AUDITOR-GENERAL'S AUDITING STANDARD 2
THE APPROPRIATION AUDIT AND THE CONTROLLER FUNCTION

Contents

Introduction

Scope of this Standard

1. This Auditor-General's Auditing Standard establishes the Auditor-General's requirements in relation to the audit of appropriations made by Parliament and the particular function of the Controller.

Application

2. Compliance with this Standard is mandatory for Appointed Auditors who audit appropriations administered by departments.

3. This Statement applies to audits of appropriations for periods beginning on or after 1 April 2017.

Objectives

4. The objectives of the Appointed Auditor are to audit the appropriations administered by departments, as required by section 15(2) of the Public Audit Act 2001, by:
   (a) assessing whether the department has appropriate internal control to:
      (i) enable effective monitoring of expenditure against appropriation or other statutory authority; and
      (ii) provide reasonable assurance that the Public Finance Act 1989 (PFA) and any other legislation relating to appropriations has been complied with; and
   (b) obtaining sufficient and appropriate audit evidence to provide reasonable assurance about whether expenses and capital expenditure have been incurred as expressly authorised by an appropriation or other statutory authority;
   (c) forming a conclusion about whether the expenses and capital expenditure are properly disclosed in the department's external accountability document(s) and comply with the requirements of the PFA; and
   (d) reporting as required by this Standard.

Definitions

5. For the purpose of this Auditor-General's Auditing Standard, the defined terms have the meanings attributed in:
   (a) 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) the Auditor-General's Glossary of Terms; and
   (c) the list below. Please note that these definitions are not necessarily the same as the definitions used in the PFA.

Appropriation	means an authorisation by Parliament, in an Appropriation Act, for the Crown or an Office of Parliament to incur expenses or capital expenditure up to a specified amount and for a specified scope and period.
Appropriation administrator	means the department or Office of Parliament that is identified as administering the appropriation.
Breach of appropriation	means expenditure incurred without, or in excess of, an appropriation and is not authorised by, or under any, other statutory authority.
Class of outputs	means a group of (usually similar) outputs combined for the purposes of appropriations.
Commitments	means future obligations on contracts that have been entered into at balance date.
Department	means any department that is responsible for administering a vote under the PFA, and includes an Office of Parliament.
Estimates	means a statement in any form (usually the *Estimates of Appropriations*) that describes and supports the appropriations being sought in the first Appropriation Bill that relates to a financial year, and contains the information referred to in section 14 of the PFA.

FSG	means the annual financial statements of the Government of New Zealand.
Imprest Supply Act	is an Act of Parliament that gives general authority to the Crown to spend public money and incur expenses and capital expenditure for the day-to-day business of government up to a specified amount, in advance of an appropriation.
Office of Parliament	means the Parliamentary Commissioner for the Environment (and that Commissioner's office), the Office of the Ombudsmen but, for the purposes of this Standard, does not include the Office of the Controller and Auditor-General.
Other authority or other statutory authority	means authority to incur expenses or capital expenditure, or to spend public money, by or under an Act of Parliament. It includes a permanent legislative authority in another Act, authority under sections 26A and 26B of the PFA, and the authority provided by Imprest Supply Acts.
Outputs	means the goods or services that are produced by the public entity. The term refers only to the goods and services produced for third parties; it excludes goods and services consumed within the reporting entity (such as services provided by legal, research, HR, and IT functions to other functional areas within the same entity, which are often referred to as "internal outputs").[1]
Public money	means all money received by the Crown, including the proceeds of all loans raised on behalf of the Crown and any other money that the Minister of Finance or the Secretary to the Treasury directs to be paid into a Crown bank account or departmental bank account, and any money held by an Office of Parliament. It does not include money held in trust as trust money, or

[1] The Local Government Act 2002 uses the term "activity" to refer to goods and services. The term "outputs" is used in this Standard to refer to goods and services, and the term "activity" carries its common meaning.

	money received and held by Crown entities.
Statements of expenses and capital expenditure	means the information on the use of the appropriations a department administers, any spending without an appropriation or other authority, and any capital injections that a department must provide in its annual report under section 45A of the PFA.
Supplementary estimates	means a statement in any form that is presented to the House of Representatives in support of an Appropriation Bill, other than the first relating to a financial year, seeking additional appropriations.
Unauthorised expenditure	means expenses or capital expenditure not authorised by an appropriation or any other authority (such as section 26B of the PFA or an Imprest Supply Act).
Uncorrected misstatement	means a deliberate or unintentional misstatement or error, in the financial statements or statements of appropriations, including the omission of an amount or disclosure or a misclassification of an amount that has not been corrected.
Unappropriated expenditure	means the expenses or capital expenditure that are incurred: - without an appropriation; - beyond the amount of an appropriation; - for a purpose outside the scope of the appropriation (subject to the rules relating to transfers between appropriations); or - after the appropriation has lapsed.
Vote	means an appropriation or grouping of appropriations that is the responsibility of a designated Minister or Ministers and administered by a department, or the responsibility of the Speaker and administered by an Office of Parliament, the Office of the Clerk of the House, or the Parliamentary Service.

Requirements

Planning

6. The Appointed Auditor shall plan the appropriation audit in conjunction with the annual audit to ensure the objectives of the appropriation audit are met. (See paragraphs A1 - A13)

Understanding the appropriation process

7. The Appointed Auditor shall obtain an understanding of the appropriation process relevant to carrying out the appropriation audit. (See paragraph A14)

Assessment of internal control

8. The Appointed Auditor shall obtain an understanding, and assess the adequacy, of the internal control design and implementation by a department to enable effective monitoring of expenditure against appropriations or other statutory authority. In performing this assessment, the Appointed Auditor shall consider if there are adequate controls in place to ensure that:

   (a) expenses and capital expenditure incurred are for lawful purposes;
   (b) expenses and capital expenditure incurred are within the scope, amount, and period of an appropriation;
   (c) expenses and capital expenditure incurred are in accordance with financial delegations; and
   (d) the procedures for cost allocation to all appropriation types are reasonable. (See paragraphs A15 - A16)

9. If a department is administering an appropriation that other departments are also using, the Appointed Auditor shall assess the adequacy of the controls that support the administering department's (known as the "appropriation administrator") monitoring of the use of the appropriation by others. (See paragraphs A17 - A18)

Reporting on the adequacy of the department's internal control

10. After assessing whether the department has appropriate internal control to:
   (a) enable effective monitoring of expenditure against appropriation or other statutory authority; and

(b) provide assurance that the PFA and any other legislation relating to appropriations have been complied with;

the Appointed Auditor shall report any significant internal control deficiencies, or matters where internal control could be improved, in a management letter to the department.

