

**AUDITOR-GENERAL'S AUDITING STANDARD 5
PERFORMANCE AUDITS, OTHER AUDITING SERVICES,
AND OTHER WORK CARRIED OUT BY OR ON BEHALF OF THE
AUDITOR-GENERAL**

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Introduction

Scope of this Standard

1. This Auditor-General's Auditing Standard establishes principles to be followed, establishes requirements, and provides application guidance, where appropriate, for auditors carrying out the following work on behalf of the Auditor-General:¹
 - (a) performance audits under section 16 of the Public Audit Act 2001 (the Act);
 - (b) other auditing services under section 17 of the Act; and/or
 - (c) other work (other than the annual audit).²

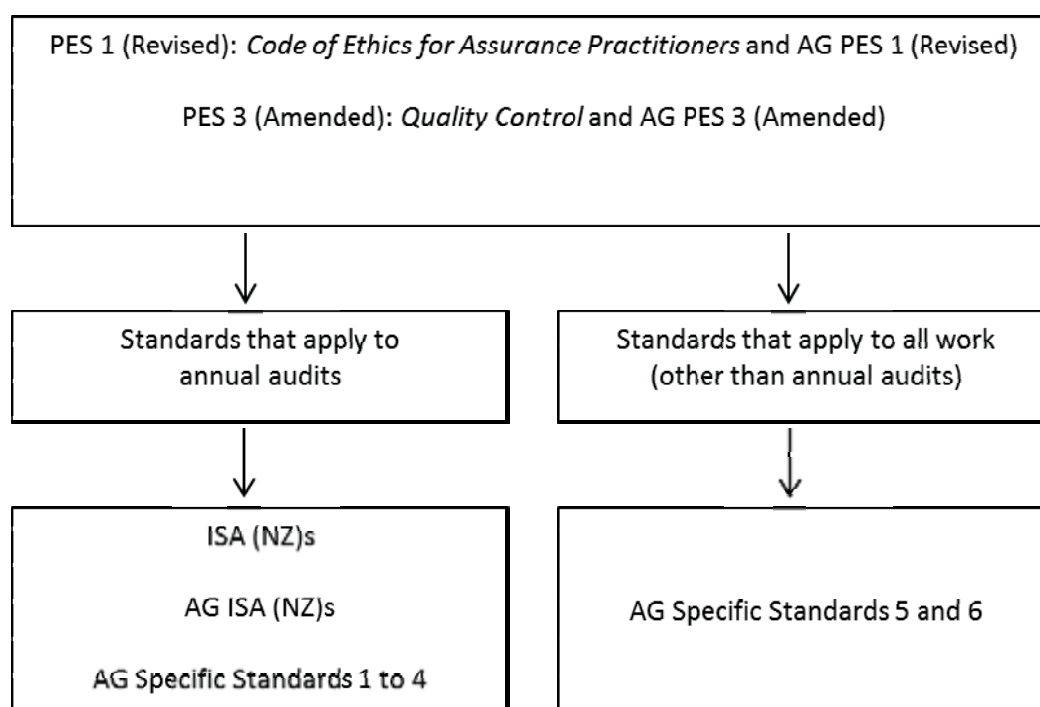
Application

2. The Standards for annual audits are specified in the International Standards on Auditing (New Zealand) and the accompanying Auditor-General's Statements, and the Auditor-General's Specific Standards:
 - (a) AG-1: *Reporting to the OAG*;
 - (b) AG-2: *The appropriation audit and the controller function*;
 - (c) AG-3: *The auditor's approach to issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence*; and
 - (d) AG-4: *The audit of performance reports*.
3. The Standards for inquiries carried out under section 18 of the Act are specified in the Auditor-General's Specific Standard AG-6: *Inquiries carried out by or on behalf of the Auditor-General*.
4. Compliance with this Standard is mandatory for the Auditor-General, the Deputy Auditor-General, their staff, and Audit Service Providers (ASPs) and their staff.
5. This Standard recognises that more specific standards may also apply to the work. It is expected that a more specific standard should be applied to the work, together with the general requirements of this Standard. If there are conflicting requirements between this Standard and a more specific standard, then the requirements of the more specific standard shall generally apply.
6. In carrying out the work, the auditor shall note that the Act permits an examination of effectiveness and efficiency as long as that examination takes into account any applicable government or local authority policy.

