

# Regulatory Impact Statement: Introducing a threshold for the auditing of reserve boards and reserve administrative bodies

## Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions.
Advising agencies:	Department of Conservation
Proposing Ministers:	Minister of Conservation
Date finalised:	11/11/2022
Problem Definition	
<p>Auditing small-scale reserve boards and reserve administering bodies creates significant costs. These costs are borne by the Crown, rather than the reserve board or reserve administering bodies. The current pressure on the auditing system has meant that Audit New Zealand has deprioritised the auditing of reserve boards and reserve administering bodies for some time.</p> <p>There is an opportunity to ease the administrative burden on Audit New Zealand by making targeted amendments to the Reserves Act 1977 and the Public Finance Act 1989.</p>	
Executive Summary	
Auditing Reserve Boards and Reserve Administering Bodies	
<p>Under the Reserves Act 1977 and the Public Finance Act 1989, the Auditor-General is responsible for annually auditing the financial statements of reserve boards and reserve administering bodies that manage reserves under the Reserves Act 1977. Audit New Zealand undertakes these audits on behalf of the Auditor-General.</p> <p>There are currently 39 entities requiring an annual audit. 21 are reserves boards while 18 are administering bodies. This number does not include local authorities whose reserves-related financial statements are audited as part of the wider audit of local authorities.</p>	
Why is government intervention required?	
<p>Most reserve boards and reserve administering bodies are small, and their annual revenue and expenditure is not substantial. Based on most recently audited figures, 28 had annual operating expenditures of less than \$100,000. Only 4 entities had an operating expenditure over \$500,000.</p> <p>While reserve boards with high operating expenditures pay Audit New Zealand for auditing costs, the Crown funds the auditing of most reserve boards and administering bodies. This creates significant costs for the Crown as the average cost of an audit in the last four years was \$7,665 (audit costs ranged from \$1,800 to \$22,000. The Crown has elected to</p>	

cover these costs given they represent a high proportion of most entities annual operating expenditure.

The current appropriation to fund these audits is \$150,000 per annum. It is estimated that if all audits were to be completed, as is required by the legislation, the total cost to the Crown would be around \$270,000 per annum. Furthermore, that figure does not include resources required to undertake audits that are in arrears.

The office of the Auditor-General has highlighted that many administering bodies and some reserve boards have not been audited in recent years. This is primarily due to resource constraints and the timeliness of reporting. These audits are still required to be undertaken and are added to the list of audits in arrears. Therefore, the cost of these audits must be covered in a future year to ensure statutory obligations are met. There is a backlog of 115 audits in arrears, as of the 2021 audit year.

Due to the small scale and localised nature of these reserves, there is limited public interest in the regular audits of small reserve boards and reserve administering bodies. The cost of auditing small reserve boards and administering bodies outweighs the public accountability benefits. Furthermore, the costs of auditing and current resourcing mean that the backlog of audits in arrears is likely to increase each year without government intervention.

In this context, an expansion of the appropriation would not be appropriate. Instead, the appropriateness of the current requirement to audit all reserve boards and administering bodies has been reviewed.

### Engagement and submissions process

The Minister of Conservation released the Conservation Management and Processes discussion document in early May 2022. The discussion document provided a description of the current auditing requirements of reserve board and reserve administering bodies, and the proposed changes to the Reserves Act 1977 and the Public Finance Act 1989. A total of 39 hui were held during the submissions period, and once this period had concluded on 30 June 2022 a total of 122 written submissions were received. 32 submitters directly engaged with the proposed options to reduce resource pressure on Audit New Zealand, with 29 supporting the change option and 3 preferring the status quo.

### Summary of the preferred option

Two options considered to address this problem:

- 1) Amending the Reserves Act 1977 and Public Finance Act 1989 to require the financial statements of reserve boards and reserve administering bodies only to be audited when their total annual operating expenditure is \$550,000 or more
- 2) Retain the status quo.

Addressing the costs of auditing reserve boards and reserve administering bodies		
<u>Preferred Option:</u> Amending the Reserves Act 1977 and Public Finance Act 1989 to require the financial statements of reserve boards and reserve administering bodies only to be audited when their total annual operating expenditure is \$550,000 or more		
<u>Costs:</u> Reduced regulatory oversight creates a risk of	<u>Benefits:</u> Crown savings of \$270,000 per annum.	<u>Other considerations:</u> The resources of Audit New Zealand can be

<p>inappropriate spending from reserve boards and reserve administering bodies who have a total operating expenditure under \$550,000.</p>	<p>Removes the administrative burden of Audit New Zealand following up on untimely reporting.</p>	<p>reprioritised toward auditing the financial statements of reserve boards and reserve administering bodies with substantial total operating expenditure.</p>
<p><u>Other option considered:</u> Retain status quo.</p>		
<p><u>Overview of the feedback received:</u> 29 of the 32 submitters who directly engaged with this proposal supported option 1. 10 submitters who supported the change option, and 1 submitter who supported the retention of the status quo suggested that a lower threshold should be used.</p>		

## Limitations and Constraints on Analysis

### Constraints and limitations from timeframes and scope

The key constraints and limitations on analysis are prior decisions by Cabinet. Cabinet set a direction by agreeing in principle to:

- legislative options that can be implemented in the near-term, while a wider programme of work to address systemic problems within the conservation system is underway.