Scope considerations

11. The Appointed Auditor's consideration of the scope of expenses and capital expenditure shall include a review of the adequacy of the scope descriptions of appropriations administered by the department. (See paragraphs A19 - A21)

Consideration of key legislative requirements and supporting guidance

12. The Appointed Auditor shall ensure that the audit approach includes audit procedures that will provide reasonable assurance that key requirements of the PFA, the *Treasury Instructions*, and any applicable Cabinet Office circulars have been complied with. The Appointed Auditor needs to remain alert throughout both the annual audit and the appropriation audit for any concerns in relation to unappropriated expenditure, including that arising from the scope of appropriations and/or the designation of expenses as re-measurements.

13. The Appointed Auditor shall assess, in accordance with section 4(1) of the PFA, whether expenses and capital expenditure have been incurred without the express authority of an appropriation or other statutory authority.

14. The Appointed Auditor shall assess whether expenditure treated as a significant re-measurement of an asset or a liability is classified correctly and completely in accordance with the PFA and the Treasury guidance. Incorrect classification of expenses as a re-measurement represents a significant risk in the appropriation audit because an expense that arises from a re-measurement of an asset or a liability does not require an appropriation or other statutory authority (see section 4(2) of the PFA). Any issues related to re-measurements should be referred to the Assistant Auditor-General – Accounting and Auditing Policy for advice.

15. The Appointed Auditor shall assess whether expenses or capital expenditure have been incurred, not only in keeping with an appropriation but also with the legal capacity and authority of the department to engage in the activity concerned. (See paragraphs A22 - A23)

16. The Appointed Auditor shall obtain sufficient and appropriate audit evidence to satisfy themselves that the department has complied with section 26A of the PFA. Section 26A regulates the transfer of resources between output expense appropriations. (See paragraph A24)

17. The Appointed Auditor shall sight the approval by the Minister[2] where an appropriation has been exceeded, as permitted under section 26B of the PFA.[3] (See paragraph A25)

18. The Appointed Auditor shall assess, in accordance with section 26D and 45A of the PFA, whether expenditure incurred without, or in excess of, an appropriation is properly disclosed in the Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority.[4] All such expenditure shall be reported regardless of the amounts involved.

19. The Appointed Auditor shall assess, in accordance with section 45A of the PFA, whether actual expenses and capital expenditure against each appropriation administered by a department and, where applicable, each category of expenses or non-departmental capital expenditure included in a multi-category appropriation administered by a department, is properly disclosed in the Statement of Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations.[5]

20. The Appointed Auditor shall obtain sufficient and appropriate audit evidence to satisfy themselves that the department has complied with the requirements in the *Treasury Instructions* and any applicable Cabinet Office circular in respect of alterations of resource allocations. (See paragraphs A26 - A28)

Documentation – the overall audit strategy and audit plan

21. The overall audit strategy and audit plan described in ISA (NZ) 300 shall document:
    (a) the objectives to be met for both the annual audit and the appropriation audit; and
    (b) how those objectives are to be met.

[2] Minister is defined in section 2 of the PFA.
[3] Section 26B of the PFA states that *"the Minister may, in that financial year or not later than 3 months after the end of that financial year, approve in respect of that appropriation up to the greater of:*
(a) an amount not exceeding $10,000; or
(b) 2% of the total amount appropriated for that appropriation."
[4] Required by section 45A(c) of the PFA.
[5] Required by section 45A(a) of the PFA.

Fieldwork

22. The Appointed Auditor shall carry out fieldwork to meet the objectives of the appropriation audit, as described in paragraph 4. (See paragraphs A29 – A31)

23. During the appropriation audit, the Appointed Auditor shall be alert to the possibility that appropriations or other statutory authorities are being managed to maintain future baselines or to avoid reporting a surplus, or that an appropriation or other authority has been breached or may be breached in the future. The Appointed Auditor shall also consider whether a breach of an appropriation or other statutory authority may be concealed. The following situations may indicate an actual or potential breach of an appropriation or other statutory authority:

    (a) poor budgetary systems and procedures;
    (b) inadequate systems and procedures for monitoring performance against appropriations (and the general principle of legality (see Appendix 1));
    (c) a breakdown of systems and procedures for monitoring performance against appropriations and other statutory authorities during the year;
    (d) poorly developed cost allocation systems, or inadequate procedures for cost allocations to each appropriation type;
    (e) changes in the basis of cost allocation during, or at the end of, the year;
    (f) miscoding of activities or large expenditure items between appropriations or other statutory authorities;
    (g) misclassification of operating expenses as capital expenditure, or vice versa;
    (h) incorrectly assessing an expense to be a re-measurement or failing to treat it as a re-measurement when it should be;
    (i) unauthorised transfers between output expense appropriations;
    (j) netting of expenses against revenue or vice versa;
    (k) large or unusual balance date adjustments;
    (l) allocating expenses and/or capital expenditure to the incorrect reporting period; and
    (m) unusual payments or trends, higher than expected expense patterns, or unusual or inconsistent expense recognition.

Evidential requirements

24. The Appointed Auditor shall ensure that sufficient and appropriate audit evidence is obtained through the performance of audit procedures to enable reasonable conclusions to be drawn as to whether the requirements of appropriations and other statutory authorities have been adhered to.