¹ Figure 1 depicts the two main categories of work carried out by or on behalf of the Auditor-General and the Standards that apply to each category of work.

² Refer to definition in paragraph 10.

Figure 1 – Application of the Auditor-General’s Auditing Standards



7. This Standard applies to all performance audits, other auditing services, and other work commenced on or after 1 April 2017.

Objectives

8. The objectives of the auditor are to:
- (a) carry out a performance audit, other auditing services, or other work as fully as necessary to form conclusions in accordance with the terms of work;
 - (b) form conclusions based on the evidence; and
 - (c) clearly communicate any findings, conclusions, or recommendations.

Principles

9. Auditors shall apply the following principles in the Auditor-General’s Statement on *Code of Ethics for Assurance Practitioners* (AG PES 1 (Revised)) when carrying out work on behalf of the Auditor-General:
- (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

Definitions

10. For the purpose of this Auditor-General's Auditing Standard, the defined terms have the meanings attributed:

- (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail);
- (b) in the Auditor-General's Glossary of Terms; and
- (c) in the list below.

Auditor	means the Auditor-General, the Deputy Auditor-General, their staff, and ASPs and their staff.
Other work	means all work carried out on behalf of the Auditor-General other than annual audits (under sections 15 and 19 of the Act), performance audits (under section 16 of the Act), other auditing services (under section 17 of the Act), and inquiries (under section 18 of the Act). Other work may include: <ul style="list-style-type: none">- work required by statute such as audits of Long-Term Plans under the Local Government Act 2002; or- work carried out at the discretion of the Auditor-General.
Terms of the work	means the documentation outlining the scope of the performance audit, other auditing services, or other work to be carried out on behalf of the Auditor-General.

Requirements

Applying the principles

11. Auditors shall apply the principles in paragraph 9 when carrying out their work. (See paragraph A1)

Determining whether the work should be carried out

12. Decisions on which performance audits will be carried out shall be made through the OAG processes for developing the Auditor-General's work programme. For all other work, auditors shall determine whether the work should be carried out, in accordance with any relevant OAG policies and/or guidelines.
13. Auditors shall consult the relevant OAG sector manager before accepting or finalising the terms of any other work that is of possible media or political interest, is generally of a sensitive nature, or relates to another core interest of the Auditor-General (such as a matter of compliance with statutory obligations, effectiveness and efficiency, waste, or a lack of probity and/or financial prudence). (See paragraphs A2 – A9)
14. Auditors shall implement quality control procedures for their work, in accordance with Professional and Ethical Standard 3 (Amended): *Quality Control* (PES 3 (Amended)) and, where applicable, the accompanying Auditor-General's Statement (AG PES 3 (Amended): *Quality Control*)).

Determining whether the work should be carried out on behalf of the Auditor-General

15. Auditors, other than staff of the Auditor-General, shall consult the OAG to determine whether the work should be carried out on behalf of the Auditor-General rather than in the name of the ASP. (See paragraphs A10 - A15)

Formulating the terms of the work and communicating this to relevant parties

16. The terms of the work for performance audits shall be formulated by the OAG. Where the performance audit is to be carried out (in part or in total) by an auditor external to the OAG (an external auditor), the terms of the work shall be formulated by the OAG in consultation with the external auditor. The terms of other auditing services or other work shall be formulated in accordance with any delegations by the Auditor-General, and AG PES 1 (Revised).
17. Once the terms of the work have been formulated in accordance with paragraph 16, the terms shall, where appropriate, be made available to the relevant parties who may be affected by the work. (See paragraphs A16 - A19)

Planning the work

18. The auditor shall plan the work so that it will be performed effectively. (See paragraphs A20 - A22)

19. The auditor shall consider materiality and any significant risks when planning and carrying out the work. (See paragraphs A23 - A24)