In September 2021, Cabinet agreed to the previous Minister of Conservation’s proposal to initiate a phased approach to reforming conservation legislation (CAB-21-MIN-0402 refers). In the interim, Cabinet agreed to progress amendments to conservation management planning and concessions legislation.

In response to this Cabinet decision, work was focused solely on identifying areas within legislation that need to be improved to address the identified issues within specific processes, rather than more comprehensive changes to the system overall.

As a part of this work, DOC was also directed to include the identification of statutory provisions that are erroneous, inconsistent, or outdated. These specific statutory provisions include legislative amendments that could be resolved through minor and technical amendments to conservation legislation.

While all other minor and technical proposals presented in the Conservation Management and Processes discussion documents have been given an exception from requiring a regulatory impact statement, proposal 3B regarding the introduction of a threshold for the auditing of reserve boards and reserve administering bodies did not.

### Implications for the problem definition and options considered in scope of analysis

The direction to focus on legislative change means that non-regulatory changes to address the problem (such as resourcing, information management and engagement processes) are not considered in the scope of analysis. The discussion document clarified that resolving the legislative impediments identified would remove some roadblocks to more efficient and clear processes.

The direction to identify statutory provisions where minor and technical amendments to existing conservation legislation could result in near term improvements means that only options that would remove pressure in the near term have been considered in the scope of analysis. The limited scope for analysis has restricted potential options to those

associated with the threshold for auditing. Other possible options related to reserves, reserve boards, and reserve administrative bodies have been considered out of scope.

Treaty principles are an objective used to analyse other proposals in the Conservation Management and Processes discussion document. However, the analysis of Treaty principles has been considered out of scope for this proposal because there are no Treaty implications in progressing changes to the threshold for auditing the financial statements of reserve board and reserve administrative body.

### Constraints and limitations from timeframes on engagement

Time constraints for passing legislation within desired timeframes meant that there were only eight weeks available for engagement. There is also a significant amount of public engagement on wider Government policy change underway currently. These two factors have put pressure on individual and organisational resource capacity to engage with the Conservation Management and Processes Bill proposals. Additionally, the technical character of the proposals potentially limited people's ability to engage. A lack of time to engage with the detailed discussion document and the proposals, may also have limited feedback.

To make the best use of people's time, engagement hui was held in conjunction with early engagement on DOC's review of the Wildlife Act 1953.

The primary means of seeking tangata whenua, stakeholder, and public input was through a Conservation Management and Processes discussion document. The discussion document was hosted on DOC's website and was accompanied by short accessible summaries, an overview video, and instructions on how to make a submission.

To encourage tangata whenua and stakeholder feedback, a range of engagement hui were held online, with one being held in-person. For tangata whenua, a regional approach to holding online hui was used meaning that multiple whānau, hapū, iwi, and post settlement governance entities (PSGE) from a specific region were invited to the same hui. For stakeholders, a group-based approach was used, where stakeholders from the same sector were invited to the same meeting.

### Data and information limitations

There are limitations in the information used to inform the scale of financial statements of reserve boards and reserve administering bodies that are audited each year. Timeliness of reporting, or lack thereof, is a key reason behind the number of audits in arrears. Following up entities on unsubmitted financial statements is a resource intensive process for Audit New Zealand and is often deprioritised.

The cost of an audit varies based on the complexity and scale of an entity's financial activities. As there is limited oversight of the statements not being submitted, it is difficult to accurately ascertain whether the average cost of auditing (based on those entities that have been audited) fairly reflects the cost of auditing those whose audits are in arrears.

**Responsible Manager(s) (completed by relevant manager)**

Kayla Kingdon-Bebb  
Policy Director  
Department of Conservation



11/11/2022

**Quality Assurance (completed by QA panel)**

Reviewing Agency:	Department of Conservation
Panel Assessment & Comment:	The Department of Conservation's Regulatory Impact Assessment Panel has reviewed the Regulatory Impact Statement prepared by the Department of Conservation on Introducing a threshold for the auditing of reserve boards and reserve administrative bodies. The Panel considers that the Regulatory Impact Statement partially meets the Quality Assurance criteria. The requirement for monitoring, evaluation and review was not fully met. However, the document has a good level of detail and provides good impact analysis of the proposal.