Appointed Auditor's Responsibilities for the OAG Controller Report

25. The Appointed Auditor shall, on receipt of the monthly OAG Controller report, review the report and follow up on any issues arising that relate to the departments they deal with. The Central Controller Team may contact the Appointed Auditor during the course of carrying out the monthly procedures to follow up any issues relating to departments they audit.

Assessment of errors

26. The Appointed Auditor shall assess all uncorrected misstatements noted during both the annual audit and appropriation audit in terms of their effect on:
    (a) each individual appropriation or other statutory authority; and
    (b) the financial statements of the department.

27. Where errors are identified that lead to an appropriation being exceeded, the Appointed Auditor shall ask that these errors are corrected and, where the correction of an error (or errors) results in spending outside the bounds of an appropriation, they shall ask that it is reported in the department's Statement of Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority under section 45A(c) of the PFA, irrespective of its size. Where the Appointed Auditor has any concerns about the accuracy or completeness of the department's reporting of unappropriated expenditure, this shall also be reported to the engagement director responsible for the audit of the Financial Statements of the Government (FSG).

Disclosure of unappropriated or unauthorised expenditure

28. The Appointed Auditor shall ensure that the financial statements of each department fully disclose any unappropriated or unauthorised expenditure, in keeping with the statutory reporting requirements of the PFA.

Documentation – forming a conclusion

29. The Appointed Auditor shall form a conclusion about whether the objectives of the appropriation audit (as specified in paragraph 4) have been met.

Reporting

30. The Appointed Auditor shall report any significant issues that arise from the appropriation audit to both the department and the OAG. Normally, the Appointed Auditor will report such issues to the Central Controller Team in the OAG and the relevant OAG sector manager. Where the Appointed Auditor considers that a department has incurred unplanned or unnecessary expenditure for the purposes of maintaining future baselines or avoiding reporting a surplus, they shall discuss their concerns with the department. If the concerns remain, the Appointed Auditor shall raise them with the OAG – normally with the Central Controller Team and the the relevant OAG sector manager. Such matters shall also be reported in the management letter to the department.

31. Communication with any Minister will be done directly by the OAG in consultation with the Appointed Auditor. Reporting to Parliament will be done by the OAG. (See paragraphs A32 - A33)

32. The Appointed Auditor shall report to the OAG and to the engagement director responsible for the audit of the FSG, in keeping with instructions specified in the government departments audit brief each year.

Reporting unappropriated or unauthorised spending during the year (See paragraphs A34 - A40)

33. The Appointed Auditor shall immediately advise the Central Controller Team in the OAG where unappropriated or unauthorised spending is likely to occur, or has occurred, or where any unlawful action has been identified (irrespective of whether the spending is "material" in terms of the annual audit of the statements prepared by a department and that are covered by our audit report). Where the Appointed Auditor is uncertain about whether unappropriated or unauthorised spending has actually occurred or is likely to occur, they shall clarify the situation with the department and, if necessary, seek advice from the Central Controller Team in the OAG.

34. In addition to immediately advising the Central Controller Team in the OAG, the Appointed Auditor shall also take the following actions:
    (a) immediately raise the matter with the Chief Executive of the department; and
    (b) advise the department to:
        (i) immediately inform its Minister in writing;
        (ii) immediately contact its Treasury Vote Analyst; and
        (iii) seek authority either from the Minister of Finance or from Cabinet to incur expenses or capital expenditure under imprest supply, and

have the amounts included in the next Appropriation Bill and (if appropriate) the Supplementary Estimates.

35. If the Appointed Auditor becomes aware of expenses or capital expenditure that is being applied for a purpose whose lawfulness is questionable, the Appointed Auditor shall:
    (a) ascertain the nature and extent of the possible legal issue, with the benefit of legal advice from the OAG as necessary;
    (b) ask the department to seek a legal opinion on the matter;
    (c) ask the OAG to review the opinion (in the case of a dispute between the department and the OAG, the OAG may seek its own external legal advice); and
    (d) inform the Chief Executive if external legal advice is being sought, and invite them to discuss the matter with the responsible Minister.

    Where the department has not taken immediate action on actual or likely spending that is unappropriated or unauthorised, the OAG will formally write to the Chief Executive and the responsible Minister (in consultation with the Appointed Auditor).

Reporting on audit results

36. The Appointed Auditor shall issue an unmodified opinion as a result of their annual audit if there is unappropriated or unauthorised spending that is properly disclosed in the statements prepared by a department, and that are covered by our audit report (subject to there being no other matters requiring a modification of the audit opinion). In certain circumstances, it may be appropriate for the Appointed Auditor to consider including an emphasis of matter paragraph in the audit report to draw readers' attention to the disclosure of the unappropriated expenditure. Guidance should be sought from the Assistant Auditor-General – Accounting and Auditing Policy if such an action is contemplated.

37. The Appointed Auditor shall issue a modified opinion referring to the disagreement over the disclosure of unappropriated or unauthorised spending where the department has not properly disclosed the issue. Where the Appointed Auditor considers issuing a modified opinion, they shall, before issuing that opinion, consult with the Assistant Auditor-General – Accounting and Auditing Policy at the OAG.

38. Where the Appointed Auditor considers that there are material uncorrected misstatements in the Statement of Expenses and Capital Expenditure (under section 45A of the PFA) that do not, however, involve unappropriated or unauthorised spending, they shall follow their normal procedures for considering whether to issue a modified

opinion referring to the disagreement over the disclosure of a material error, where the department has not properly corrected that error.

39. If the Appointed Auditor seriously considers issuing an adverse opinion or a disclaimer of opinion on the financial statements or the Statement of Expenses and Capital Expenditure (under section 45A of the PFA), they shall make a submission to the Opinions Review Committee of the OAG in keeping with AG ISA (NZ) 700 (Revised).

40. Any concerns that the Appointed Auditor has regarding manipulation of appropriations, integrity of systems, or other deficiencies that may affect the ability of the department to effectively monitor its performance against an appropriation or other statutory authority, shall be included in the management letter to the department.