Obtaining and substantiating evidence

20. The auditor shall obtain sufficient appropriate evidence on which to base the auditor's findings, recommendations, and, where appropriate, their conclusions.
21. The auditor shall evaluate the evidence obtained from the procedures performed as a basis for clearly expressing the auditor's findings, recommendations, and, where appropriate, their conclusions.
22. Where appropriate, and whenever the auditor is proposing to criticise a person or organisation, the auditor shall provide relevant parties with sufficient information in order to seek comments on:
- (a) the factual accuracy of the auditor's findings, recommendations, and, where appropriate, their conclusions;
 - (b) whether any facts material to the auditor's findings, recommendations, and, where appropriate, their conclusions have been omitted; and
 - (c) the balance and fairness of the auditor's findings, recommendations, and, where appropriate, their conclusions.
23. The auditor shall consider any feedback received from relevant parties from whom comments have been sought and, if necessary, make such changes to the auditor's findings, recommendations, and, where appropriate, the conclusions that the auditor considers necessary to achieve a report that is factually accurate and also balanced and fair.
24. If relevant to the work, the auditor shall consider the effect of events occurring:
- (a) between the period subject to the work (if the work relates to a specific period) and the release of the auditor's findings, recommendations, and, where appropriate, their conclusions; or
 - (b) between the completion of the formal evidence gathering procedures and the release of the auditor's findings, recommendations, and, where appropriate, their conclusions. (See paragraphs A25 - A28)

Documentation

25. The auditor shall prepare documentation for filing on a timely basis that is sufficient and appropriate to provide:
- (a) a basis for the auditor's findings, recommendations, and, where appropriate, their conclusions; and

- (b) evidence that the work was carried out in accordance with this Standard and/or other specific standards that are relevant to the work. (See paragraphs A29 - A32)

Reporting

- 26. The final report shall contain a clear expression of the auditor's findings, recommendations, and, where appropriate, their conclusions.

Identification of additional matters for follow-up

- 27. The auditor shall consider whether any matters that have come to their attention that are of relevance to the Auditor-General (that are outside the terms of the work) and should be referred elsewhere within the OAG for follow-up.

Communication of other matters arising during the work

- 28. The auditor shall consider any other reporting obligations to regulators and other parties in relation to matters identified during the work. (See paragraphs A33 - A34)

Application and other explanatory material

Applying the principles (See paragraph 11)

- A1. Auditors may also need to comply with an ethical code (or equivalent) that applies to them because they are members of a profession or occupational group other than Chartered Accountants Australia and New Zealand. Where a conflict arises, or may arise, because of a conflict between the Auditor-General's principles in paragraph 9 and any other ethical code (or equivalent) that the auditor is required to comply with, then the auditor should raise the actual or perceived conflict with the individual ultimately responsible for the work with a view to resolving the conflict.

Determining whether the work should be carried out (See paragraphs 12 - 14)

- A2. Work is often discretionary (at the discretion of the Auditor-General, or at the discretion of an employee of the Auditor-General under delegation). The exercise of the discretionary powers is often guided by internal policies.
- A3. Specifically, in determining whether to carry out work, the auditor should consider whether:

- the work is within the Auditor-General's statutory authority;
 - there are no significant matters that indicate that the work should not be accepted, notwithstanding that the engagement is within the Auditor-General's statutory authority; and
 - the terms of the work are appropriate.
- A4. Some work is not within the statutory authority of the Auditor-General. An example of such work is a request to carry out work for a non-public entity in respect of non-public entity resources. Also, if the subject matter of the work concerns issues of policy then this is beyond the Auditor-General's statutory authority.
- A5. Other work, although falling within the Auditor-General's statutory authority, may not be carried out (either on behalf of the Auditor-General or in the name of the ASP) because of the wider interests of the Auditor-General. Questions to consider include:
- Has the entity been involved in any political or public controversy, or does it operate in a politically sensitive environment?
 - Are there other agencies or institutions already involved (such as a central agency, a select committee, or a regulator)?
 - Could the work have implications for other entities in the public sector (such as if a probity matter concerns a board member who is also a director of other entities in the public sector)?
 - Is the entity subject to organisational, legislative, or other change?
 - Has the Auditor-General carried out any previous work in relation to this entity (for example, an enquiry into probity issues), or on the subject matter of the work (for example, a report of consultation procedures)?
 - Is any future performance audit or other work proposed by the Auditor-General?
 - How does the entity intend making use of any report arising from the work?
 - Is the report likely to be used in the context of any legal or other dispute the entity has with other parties?
- A6. The Auditor-General's statement on quality control (AG PES 3 (Amended)) requires consultation with the Assistant Auditor-General – Accounting and Auditing Policy if:
- there are significant risks in carrying out the work that would ordinarily lead the auditor to decline the work; or
 - the work may pose significant risks to the Auditor-General.
- A7. The reason for this consultative requirement is to appropriately consider any significant risks to the Auditor-General arising from the work. A consequence of consultation may be an amendment to the terms of the work and/or the introduction of additional quality control procedures.