## Section 1: Diagnosing the policy problem

### What is the context behind the policy problem and how is the status quo expected to develop?

#### Reserve boards and reserve administering bodies

Reserve boards are appointed under the Reserves Act 1977 to control and manage reserve land. Reserve boards are one type of board defined by the Reserves Act 1977, and a board is one type of administering body defined by the same act.

Administering bodies have the duty of administering, managing, and controlling the reserve under its control. This duty is carried out in accordance with the appropriate provisions of the Reserves Act 1977 to ensure the use, enjoyment, development, maintenance, protection, and preservation of the reserve for the purpose for which it is classified.

All money received by way of rent, royalty, or otherwise in respect of dealing with any reserves shall be held by the administering body. Expenditure incurred by taking on a lease, maintaining, and improving the reserve must be authorised by the administering body.

#### Financial statements and auditing requirements

The Reserves Act 1977 defines a board as a Crown entity and the other administering bodies as being treated as a Crown entity. The Public Finance Act 1989 requires all Crown entities to produce financial statements, and those statements are required to be audited by the Auditor-General. Audits are undertaken to reassure the public that financial statements fairly reflect the financial performance and positions of public entities.

The Auditor-General is responsible for auditing public bodies, including reserve boards and reserve administering bodies. They are an Officer of the New Zealand Parliament. Audit New Zealand audits public entities on the Auditor-General's behalf to give taxpayers and ratepayers assurance that public entities are appropriately reporting on how they spend public money and on the services they have provided.

The Auditor-General is responsible for auditing the financial statements of every reserve board and reserve administering body. Where the reserve administering body is a local authority (i.e., a district, city, or regional council) the financial statements are included in the wider set of the authority's financial statements and audited as part of that process.

Audits are conducted at the entity level, rather than the reserve level. This means there is one only audit if a board or administering body administers multiple reserves. Although both require annual auditing, the accounting requirements and publication of financial statements differ between reserve boards and reserve administering bodies.

The financial statements of reserve boards, as Crown entities, must show specific information as required by the Treasury. These are submitted to Audit New Zealand and the Minister of Conservation. The Minister of Conservation forwards copies of the statements to each member of Parliament in respect of boards managed in that member's electoral district. This information is later reported in the annual report of Department of Conservation (DOC).

Unlike reserve boards, administering bodies are audited by Audit New Zealand but information is not published in DOC's annual report. Following the audited they are required to provide a copy of the report to a Commissioner at the local DOC office.

#### Overview of current reserve boards and administering bodies

There is currently a total of 39 reserve boards and administering bodies whose financial statements must be audited annually by Audit New Zealand. This excludes those administering bodies which are local authorities as these are audited alongside the authority's other reporting requirements. Of the 39 entities, 21 are reserves boards and 18 are reserve

administering bodies. Of the 18 reserve administering bodies, 10 are bodies administering recreational reserves set aside for racecourse purposes.<sup>1</sup>

Most reserve boards and reserve administering bodies are small, and their annual operating expenditure is minimal. More than 70%, 28 out of 39, have annual operating expenditures of less than \$100,000 (based on the most recently audited year). A breakdown is provided in the following table.

Table 1: Number of reserve boards and administering bodies, by most recently audited annual operating expenditure

<b>Annual operating expenditure</b>	<b># of entities</b>
\$0 to \$9,999	18
\$10,000 to \$99,999	10
\$100,000 to \$499,999	3
\$500,000 to \$999,999	2
Above \$1,000,000	2
<b>Total</b>	<b>39</b>

**Many reserve boards and reserve administering bodies are in arrears regarding audits**

Audit New Zealand has highlighted that many administering bodies and some reserve boards have not been audited in recent years, primarily due to limited resources (such as the staff capacity of Audit New Zealand). Through consultation with the Office of the Auditor-General (OAG), DOC has been made aware that improvements to the auditing process of the financial statements of reserve boards and reserve administering bodies is needed to ease pressure on the resource burden faced by the auditing system.

The resource burden on Audit New Zealand has put pressure on their ability to execute their statutory requirements and audit a range of entities that utilize public finances. The current pressure on the auditing system has meant that reserve boards and reserve administering bodies are not being audited as required by current legislation. Engagement with the OAG has highlighted two factors which has resulted in the auditing of reserve boards and reserve administering bodies being deprioritised.

First, there has been a global shortage in available auditors. According to the OAG, this has significantly impacted Audit New Zealand’s capacity to execute statutory auditing requirements on time.

There is currently a total of 39 reserve boards and reserve administering bodies that require an annual audit. Of this group, 31 still require an audit within this current balance date. As of October 2021, there was a backlog of 115 audits in arrears (each year for which an audit is not yet completed counts as an audit in arrear). The entity with the oldest arrear is the Ruakaka Reserve Board, which has not had an audit completed since 30 June 2009.