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Application and other explanatory material

Planning (See paragraphs 6 - 21)

A1. The appropriation audit should be planned in conjunction with the annual audit of the department. The Appointed Auditor should consider where efficiencies can be obtained, and which objectives of the appropriation audit can be met concurrently with the performance of the annual audit.

A2. When the Appointed Auditor carries out the audit of a department, they are simultaneously carrying out two different, but closely related audits being:

- the annual audit; and
- the appropriation audit.

A3. The primary purpose of the annual audit is to form an opinion on the reliability of the statements prepared by a department, and that are covered by our audit report. The auditor’s opinion is reported to the readers of this information in the form of an audit report, and is supported by a body of evidence that is required to provide “reasonable assurance”. The auditor’s report is expressed using the term “present fairly, in all material respects” (or an equivalent term) and that implicitly means the reported information is evaluated as to whether it is materially misstated. Establishing a materiality base and level is fundamental to the annual audit.

A4. The appropriation audit, carried out under section 15(2) of the Public Audit Act 2001, and in accordance with this standard, is carried out in conjunction with the annual audit. Appointed Auditors are not required to provide greater assurance about expenses or capital expenditure charged against an appropriation under this standard other than the “reasonable assurance” standard required for the annual audit.

A5. Appointed Auditors are therefore not required to establish a separate materiality base and level for the audit of appropriations under this standard. The application of materiality is confined to the assessment of errors as part of the appropriation audit.

A6. The approach to the audit of appropriations under this standard is based on the assessment of risks associated with each appropriation, in terms of “what could go wrong”. What could go wrong, in an appropriation audit context, includes:

- expenses or capital expenditure are incurred without an appropriation;
- expenses or capital expenditure are incurred beyond the amount of an appropriation;
- expenses or capital expenditure are incurred for a purpose outside the scope of the appropriation (subject to the rules relating to transfers between appropriations);
- expenses or capital expenditure are incurred after the appropriation has lapsed;
- expenses or capital expenditure are incorrectly charged to the wrong appropriation;
- expenses or capital expenditure are offset against revenue;
- expenses or capital expenditure are incorrectly classified as a re-measurement;
- frivolous and/or wasteful expenses or capital expenditure are incurred to utilise an unspent appropriation;
- year-end “adjustments” are made to manipulate the amounts allocated against appropriations;
- false expenses or capital expenditure are included and purport to reflect valid expenditure against an appropriation;
- the basis for calculating overheads to an appropriation is unreasonable; and
- the overheads allocated to an appropriation are incorrect.

A7. Having identified “what could go wrong”, Appointed Auditors should then assess the risk that an individual appropriation could be misstated. This assessment will be based on the Appointed Auditor’s accumulated knowledge of previous annual audits and appropriation audits of the department, including:

- prior years’ knowledge, including errors in previous years;
- the inherent nature of the appropriation;
- the integrity of management; and

- potential year-end pressures and incentives.

A8. Where the Appointed Auditor assesses the risk to be significant that an individual appropriation could be misstated, they should then assess:

- the adequacy of the entity's control systems and procedures to monitor the appropriation;
- the likely impact of the work of the Central Controller Team to mitigate this risk;
- the impact of work planned to be carried out on the annual audit; and
- the impact of any errors found to date, during both the annual audit and appropriation audit.

A9. The Appointed Auditor should apply this knowledge to assess whether:

- sufficient and appropriate audit evidence can be obtained to form a conclusion about whether expenses and capital expenditure will be incurred as expressly authorised by an appropriation or other statutory authority; and
- the department will properly disclose expenses and capital expenditure as required by the PFA.

A10. If the Appointed Auditor assesses that sufficient and appropriate audit evidence can be obtained, and that the department will properly disclose expenses and capital expenditure as required by the PFA (the assessment described in paragraph A9), the Appointed Auditor should then determine if any additional audit work is required, over and above the work carried out to achieve the objectives of the annual audit, to form a conclusion about whether:

- sufficient and appropriate audit evidence was obtained to form a conclusion on whether expenses and capital expenditure have been incurred as expressly authorised by an appropriation or other statutory authority; and
- the department has properly disclosed expenses and capital expenditure as required by the PFA.

A11. The Appointed Auditor should consider the use of efficient audit techniques, such as analytical review procedures, in carrying out the appropriation audit. Where possible, reliance should be placed on the system of internal control for monitoring performance against an appropriation or other statutory authority.

A12. An important aspect of the work to satisfy the appropriation audit is the need to document **all** errors found during both the annual audit and the appropriation audit, and to assess the impact of those errors for the purposes of identifying unappropriated expenditure.

A13. All errors need to be assessed in light of the impact of the errors on the disclosures required by the PFA – particularly the disclosures relating to unappropriated expenditure – to be included in the statements prepared by a department and that are covered by our audit report. Where the correction of an error (or errors) will give rise to unappropriated expenditure, the error is considered to be material for the appropriation audit.

Understanding the appropriation process

A14. Each year the Government puts forward its spending proposals for the coming financial year in the Budget (usually in May). It formally presents its proposed budget to Parliament in the form of a Bill called the Appropriation (Main Estimates) Bill, along with various explanatory documents.

The Bill sets out estimates of what will be spent under each ministerial portfolio – in general, every ministerial portfolio has a corresponding "Vote" in the budget (for example, Vote Health sets out all the spending in that portfolio area). Each Vote is made up of a number of more specific "appropriations", which are descriptions of a particular area of activity and the spending approval sought for that area. Each appropriation has to set out:

- the maximum amount of spending being approved;
- the scope (that is, what the money can be used for); and
- the date on which the appropriation lapses (most appropriations last for one year).

Once Parliament has considered and approved the Bill, it becomes law and controls Government spending. In general, any spending outside what has been approved in this Act of Parliament will be unlawful.

However, the system does recognise the need for some flexibility to respond to changing events:

- A second Bill during the financial year (the Appropriation (Supplementary Estimates) Bill) allows the Government to update the initial estimates in the budget and get approval for those changes.
- The PFA includes several mechanisms for approving minor changes to the spending authorities approved by Parliament.
- A series of Imprest Supply Acts during each year also give the Government a general authority to spend up to a specified amount, subject to later inclusion in an Appropriation Act.

