly supported in areas of high risk to deliver a safe and consistent opinion on behalf of the Auditor-General.

As indicated by the Auditor-General, we expect our audit reports to look different to normal. Our audit reports are an important way of communicating with readers, so at a minimum, we will likely be drawing attention to your organisation's Covid-19 disclosures. In a few cases we will need to provide a qualification of the audit opinion, noting this may not be due to any fault of your organisation, but simply a reflection of the circumstances.

Prioritising audits

In the Auditor-General's letter, he made it clear that more effort is going to be required to consider the impacts of Covid-19 on many public entities, and to complete most audits. While our staff numbers are strong, and we have secured additional audit capacity to work alongside our people, it's important that we clearly prioritise our audit work. This means that some audits will be delayed and not completed until close to the amended statutory deadlines.

The Auditor-General issued an audit prioritisation framework, asking that we prioritise the audits of information significant to the consolidated financial statements of the Government and organisations participating in debt and equity markets. Our priorities are then those public sector entities (like remaining Government departments and local authorities) that have processes to follow in order to obtain funding. Then we will focus on public sector entities where deferring audit time frames does not have significant implications.

Our prioritisation process also takes account of group accounting requirements, entity preparedness, and a range of other factors.

People's health and wellbeing

The health and wellbeing of our people, as well as the people we work with, are particularly important. We have always placed safeguards around the extended hours that our people have worked during the annual busy season, however this year we will more actively manage this as they deal with the additional work that will be required, and the extended audit season.

We are following Ministry of Health advice about alert levels. This currently means that we have closed our Auckland office in line with Alert Level 3 guidance, and made sure that affected staff are well-equipped to work from home. Our other offices around the country are open with Alert Level 2 precautions in place. Anyone on site is using good distancing and hygiene practices, and staying at

home if they are unwell. We are also asking visitors to sign in, in case contact tracing ever becomes necessary. We will be keeping a close eye on alert levels and making changes accordingly.

While travel to Auckland-based clients is on hold for now, past alert levels have taught us all that significant aspects of many audits can be done without meeting face-to-face, particularly where our clients have modern systems that can be accessed remotely. Our staff have traditionally worked from client offices, and stayed away from home for many weeks of the year. However, we are wanting to embed a changed way of working, by using technology to bring more work to us where we can, with mutually beneficial results. This can improve audit efficiency (less travel time, reduced disbursement costs), while also providing health and wellbeing benefits. However, we are also mindful that we will need to ensure the quality of client relationships and impactful engagement are not compromised.

We are also continuing to make new investments to help make the audit process more efficient. Soon, we will be releasing an RFP a client portal tool. Assuming we are able to identify a suitable solution we anticipate piloting in late 2020 and rolling this out in the first half of 2021.

What time frame extensions mean for your reporting and our audit

Your Appointed Auditor will shortly be engaging with you, if they haven't already, about the impact of statutory time frame extensions and anything else affecting the proposed timing of your audit. Please continue to prepare for your audit on the original time frame, as the better prepared you are, the more efficient we can be. Our need to prioritise might mean, however, that even if your organisation is ready for us to conduct our audit, we might not be available at that time.

Over the coming months, good engagement between us will be essential. You will be identifying and dealing with the Covid-19 risks and issues affecting you organisation, as well as their implications for your judgements, assumptions and reporting. We will be engaging with both governors and senior management on those issues and risks, particularly the rationale and evidence to support your decisions. We will also endeavour to give you as much clarity and certainty as possible about audit clearance expectations and time frames, noting this will be influenced by the complexity of issues and the quality of information we receive.

In the Auditor-General's letter, he acknowledged that there will likely be a level of inefficiency this year. We will bear some of those costs, but will seek to recover others relating to the additional Covid-19 work we need to do. We will be following the guidance the Auditor-General has set.

Guidance available

To support our clients, Audit New Zealand has already issued a range of COVID-19 related resources to support public organisations and auditors. These include:

- [Bulletin 1](#); Guidance on the implications of Covid-19, for revaluations of property, plant and equipment, and investment property.
- [Bulletin 2](#); Implications of COVID-19 emergency for service performance reporting – guidance for preparers of performance information.

- A COVID-19 questionnaire for auditors to share with clients, to help with understanding the implications for our clients, to consider what actions need to be taken, as well as help inform us about the best approach to performing the audit.
- A webinar, [The implications for financial reporting and audit in the public sector](#), hosted by Victoria University of Wellington and the External Reporting Board. I participated alongside our Head of Accounting, Robert Cox.
- We have also recently posted other videos and resources on our website as part of our [Client information updates 2020](#) (a video series) and information about the upcoming local government [Long-term plans and consultation documents](#).

I want to reinforce our commitment to supporting trust and confidence in the public sector for the benefit of Parliament and New Zealanders. There is no doubt that Covid-19 has impacted us all, and made our respective reporting and auditing more challenging. Having effective engagement and communication between us will be vital over the coming months. Your Appointed Auditor is there to help, including with any questions you may have following this letter.

Nāku noa nā

A handwritten signature in black ink that reads "Stephen Walker". The signature is written in a cursive, flowing style.

Stephen Walker
Executive Director