The second factor is that historically there have been delays in the reporting of financial statements to Audit New Zealand. Reserve boards and reserve administering bodies are required to submit their financial statements to Audit New Zealand directly. While Audit New Zealand have attempted to assist reserve board and reserve administering bodies with their reporting requirements, these attempts have only had limited success.

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<sup>1</sup> The accounting requirements, and the requirement for Audit New Zealand to audit, are the same for administering bodies of recreation reserves set aside for racecourse purposes as they are for other reserve administering bodies.

A 2015 report by the OAG on the timeliness of reporting found that six reserve board and reserve administering bodies had issued their financial statement to Audit New Zealand on time. In a follow up report in 2018, no reports were submitted on time, seven reports had been provided late and 30 had not being issued by the 30 June 2017 balance date.

### **How is the status quo expected to develop?**

There is no expectation that the number or scale of activity of reserve boards and reserve administering bodies will change to the degree that it will meaningfully increase or decrease the level of auditing work that Audit New Zealand is statutorily required to undertake each year.

However, the backlog of 115 audits in arrears will continue to grow under the status quo. The constraints faced by Audit New Zealand regarding resourcing and auditor availability are unlikely to change and so it is likely that not all boards and administering bodies will be audited in each current year. Therefore, the backlog of audits in arrears is expected to grow each year.

### **What is the policy problem or opportunity?**

Audit New Zealand audits public entities to give the public assurance that public entities are appropriately reporting on how they spend public money and on the services they have provided. However, value for the public interest is limited when a board or administering body has low operating expenditures given the low level of risk associated with potentially inaccurate or inappropriate reporting of their activities.

Among the 20 audits conducted for the audit years 2017-2021, the average cost of each audit was \$7,665. Costs vary based on the scale and complexity of the board or bodies financial activities. The costs ranged from \$1,800 to \$22,000 in this set of audits.<sup>2</sup>

In most cases, these audit costs are paid for by the Crown via an appropriation specifically for the auditing of reserve boards and bodies. Audit New Zealand does cost recover from reserves boards with high annual operating expenditures.<sup>3</sup> The Crown has elected to fund the auditing of most reserve boards and bodies given that the cost of the audit would be a significant portion of their annual operating expenditure.

It is questionable whether the cost of auditing small-scale reserves boards and reserve administering bodies represents value for public money for the level of assurance provided to the public by an audit. There is an opportunity to ease the administrative burden on Audit New Zealand and ensure better value for money to the public by making targeted amendments to the Reserves Act 1977 and the Public Finance Act 1989.

### **Considering the principles of the Treaty of Waitangi**

The principles of the Treaty of Waitangi were considered when developing and analysing options to address the issue of the resource-intensive auditing requirements faced by the OAG. This consideration focused on whether options:

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<sup>2</sup> It is likely that the per audit cost for those boards and bodies that have not been regularly audited would be at the lower end of this range. This is based on the boards and bodies with more significant financial activities being more likely to submit documentation on time and be prioritised by Audit New Zealand. Therefore, the cost per audit of those who have been audited from 2017-2021 is likely to be higher than the cost per audit for those who have not.

<sup>3</sup> Audit New Zealand cost recovered from two reserve boards in recent years - Kaiteriteri Recreation Reserve Board and Te Poari o Kaipātiki ki Kaipara with annual operating expenditures of \$7,308,407 and \$692,474 respectively.



- would alter the treaty obligations of reserve boards and administering bodies (derived from the Reserves Act 1977) or their ability to give effect to Treaty principles in their activities.<sup>4</sup>; and/or
- would limit or improve the ability of a post-settlement governance entity to effectively administer a reserve vested in them by Treaty settlement.<sup>5</sup>

The Treaty of Waitangi is not included in the objectives, or the criteria used for analysis. This is because the recommended option would not have implications related to the principles of the Treaty of Waitangi when compared with the status quo.

The proposed option would not alter or amend the ability of reserve administering bodies (of which boards are a subset) to give effect to the principles of the Treaty of Waitangi. Only the requirement of the OAG to audit all administering bodies would be altered. The requirements for those administering bodies (including PSGEs) to produce financial statements would remain unchanged.

## What objectives are sought in relation to the policy problem?

### Cost and time effectiveness

To enable the Audit New Zealand to more efficiently use their resources to audit the financial statements of reserve boards and reserve administrative bodies.

### Regulatory stewardship

To ensure the regulatory responsibilities of the Auditor-General are satisfactory; this includes transparency, the appropriate management of public financial affairs, consistency with other auditing requirements, and the execution of statutory requirements.

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<sup>4</sup> In performing their functions and duties under the Act, the administering body has a similar duty to the Crown's to give effect to the Principles of the Treaty of Waitangi.