- A8. The Auditor-General is sometimes requested to carry out work where the terms of the work is prescribed by other parties. Such work should not be accepted where the terms of the work have been scoped inappropriately and will possibly result in an incomplete or distorted report. A suitable amendment to the terms of the work may enable the Auditor-General to carry out the work.
- A9. If there is any doubt as to whether an engagement should be accepted, the auditor should consult with the OAG.

Determining whether the work should be carried out on behalf of the Auditor-General

(See paragraph 15)

- A10. The guidance under this heading only applies to auditors, other than staff of the Auditor-General. This is because all work performed by staff of the Auditor-General is carried out on behalf of the Auditor-General.
- A11. Auditors should seek the advice of the OAG, unless otherwise provided in an audit brief or other dispensation, in determining whether the work should be carried out on behalf of the Auditor-General.
- A12. Auditors should consult the OAG if they are unsure whether work should be signed “On behalf of the Auditor-General”.
- A13. Auditors should first ensure that the work complies with AG PES 1 (Revised). Auditors should consult with the OAG in respect of any work that may be of possible media or political interest or of a sensitive nature. Examples of such work are set out in paragraph A5 above.
- A14. Certain work requires the auditor to report to a third party and relies, in part or in total, on the evidence obtained from the annual audit. Where approved by the OAG, these engagements should be carried out and reported “On behalf of the Auditor-General”. This category of engagement may include reports issued on:
- a prospectus prepared by an entity;
 - an entity’s compliance with the terms of a trust deed;
 - an entity’s information provided to the Commerce Commission because they operate in a “regulated industry”; or
 - an entity’s “alternative” financial statements (such as Economic Value Added (EVA) financial statements).
- A15. Unless approval has already been provided by the OAG, auditors should seek approval by providing the following information to the Assistant Auditor-General – Accounting and Auditing Policy:

- full details of the nature of the engagement (supported by relevant documents such as Trust Deeds, as appropriate); and
- the proposed wording of the report to the third party.

Formulating the terms of the work and communicating this to relevant parties (See paragraphs 16 - 17)

- A16. In formulating the terms of the work the OAG and/or the auditor should, where appropriate, consult with relevant parties. Such consultation assists in achieving balance and fairness in the terms of the work.
- A17. On occasions it may be necessary to revise the terms of the work. Other than for minor and inconsequential changes the same or a similar process should be followed as the process used in determining the original terms of work.
- A18. Where appropriate, the terms of the work should be communicated in writing to relevant parties.
- A19. Where appropriate, it is desirable that a formal acknowledgement of the terms of the work is obtained from the party who is ultimately responsible for the matter that is the subject of the work. The purpose of this process is to seek (as a minimum) the acknowledgement, by the party who is being assessed or otherwise examined, of the criteria that the auditor will be applying in making their assessment or examination.