To understand more about the appropriation process, the Appointed Auditor should be familiar with the following documents:

- the PFA;
- *Treasury Instructions* and *Minister of Finance Instructions* (issued under sections 80 and 80A of the PFA) that outline the operational procedures to be followed so that the requirements of the PFA are complied with;
- other legislation that affects the functions and powers of the department, and that may also contain other statutory authorities;
- Treasury circulars and guidance;
- Cabinet Office circulars;
- information contained within this Standard – in particular, Appendices 1, 2, and 3; and
- relevant sections of the audit brief for Government departments.

Assessment of internal control

A15. Appropriations are made and reported against on an accrual basis. Furthermore, the full cost of activities, including overhead costs, must be reported against the appropriation or other authority to which the activity relates. Departments must have appropriate control systems and procedures so that they can adequately monitor their expenses and capital expenditure against an appropriation or other statutory authority.

A16. The ability of a department to adequately monitor performance against an appropriation or other statutory authority is largely dependent on the quality of its accountability structures and processes. As a minimum, these structures and processes should have the following attributes:

- a clear accountability framework established by the responsible Minister, and achieved through the Minister's relationship with the Chief Executive, and clear delegations within the department for effective budgeting, monitoring, and reporting of performance against appropriations and other statutory authorities;
- a budget for each appropriation or other statutory authority that has been prepared on a reasonable and transparent basis;
- a process to ensure expenditure cannot be committed:
  - in advance of an Imprest Supply Act (before an Appropriation Act has been passed); or
  - in excess of the amount, or outside the scope, or outside the period of an appropriation or other statutory authority; and

- processes that ensure that all incurred and committed expenditure is identified and allocated to the correct appropriation or other statutory authority – this includes the need for an effective accounting system that records commitments as they arise, and the consistent application of appropriately based cost allocation systems.

A17. In legal terms, all appropriations are to the Crown as a whole (that is, the Government collectively). However, to ensure clear responsibility and accountability, every appropriation has a single appropriation administrator responsible for managing the appropriation, and reporting to Parliament at the end of the year on how it has been used. It is possible for departments to incur expenses against an appropriation administered by another department, with prior approval. In such circumstances, the appropriation administrator needs to have controls in place to ensure that it is able to monitor and report fully on the use of appropriations of this nature – described as "administration and use" appropriations.

A18. In carrying out the appropriation audit of an appropriation administrator, the Appointed Auditor will need to obtain sufficient and appropriate evidence that the control systems and procedures within both the appropriation administrator and the other department(s) adequately monitor expenses and/or capital expenditure against the appropriation. In doing so, the Appointed Auditor may need to obtain confirmation from the Appointed Auditor(s) of the other department(s) on the adequacy of the control systems and procedures of the other department(s) to monitor expenses and/or capital expenditure charged to the appropriation.

Scope considerations

A19. The Appointed Auditor should consider the scope of appropriations early and throughout the audit work. One opportunity to consider scope is around the time of the production of the Estimates of Appropriations for the following year. The scope description of appropriations should be sufficiently specific so that the wording acts as an effective constraint against non-authorised activity, while not inappropriately constraining activity intended to be authorised.

A20. If the scope of an appropriation is unclear on its face, other sources of information – for example, the more detailed descriptions of purpose contained in the commentary in the Estimates, or information in Cabinet papers explaining the underlying policy – can assist in understanding it (it may be necessary to refer to Treasury guidance on the scope of Appropriations as required). However, it is important to note that the Estimates are not themselves part of the Appropriation Act – except to the extent that the Act expressly incorporates them. Ultimately, the interpretation of the scope of an appropriation is a legal question. The legal team in the OAG is available to provide advice.

A21. Where concerns about the quality of the scope descriptions are noted, the Appointed Auditor should refer the matter to the Central Controller Team in the OAG for advice. If these concerns remain, having received advice from the Central Controller Team, the Appointed Auditor should discuss these concerns as early as possible with the department involved. Where the department does not propose to make any changes, the concerns should be reported in the document summarising the audit conclusions and in the management letter to the department.

Consideration of key legislative requirements and supporting material

A22. A list of the key requirements of the PFA relevant to the appropriation audit are contained in Appendix 3.

A23. To be lawful, expenses or capital expenditure must be incurred not only in keeping with an appropriation, but also with the legal capacity and authority of the department to engage in the activity concerned. Most activity by Government departments relies on the general legal capacity of the Crown at common law, and so there are few legal constraints on the department's capacity. However, some departments do still have legislation that defines their functions and, therefore, constrains their general legal capacity. The Appointed Auditor should seek legal advice, if necessary, from the Assistant Auditor-General – Legal.

A24. Section 26A of the PFA requires any transfer of resources between classes of outputs to be approved by Order in Council.

In order to obtain sufficient and appropriate audit evidence to satisfy themselves that the department has complied with section 26A of the PFA, the Appointed Auditor may select a sample of approvals of transfers of resources between classes of outputs that have been approved by Order in Council.

A25. Section 26B of the PFA allows that the Minister[6] may approve expenses or capital expenditure to be incurred in excess of existing appropriation (within limits). Note that section 26B is only operable during the last three months of any financial year and the first three months of the following financial year.

[6] Minister is defined in section 2 of the PFA.

A26. The imprest supply and supplementary estimates processes allow further flexibility for the Government to alter resource allocations while maintaining parliamentary scrutiny.

A27. The processes to alter resource allocations are outlined in the *Treasury Instructions*, as well as any applicable Cabinet Office circular. The broad approach is that after the passing of the first Appropriation Act for the financial year, the prior approval of Cabinet is required:

- for an appropriation of any expenditure of public money or incurring of expenses or liabilities that are not in the main Estimates;
- to include these appropriations in the next Supplementary Estimates; and
- to meet such expenses or capital expenditure from imprest supply.