<sup>5</sup> Treaty settlements do regularly vest specific reserves under PSGEs as the reserve administering body. For example, the Ngāti Awa Claims Settlement Act 2005 made the Ngāti Awa governance entity the administering body of Kāpūterangi Historic Reserve, Te Paripari Pā Historic Reserve, Te Taongapoto Recreation Reserve, Te Ihukatia Recreation Reserve, and Whakapaukorero Historic Reserve.

## Section 2: Deciding upon an option to address the policy problem

### What scope will options be considered within?

The scope of this review has been informed by the Government's direction to make legislative amendments to relieve pressure in the near-term. This context means that non-regulatory changes, such as resourcing, are not considered in the scope of options. However, these features of the system should still be considered in the analysis and proposed implementation of the options.

In accordance with the scope of this review, the Conservation Management and Processes Bill (CMAP) is not looking to address the suitability of current forms of governance or structures. Due to this, any governance or structural changes to reserve boards and administering bodies are out of scope.

Options considered within the scope of analysis should seek to address the issue of resource intensive auditing requirements, assuming all other elements of reserve administration remain unchanged. For example, one submitter suggested that if the change proposal is a cost saving measure, then the number of reserve boards and administering bodies could be consolidated. Nevertheless, reducing the number of reserve boards and administering bodies is not within the scope of this review.

### Discounted option: Further Crown resourcing

The current appropriation (the amount of Crown funding) for auditing reserve boards and bodies is \$150,000 per year. This amount has proven to be insufficient for Audit New Zealand to meet the current statutory requirements. It is estimated that if all audits were to be completed the total cost to the Crown would be around \$270,000 per annum. This figure does not include resources required to undertake audits that are already in arrears.

Expanding the appropriation to better resource Audit New Zealand has been considered out of scope for this analysis. This is based on the scope of the CMAP Bill and its intent to reduce system pressures by amending statutory processes rather than increasing resourcing of the status quo.

Furthermore, the number of boards and bodies requiring audit, the number of audits already in arrears and the average cost of each audit means that a significant increase in resources would be required to enable Audit New Zealand to fulfil its current statutory requirements.<sup>6</sup> There is also no guarantee that increased resourcing would ensure full compliance given the difficulties faced by Audit New Zealand in finding qualified auditors.

### Discounted option: Cost recovery of more, or all, reserve boards and bodies

As noted previously, the rationale behind the Crown funding the auditing of reserve administering bodies and those reserve boards with low annual operating expenditure is that the auditing costs would be very high relative to their annual operating expenditure.

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<sup>6</sup> Based on the average cost of audits in audit years 2017 to 2021, the size of the appropriation would likely need to double to around \$300,000 to appropriately resource the number of audits required each year. Furthermore, the cost of clearing the backlog would be close to \$900,000 based on that average cost.

This option has been discounted based on the CMAP Bill seeking to relieve system pressures. Although cost recovery would enable resourcing of Audit New Zealand, it would create significant financial pressures for reserve boards and administering bodies.

**What options are being considered?**

Problem: The financial statements of reserve boards and reserve administering bodies must be audited, regardless of their annual revenue and expenditure	
Option 1	Amending the Reserves Act 1977 and Public Finance Act 1989 to require the financial statements of reserve boards and reserve administering bodies only to be audited when their total annual operating expenditure is \$550,000 or more
Option 2	Retain the status quo

**Option 1 – Require the financial statements of reserve boards and reserve administering bodies only to be audited when their annual revenue or expenditure is over the threshold of \$550,000**

If Option 1 was implemented, it would require the Auditor General to only audit the financial statements of reserve boards and reserve administrative bodies whose total annual operating expenditure is \$550,000 or more. Reserve boards and reserve administering bodies that do not meet the threshold will still be required to produce financial statements, but they will no longer be required to be audited by Audit New Zealand.

The original threshold for option 1 presented in the CMAP discussion document was \$1 million per annum. The discussion document specifically sought feedback on whether the proposed threshold of \$1 million was appropriate. The discussion document referred to both the Charities Act 2005 (with a threshold of \$550,000) and the Burial and Cremation Act 1964 (with a threshold of \$1 million). These Acts were chosen as a reference point by DOC based on previous guidance from the Office of the Auditor General. These Acts contain similar statutory auditing requirements to those being proposed and use the most appropriate wording with the relevant sections having been amended in 2015 and 2019 respectively.

In response to the discussion document, a number of submitters who supported option 1 questioned whether a threshold of \$1m was appropriate.

Submitters suggested a range of alternative options for the threshold spanning from \$30,000 to \$550,000. Those who suggested that \$550,000 was a more appropriate threshold noted that it is aligned with the Charities Act 2005. Following the engagement period, the original threshold of \$1m was lowered to \$550,000.