Planning the work (See paragraphs 18 - 19)

- A20. The auditor should plan and carry out the work with professional scepticism, recognising that circumstances may exist that cause the party who is ultimately responsible for the matter to portray the matter in a favourable (or unfavourable) light.
- A21. The auditor should obtain an understanding of the entity or activity, the subject matter of the work (including any supporting policies, systems, and processes), and other relevant information. This understanding should be sufficient to identify and assess the key risks surrounding the work, and sufficient to design and carry out evidence-gathering procedures.
- A22. The auditor should determine what information is needed to ensure a fair process is followed when carrying out the work. For example, information would normally be obtained from the parties directly affected by the work.

- A23. A matter would be considered material if, in our judgement, it is significant to users' overall understanding of the auditor's findings, recommendations, and, where appropriate, their conclusions.
- A24. Considering materiality requires the auditor to understand and assess what factors are likely to influence users' understanding of the auditor's findings, recommendations, and, where appropriate, their conclusions. Auditors should use their judgement to assess whether matters are material. A matter may be considered to be material if it:
- indicates a serious threat to, or lack of, financial viability of a public entity or an activity;
 - indicates that a public entity or an activity is not achieving, or is unlikely to achieve, its objectives;
 - undermines basic accountability arrangements of a public entity or an activity;
 - is outside the capacity of, or undermines the purpose of, a public entity or an activity;
 - represents a significant abuse or misuse of powers conferred by Parliament;
 - calls into question the probity of a major part or all of a public entity or activity;
 - relates to an activity which could be of significant interest to the public;
 - affects public health and safety;
 - has disadvantaged the public (for example, through actual or opportunity cost to the taxpayer or ratepayer); or
 - indicates a significant departure from an industry or accepted standard or good practice.

Obtaining and substantiating evidence (See paragraphs 20 - 24)

- A25. Where appropriate, the auditor should give all parties affected by the work the opportunity to provide information relevant to the work. Providing this opportunity is essential to ensuring a fair process is followed in obtaining evidence.
- A26. When the work of experts is used, the auditor should:
- ensure that the expert is independent or, if independence in fact or in appearance cannot be achieved, take measures to ensure the work of the expert is objective and unbiased. For instance, the auditor may need to engage their own expert to assess the work carried out by an expert employed or engaged by an entity;
 - specify, in writing, the following matters with the expert:
 - the nature, scope, and objectives of that expert's work;
 - the respective roles of the auditor and that expert; and
 - the nature, timing, and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert;

- adopt appropriate quality control procedures covering the work of any experts the auditor engages in the collection and evaluation of evidence; and
- be involved in and understand the work for which the expert is used, to an extent sufficient to:
 - obtain sufficient appropriate evidence that the expert's work is adequate for the purpose of the work; and
 - be able to accept responsibility for the findings, recommendations, and, where appropriate, the conclusions expressed in the expert's report.

A27. The auditor should not attempt to limit or reduce their findings by including reference in those findings to their dependence on the work that may have been carried out by an expert. This is because the auditor should have formed a view on the work of the expert in accordance with paragraph A26.

A28. Where the work involves subject matter that can only be appropriately audited or examined by an expert, the auditor may disclose details of the expert's work, including the name of the expert, in order to add credibility to the report. However, the auditor should not refer to the expert in the auditor's findings, recommendations, and, where appropriate, their conclusions.

Documentation (See paragraph 25)

A29. The auditor should document discussions of significant matters, including when and with whom the discussions took place.

A30. If the auditor has identified information that is inconsistent with the auditor's final conclusions regarding a significant matter, the auditor should document how the auditor addressed the inconsistency in forming the auditor's findings, recommendations, and, where appropriate, their conclusions.

A31. After the documentation has been assembled for filing, the auditor should not delete or discard documentation before the end of its retention period.

A32. If the auditor finds it necessary to modify documentation or add new documentation at a later date, the auditor should, regardless of the nature of the modifications or additions, document:

- when and by whom they were made, and (where applicable) reviewed; and
- the specific reasons for making them.

Communication of other matters arising during the work (See paragraph 28)

- A33. Significant matters that come to the auditor's attention as a result of their work should be reported in writing, in a timely manner, to the party with primary responsibility for the matters subject to the work, and/or to other relevant parties.

- A34. Any reporting to regulators and/or other third parties should only be carried out following consultation with the Assistant Auditor-General – Legal.