A28. Cabinet may approve delegations through Cabinet Office circulars to allow Ministers, usually the Minister of Finance and the relevant Vote Minister (Joint Ministers), to approve certain technical changes to appropriations.

In obtaining sufficient and appropriate audit evidence to satisfy themselves that the department has complied with the requirements in the *Treasury Instructions* and any applicable Cabinet Office circular in respect of alterations of resource allocations, the Appointed Auditor may select a sample of approvals made by Cabinet.

Fieldwork (See paragraphs 22 - 29)

A29. The Appointed Auditor should ensure that the appropriation audit is performed in conjunction with the annual audit of the department.

A30. The Appointed Auditor should determine the precise timing of audit work needed to fulfil the requirements of the appropriation audit, having regard to the following factors:

- the risk that the amount of an appropriation or other statutory authority may be exceeded, or that expenses or capital expenditure may be incurred, or public money spent, on unplanned or unnecessary items to maintain future baselines or to avoid reporting a surplus; and
- the reporting deadlines specified in the relevant audit brief.

A31. One of the requirements of the appropriation audit is that the Central Controller Team in the OAG is to be notified immediately if unappropriated or unauthorised spending has occurred, or is likely to occur. Given that expenditure is likely to be approaching the limit of appropriations towards the end of the financial year, the Appointed Auditor's focus on appropriation in the last three months of the financial year is crucial. However, unappropriated or unauthorised spending can occur at any time during the year.

Reporting (See paragraphs 30 - 40)

A32. Any audit communication with Ministers will be done by the OAG. This also applies to reports to the responsible Minister arising from the annual audit of a department.

A33. The Auditor-General may direct a Minister to report to the House of Representatives in cases involving unlawful expenses under section 65Z of the PFA. Alternatively, the Auditor-General may choose to report matters arising from the appropriation audit and the Controller function under section 30 of the Public Audit Act 2001.

Reporting unappropriated and unauthorised spending during the year

A34. It is imperative that the Appointed Auditor acts as soon as they become aware that a particular appropriation or other statutory authority is likely to be breached (whether in terms of amount, scope, or period).

A35. If the actions outlined in paragraph 34(b) do not occur, the OAG (in consultation with the Appointed Auditor) will write first to the Chief Executive and, once acknowledged, to the responsible Minister. The letter to the Chief Executive will indicate that:

- once there is unappropriated or unauthorised spending, no further expenditure may be incurred under that appropriation or authority until an approval has been obtained; and
- until an approval is obtained, there should be no funding of any further disbursements from the Crown or departmental bank account in respect of that appropriation or other statutory authority.

A36. This letter will be copied to the Treasury, and referred to the Auditor-General's designated officer responsible for the Controller function.

A37. If authority is not obtained at this stage, the Auditor-General may invoke the power to direct the Minister, Treasury, or department to stop payments from the relevant bank account and/or (where unappropriated or unauthorised spending has already occurred) direct the responsible Minister to report to the House.

A38. Once the necessary legal opinion has been received, and if it confirms the lack of legal authority, the OAG will inform the Chief Executive of the need to remedy the matter.

A39. The OAG will notify the Treasury of the question about the lawfulness of the activity and specify the proposed course of action.

A40. The Auditor-General may invoke the power to direct the Minister, Treasury, or the department concerned to stop payments from the relevant bank account under section 65ZA of the PFA. The Auditor-General may also direct the Minister to report to the House under section 65Z of the PFA.

Appendix 1 – Background

1. The Public Finance Amendment Act 2004 amended section 15 of the Public Audit Act 2001 to ensure that the appropriation audit is an explicit statutory responsibility of the Auditor-General. Section 15(2) of the Public Audit Act 2001 states:

In the case of an audit of a department (within the meaning of section 2(1) of the Public Finance Act 1989) or an Office of Parliament, the Auditor-General must also audit the appropriations administered by the department or Office.

2. The Auditor-General is required to provide independent assurance to Parliament that expenses and capital expenditure of departments have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority, and that, where this is not the case, the matter is appropriately dealt with.

3. The Auditor-General discharges this responsibility to Parliament through the conduct of the appropriation audit and the Controller function.

4. The appropriation audit and the Controller function are closely inter-related. The appropriation audit is an important and essential pre-requisite to the effective discharge of the Controller responsibilities.

Public financial management principles

5. Public expenditure is governed by two important principles, those of:
   - appropriation; and
   - the general principle of legality.

The principle of appropriation

6. The system of appropriations, as defined in the Public Finance Act 1989, is how Parliament authorises the Executive to spend public money. Under this system, expenses and capital expenditure by departments and Offices of Parliament can only be incurred if they are authorised by an appropriation or other statutory authority.

7. There are three elements to an appropriation. These are:
   - the maximum amount of expenses or capital expenditure that can be incurred;

- the scope (that is, what the amount can be used for); and
- the date on which the appropriation lapses (which is the end of the financial year to which the Appropriation Act relates, unless a longer period not exceeding five years is specified).

These elements are set out in sections 8 to 10 of the PFA.

8. Unappropriated expenditure occurs when expenses or capital expenditure are incurred:
   - without an appropriation;
   - beyond the amount of an appropriation;
   - for a purpose outside the scope of the appropriation (subject to the rules relating to transfers between appropriations); or
   - after the appropriation has lapsed.

9. Parliament takes unappropriated expenditure very seriously. This is reflected in the requirement in section 26D of the PFA for departments or Offices of Parliament to report unappropriated expenditure separately (irrespective of its dollar value) in their financial statements, and for unappropriated expenditure to be reported in the FSG. In addition, the Minister of Finance shall present a report to the House of Representatives setting out responsible Ministers' explanations for each instance of unappropriated expenditure.

10. However, the system includes mechanisms to enable some spending to be authorised outside the bounds of, or in advance of, a parliamentary appropriation. As a result, there will always be some spending that is authorised, but has not been appropriated, and must be reported to Parliament and formally confirmed or validated retrospectively. It is therefore important to distinguish between spending that is:
    - not covered by an appropriation, but authorised in advance under sections 26A or 26B or an Imprest Supply Act; or
    - not covered by an appropriation and not authorised in advance under any mechanism.