The wording of this proposal presented in the discussion document has been further refined since consultation has closed. Following recent advice from the Auditor-General, the words “annual revenue or expenditure is over the threshold of \$1m” has been changed to “total operating expenditure is \$550,000 or more”. According to the advice, the practical effect of the wording is the same and it provides consistency with other legislation such as the Burial and Cremation Act 1964 and the Charities Act 2005.

**Option 2 – Retain the status quo**

Under the status quo the Auditor-General would continue to be responsible for appointing Audit New Zealand with the task of annually auditing the financial statements of all reserve boards and reserve administering bodies that manage reserves under the Reserves Act 1977.

## Overview of Public Consultation

In May-July 2022, DOC conducted eight weeks of engagement on proposals for targeted changes to conservation legislation. The primary means of seeking tangata whenua, stakeholder, and public input was through the discussion document. In addition to the discussion document, DOC also held a total of 39 engagement hui. Engaging on the auditing proposal was not the only purpose of these hui and conversation generally focused on other proposals within the discussion document.

A total of 122 written submissions were received on the discussion document, and 32 of those submissions directly referred to the proposal for changing the auditing requirements of reserve boards and reserve administering bodies. The following table presents data collected from the submissions process.

Table 2: Summary of Submission Responses

Submitter Group	Support change (option 1)	Retain status quo (option 2)
Councils	0	0
ENGO	2	0
Individual	2	0
NGO	3	1
Non-Research Concessionaire	6	2
Other Stakeholder	7	0
Research Concessionaire	1	0
Statutory Body	6	0
Tangata Whenua	2	0
<b>Total</b>	<b>29</b>	<b>3</b>

There were 29 submitters who supported the introduction of a threshold for the auditing of reserve boards and reserve administering bodies (option 1) while 3 preferred the retention of the status quo (option 2).

Submitters who supported option 1 typically did not provide further analysis to support their preference with the majority noting the efficiency gains. One submitter from this group added that having a firm requirement to audit all reserve boards and reserve administering bodies, which in reality cannot be complied with, serves no real purpose. Those supported option 2 said that DOC has an obligation to the tax paying public to ensure that fiscal activity is audited and is without flaw, regardless of the amount involved.

### What criteria will be used to compare options to the status quo?

#### Efficiency and timeliness of audits (objective: time and cost effectiveness)

Assessment of each option’s effect on the resourcing demands of Audit New Zealand and their ability to provide the required annual audits on a timely basis.

#### Administrative oversight (objective: regulatory stewardship)

Assessment of each option’s ability to be transparent and guide the management of public financial affairs.

#### Consistency with other legislation (objective: regulatory stewardship)

Assessment of each option’s consistency with the auditing requirements of other legislation.

**Multi-Criteria Analysis: How do the options compare to the status quo/counterfactual?**

Criteria	Option 1: Require auditing when operating expenditure is over \$550,000 p.a.	Option 2: Retain the status quo
Efficiency and timeliness of audits	+++	0
Administrative Oversight	-	0
Consistency with other legislation	++	0
<p><b>Key for qualitative judgements:</b></p> <p>+++ much better than doing nothing/the status quo</p> <p>++ better than doing nothing/the status quo</p> <p>+ slightly better than doing nothing/the status quo</p> <p>0 about the same as doing nothing/the status quo</p> <p>- somewhat worse than doing nothing/the status quo</p> <p>-- worse than doing nothing/the status quo</p> <p>--- much worse than doing nothing/the status quo</p>		

**Option 1: Amending the Reserves Act 1977 and Public Finance Act 1989 to require the financial statements of reserve boards and reserve administering bodies only to be audited when their total annual operating expenditure is \$550,000 or more**

*Efficiency and timeliness of audits +++*

The impact of this option is greatly improved efficiency compared with the status quo, an overall reduction in the number of untimely audits sitting in arrears, and the potential for some timeliness improvements at the individual audit level.

The introduction of a threshold would significantly decrease the number of audits required each year. Based on the operating expenditures of each board or administering body in their last audited financial year, the number of audits required would fall from 39 under the status quo to 4. This would reduce the administrative burden on the resources of Audit New Zealand to undertake audits each year. The main impact of this would be a reduction in the demand for auditor time, and the associated costs to the Crown.<sup>7</sup> Based on the average costs of audits, the annual saving of no longer requiring 35 entities to be audited is estimated to be \$270,000.

This change would also remove the administrative burden on Audit New Zealand needing to follow up with entities who do not submit their financial statements on time. This would be a

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<sup>7</sup> The boards who Audit New Zealand currently cost recovers from would not fall below the threshold.

meaningful improvement based on the 2015<sup>8</sup> and 2018<sup>9</sup> timeliness reports. There would be a minor benefit to the boards and administering bodies no longer needing to communicate with Audit New Zealand and provide the necessary documents.

Many audits aren't completed under the status quo due to the high costs of audits and the administrative burdens of untimely reporting. Incomplete audits become audits in arrears and are added to the growing backlog. Efficiency and costs remain relevant because the costs of auditing still apply to audits in arrears. In the long run, the most significant efficiency gains from this option relate to the future cost savings from those audits that would otherwise be added to the backlog under the status quo.

Removing the requirement for an audit that would otherwise end up in the backlog will improve overall measures regarding timeliness when compared with the status quo. Simply put, the number of audits in arrears on the backlog (i.e. late audits) is likely to increase each year under the status quo. This option would enable resourcing to be focused on clearing the existing backlog, and prevent the problem of audits in arrears from growing in future.

At the individual audit level, these slight efficiency gains may also speed up the process of auditing boards and bodies above the proposed threshold as any efficiencies could be directed towards auditing the financial statements of those above the threshold. However, the ability of the option to ensure more timely auditing of those statements is limited given that many small boards and administering bodies aren't being regularly audited each year under the status quo.

#### *Administrative oversight (-)*

This option does result in slightly less administrative oversight in comparison to the status quo and has consequently received a score of – in relation to its impact on administrative oversight. The response from engagement has suggested that this decrease in oversight continues to be at a level the public is comfortable with. Although one submitter believed that the removal of auditing is not appropriate regardless of income or expenditure, a number of submitters noted that public expenditure should be subject to oversight in a manner the Auditor-General is comfortable with to ensure that good practice and transparency is applied.

Consultation with the OAG resulted in a request for DOC to develop and introduce a threshold for auditing the financial statements of reserve boards and reserve administering bodies. Initial conversation with the OAG determined that a threshold of \$550,000 was a suitable figure. However, this was later increased to \$1,000,000 based on that figure featuring in the 2019 amendment to the Burials and Cremations Act 1964.

CMAF public consultation saw public appetite to lower the threshold back to \$550,000. Lowering the threshold to \$550,000 results in greater administrative oversight in comparison to the \$1 million threshold presented in the discussion document. Therefore, it can be presumed that those who were comfortable with the reduction in administrative oversight from a \$1 million threshold would be comfortable with the level of oversight at \$550,000.

Furthermore, as many reserve administering bodies and some reserve boards have not been audited in recent years, this proposal provides greater certainty that there will be appropriate public accountability where relevant financial statements contain substantial operating expenditure. All reserve boards and reserve administering bodies are still going to be

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<sup>8</sup> *Timeliness of reporting by other public entities*, Controller and Auditor General, 2018  
<https://oag.parliament.nz/2015/timeliness/part7.htm> - Accessed 7 November 2022.

<sup>9</sup> *Snapshots of the timeliness of reporting*, Controller and Auditor General, 2018  
<https://oag.parliament.nz/2018/timeliness> - Accessed 7 November 2022.

required to produce financial statements, but this proposal will remove the legal requirement for an audit where the costs of the audit would be disproportionate to the public benefit.

#### *Consistency with other legislation (++)*

The use of a threshold based on operating expenditure is consistent with the Burials and Cremations Act 1964 and the Charities Act 2005. These Acts have been elected as reference points for the proposed change on the guidance of the Office of the Auditor General. Currently, only charities and cemeteries over a certain operating expenditure threshold require an audit (\$550,000 and \$1 million respectively). Like reserves, there is a large range of operating expenditures across cemeteries and charities.

The threshold of \$550,000 would see the Reserves Act mirror the Charities Act 2005. This option received a score of ++ in relation to its impact on ensuring consistency with other legislation because it improves consistency other legislation. A score of +++ was not deemed appropriate due to absolute consistency being unobtainable through changes to the Reserves Act given the existing differences in the threshold amount between the other referenced pieces of legislation.

#### **Option 2: Retain the status quo**

All criteria used to consider the status quo has received a score of zero because it acts as a reference point to consider the other option.

#### *Efficiency and timeliness of audits (0)*

The cost of auditing reserve boards and administering bodies is high proportionate to their annual operating expenditure.

Audit New Zealand has highlighted that many reserve administering bodies and some reserve boards have not been audited in recent years due to the administrative burden of seeking financial statements and the cost of auditing. Under the status quo, it is likely that the current backlog of 115 audits in arrears will continue to grow.

#### *Administrative oversight (0)*

The extent to which administrative oversight is currently sought by the public is questionable given:

- the financial statements of reserve administering bodies are not published publicly; and
- DOC has not received queries or expression of concern relating to the audits in arrears for reserve boards (DOC's annual report notes when an audit was last completed for each board).

There is also potential that public accountability will be overlooked as financial statements with substantial income or expenditure may not be audited due to the limited resource capacity of Audit New Zealand.

#### *Consistency with other legislation (0)*

Under the status quo the auditing requirements for reserve boards and reserve administering bodies under the Reserves Act 1977 and Public Finance Act 1989 will remain inconsistent with other legislation that requires the auditing of comparable administrative bodies and boards.