11. All of these situations must be reported, but only those in the second category are "breaches" in the sense of lacking any kind of proper authority.

Re-measurements

12. The PFA makes provision for re-measurements.[7] These are financial transactions that are defined so as to be excluded from the meaning of expenses used in the PFA, and therefore, unlike other expenses, do not require an appropriation. An example of a re-measurement is the movement arising from the revaluation of land and buildings.

Other statutory authority

13. Parliament may also authorise expenses or capital expenditure to be incurred by some other form of statutory authority (described in this Standard as a "statutory authority" or "other statutory authority"). One example is an Imprest Supply Act. Another is what is known as Permanent Legislation Authority (PLA). A PLA typically authorises resources to be committed by a particular entity, or for a particular activity, "without further appropriation" or "without further authority". The aim is often to insulate the particular cost from immediate political control. A well-known example is the payment of judicial salaries. Permanently authorising these payments provides additional protection for the independence of the judiciary and the separation of powers (see section 9A of the Judicature Act 1908).

14. Unlike appropriations, a PLA may be expressed in either accrual or cash terms. Those expressed in cash terms typically authorise the spending of "public money" (that is, money received by the Crown and money held by an Office of Parliament – see section 2 of the PFA for the full definition). Other examples of PLAs are:
    - section 6(c) of the PFA, which provides for the repayment of debt of the Crown or an Office of Parliament;
    - section 65ZH of the PFA, which provides permanent legislative authority for payment of expenses incurred in connection with:
        - expenses in respect of money borrowed by the Crown;
        - expenses in respect of securities;
        - expenses relating to derivative instruments of the Crown;
        - expenses relating to investment; and

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7 Re-measurements as defined in the PFA:
- (a) *means revisions of prices or estimates that result from revised expectations of future economic benefits or obligations that change the carrying amount of assets or liabilities; but*
- (b) *does not include:*
    - (i) *revisions that result from transactions or events that give rise to the initial recognition of assets or liabilities in the reporting period; or*
    - (ii) *revisions that result from transactions or events directly attributable to actions or decisions taken by the Crown; or*
    - (iii) *expenses that arise from the consumption of assets during the reporting period; or*
    - (iv) *interest income or interest expenses.*

- section 24 of the Crown Proceedings Act 1950, which provides for amounts owing as a result of a Court judgment to be paid immediately.

15. Section 6 of the PFA contains an important other statutory authority, which authorises a department or Office of Parliament to spend public money to meet expenses or capital expenditure incurred in keeping with appropriations – that is, section 6 links the spending of public money to appropriations.

Types of appropriation

16. Section 7A of the PFA describes seven categories of activity, expenses, or expenditure for which a separate type of appropriation must be made. These categories are known as appropriation "types". They are:
    - each category of output expenses;
    - each category of benefits or related expenses;
    - each category of borrowing expenses;
    - each category of other expenses;
    - each category of capital expenditure;
    - expenses and capital expenditure to be incurred by each intelligence and security department; and
    - multi-category appropriations, made up of two or more categories of output expenses, other expenses, and non-departmental capital expenditure.

17. All expenses and capital expenditure incurred in any financial year must be allocated to one of the types of appropriation described in section 7A of the PFA, within a Vote specified in an Appropriation Act.

18. The scope limitation on output expenses means that unused output expense appropriations cannot be diverted for another purpose (except in certain limited circumstances that are set out in section 26A of the PFA).

The general principle of legality

19. As well as being authorised by an appropriation or other authority, all spending by the Crown must also be generally lawful. Limits on the capacity of the Crown or individual departments usually relate either to legal capacity (the types of transactions that the department is authorised to carry out) or purpose (the types of activities that the department can engage in).

20. There are not many legal limits on departments' capacity or purpose under current legislation.
    - As part of the Crown, all departments have general legal capacity, subject to the limits on engaging in some transactions in Part 6 of the PFA (such as borrowing, issuing securities etc).
    - Only a small number of departments have governing legislation that defines their purpose and functions, and therefore creates limits on what they can spend money on.

21. It is now rare for an issue to arise about whether departmental spending is legal in this general sense. When it does arise, it is usually a complex question requiring specialist legal advice. Auditors should refer such questions to the Assistant Auditor-General – Legal for assistance.

Imprest supply

22. Imprest supply is a statutory mechanism that allows Parliament to provide the Government with the authority to incur expenses or capital expenditure in advance of appropriation by way of an Appropriation Act.

23. Imprest supply is required because the first Appropriation Bill for the year is not normally passed before the beginning of the financial year, and because the changing nature of government activities and unexpected demands means it is impossible to adequately foresee all future expenses and capital expenditure.

24. Cabinet must authorise every use of imprest supply by the Crown. Cabinet Committees and Ministers do not have the authority to approve expenditure under imprest supply, unless Cabinet specifically delegates the authority to them through a Cabinet Office circular. For Offices of Parliament, approval of the proposed expenditure by the Officers of Parliament Committee, along with a recommendation to include the changes in the Supplementary Estimates, is enough. Parliamentary authority must subsequently be sought through the Supplementary Estimates of Appropriation.

25. For a judicial comment on the breadth of an imprest authority, see the case of *Archives and Records Association v Blakeley* [2000] 1 NZLR 607.

The Controller function

26. The Controller function is a key constitutional check. This function is exercised by the Controller and Auditor-General under sections 65Y to 65ZA of the PFA (reproduced in Appendix 3) and section 15(2) of the Public Audit Act 2001 (reproduced in Appendix 1).