## Conclusions

Option 1 is the preferred option as it enables cost savings to the Crown and removes the administrative burden on Audit New Zealand following up with entities who do not submit their financial statements on time. This option also provides consistency with other legislation and has a better likelihood of being executed by Audit New Zealand.

Although the preferred option results in less administrative oversight in comparison to the status quo, regulatory safeguards for auditing relevant financial statements are retained at a level that submitters are comfortable with.

Option 2 is not the preferred option because the public costs of auditing most reserve boards and reserve administering bodies will continue to outweigh the public accountability benefit. Many audits currently aren't completed by Audit New Zealand due to the cost of auditing and the administrative burden of following up on untimely reporting. Overtime, the backlog is expected to grow without government intervention.

### What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
<b>Additional costs of the preferred option compared to taking no action</b>			
Reserve Boards and Administering Bodies	There are no additional costs	Low	High
Auditor-General/Audit New Zealand	There are no additional costs as Audit New Zealand will be required to do less.	Low	Medium
Public	The financial activities of small reserve boards and bodies will have less administrative oversight.	Low	Low
<b>Total monetised costs</b>	Total costs have not been monetised	N/A	N/A
<b>Non-monetised costs</b>	Minor adjustment to auditing processes that result in less administrative oversight	Low	Medium
<b>Additional benefits of the preferred option compared to taking no action</b>			
Auditor-General/Audit New Zealand (Crown funded)	Monetised benefits		
	Audit costs no longer accrued.	\$270,000 per annum <sup>10</sup>	Medium <sup>11</sup>
	Non-monetised benefits		

<sup>10</sup> Based on the average cost per audit in audit years 2017-2021.

<sup>11</sup> The cost of an audit varies based on the complexity and scale of an entity's financial activities. As there is limited oversight of the statements not being submitted, it is difficult to accurately ascertain whether the average cost of auditing (based on those entities that have been audited) fairly reflects the cost of auditing those whose audits are in arrears.



	Removes the administrative burden of Audit New Zealand following up on untimely reporting.	Medium	High
Reserve Boards and Administering Bodies	Small reserve boards and reserve administering bodies will still be required to produce financial statements annually, though may save a little time communicating with Audit New Zealand.	Low	Low
Public	The auditing of reserve boards and reserve administering bodies with substantial total operating expenditure can be prioritised.	Low	Low
<b>Total monetised benefits</b>	Total benefits have not been monetised	\$300,000 per annum	N/A
<b>Non-monetised benefits</b>	Reduced administrative burden on Audit New Zealand.	Medium	Medium

## Section 3: Delivering an option

### How will the new arrangement be implemented?

Option 1 will become law by the amendments to the Reserves Act and Public Finance Act. The threshold for auditing the financial statements of reserve boards and reserve administering bodies with a total annual operating expenditure of \$550,000 or more will be introduced to the Reserves Act 1977. Relevant references to the Reserves Act 1977 within the Public Finance Act 1989 will also need to be updated to ensure consistency.

The change will be communicated to all reserve boards, reserve administering bodies, and the Auditor-General. The Auditor-General will be operationalising this change and directing Audit New Zealand to audit only the financial statements of reserve boards and reserve administering bodies whose total annual operating expenditure is \$550,000 or more. This arrangement should be relatively straightforward to implement because it requires Audit New Zealand to do less, rather than to do something new.

Reserve boards and reserve administering bodies that do not meet the threshold will still be required to produce financial statements. However, there will no longer be a requirement for these to be submitted to Audit New Zealand or for Audit New Zealand to audit them.

Reserve boards will still be required to provide these statements to DOC (acting on behalf of the Minister of Conservation). The relevant financial information for those boards will also continue to be published in DOC's annual report.

### How will the new arrangements be monitored, evaluated, and reviewed?

DOC, as the agency responsible for administering the Reserves Act 1977, will review the impact of the change after five years and assess whether it has met the objectives sought. DOC communicates with the OAG each year regarding the publication of financial statements for reserves boards. The OAG could request DOC to review the threshold before the five-year review period if their operational experience suggested an earlier review is necessary.

DOC will need to identify whether Audit New Zealand has been able to execute their new auditing requirements and whether the number of reserve boards and administering bodies who have a total operating expenditure of \$550,000 or more has increased. This information will then be evaluated, and a decision will need to be made about whether the threshold should be adjusted or removed. If so, a further legislative amendment will be required.

At this five-year check-in point it would also be valuable for Audit New Zealand to evaluate the timeliness of financial reporting by those reserve boards and administering bodies who do not meet the introduced threshold. Regardless of the changes to auditing requirements, it will be important to ensure that all reserve boards and administering bodies continue to produce financial statements as required by law.