27. The main features of the Controller function are:
    - Departments provide information to the Treasury about the expenses and capital expenditure incurred against the authority available. The Treasury collates and monitors this information throughout the year.
    - The Treasury supplies monthly[8] reports to the Controller, to enable the Controller to examine whether expenses and capital expenditure have been incurred in keeping with appropriation or other authority (section 65Y of the PFA).
    - The Central Controller Team[9] reviews the monthly monitoring reports from the Treasury on a global year-to-date basis and operates the Controller function using standard procedures.[10]
    - The Controller can direct a Minister to report to the House in a case where the Controller has reason to believe that any expenditure that has been incurred is unlawful or not within the scope, amount, or period of any appropriation or other authority (section 65Z of the PFA).
    - The Controller can stop payments from a Crown bank account or a departmental bank account, to prevent money being paid out of the account that may be applied for a purpose that is not lawful or not within the scope, amount, or period of any appropriation or other statutory authority (section 65ZA of the PFA).

Monthly statements

28. The Treasury's monthly reports under section 65Y of the PFA must record:
    - all actual expenses and capital expenditure incurred against an appropriation, or other authority, by or under an Act; and
    - all actual expenses and capital expenditure incurred in excess of, or without, an appropriation, or other authority, by or under an Act.

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8 Monthly reporting is not required for July and August.

9 The Central Controller Team is a central team from the OAG and Audit New Zealand, assisted by Appointed Auditors conducting appropriation audits of departments.

10 The joint understanding and expectations about the role and procedures associated with the Controller function are set out in the *Memorandum of Understanding between the Controller and Auditor-General and the Secretary to the Treasury*.

29. Each report must also, in respect of each appropriation or other authority, set out the balance between:

- the amount of expenses and capital expenditure authorised to be incurred; and
- the amount that was actually incurred.

Note that the reference to authority includes a reference to an authority in advance of an appropriation.

Appendix 2 – The appropriation process

The appropriation process is an annual cycle of events based around the government's financial year, which runs from 1 July to 30 June.

Rules

The rules governing the process can be found in:

- the PFA, which:
    - stipulates the form and limits of appropriations and the key parts of the timetable; and
    - requires the Crown to publish certain fiscal information at particular times;
- *Treasury Instructions and Minister of Finance Instructions*, issued under sections 80 and 80A of the PFA, which outline the operational procedures to be followed by departments (including Offices of Parliament), so that the requirements of the PFA are complied with;
- the *Standing Orders* of the House of Representatives, which supplement the statutory timetable provisions and set the rules by which the House and its committees discharge their responsibilities in the process; and
- *Cabinet rules*.

Key stages

The key stages of the appropriation process are:

1. Publication, by 31 March, of a *Budget Policy Statement* under the PFA containing (among other things) the Government's broad strategic priorities for the forthcoming Budget.
2. Introduction and enactment, before 30 June, of the first *Imprest Supply Bill* to give the Government supply from the expiry of the current year's appropriations until the enactment of the first *Appropriation Act* for the new financial year.
3. Presentation of the *Budget* and the *Estimates* to the House, and introduction of the *Appropriation (Estimates) Bill*, followed by select committee consideration (this must happen before 31 July, but current practice is for the Budget and Estimates to be presented at the same time as the first Imprest Supply Bill).
4. Completion of the Estimates debate, followed by enactment of the *Appropriation (Estimates) Act* – by which Parliament appropriates public money to the Crown. Each appropriation is administered by a government department. A further Imprest Supply Act is passed at the same time.
5. A *second Appropriation Bill*, supported by *Supplementary Estimates*, is introduced in the second half of the financial year. Its usual purposes are to allow the Government to commit more resources than initially sought and to alter the uses to which existing appropriations can be put (this Bill is sometimes updated by a Supplementary Order Paper just before the end of the financial year to incorporate the Final Supplementary Estimates, ensuring that the Government does not commit resources in excess of those statutorily allowed. This procedure has not, however, been required in recent years).

6. The Supplementary Estimates are considered by the Finance and Expenditure Committee. After the Committee has reported back to the House, there is a further debate following which the Bill is enacted in the form of the *Appropriation (Supplementary Estimates) Act*. It is usually enacted at the end of the financial year.
7. Reporting by Chief Executives of their department's actual expenditure against each appropriation for which they have been given responsibility by the responsible Minister – together with separate reporting on any unappropriated expenditure.
8. Scrutiny by the House and select committees by way of *annual reviews*.[11]
9. A final Appropriation Bill is introduced following the completion of annual reviews. This validates the previous year's unappropriated expenditure, expenses, and liabilities. These amounts are reported to Parliament in the Financial Statements of the Government and in a report by the Minister of Finance accompanying the Bill, which in due course is enacted as the *Appropriation (Confirmation and Validation) Act.*[12]

Imprest Supply

With the enactment of an Appropriation Act, all previous Imprest Supply Acts are repealed and the expenditure authority is included in the Appropriation Act. However, to introduce flexibility, another Imprest Supply Act is passed giving the Government authority to spend in advance of appropriations. The effect of this procedure is that the Government has imprest supply authority, up to the dollar limit stipulated in the current Imprest Supply Act, at all times.

[11] Previously called financial reviews.

[12] Previously called the *Appropriation (Financial Review) Act*.

Summary of timetable

The timetable set out below illustrates the timing of the appropriation process as required by the PFA. It reflects the statutory position regarding Appropriation Bills and current practice regarding imprest supply, and recognises that the Budget process precedes the introduction of Appropriation Bills by several months.

TIMING OF THE APPROPRIATION PROCESS **(as required by the Public Finance Act 1989 and Standing Orders)**		
Period	**Event**	**Supply**
By 31 March	Budget Policy Statement	
Before 1 July	Introduction and passing of Imprest Supply Act (No. 1)	Imprest
1 July	Financial year starts	
By 31 July	Budget: Introduction of Appropriation Estimates Bill	
July/August/September	Select Committee examination of the Estimates must be completed by 30 September	
October	Parliamentary debate on the Budget	
By 31 October	Pass Appropriation Act (No. 1) Pass Imprest Supply Act (No. 2)	Appropriation Imprest
March	Pass Imprest Supply Act (No. 3)	Imprest
By 31 May	Introduce Appropriation (Supplementary Estimates) Bill	
June	If required, introduce and pass Final Supplementary Estimates Pass Appropriation (Final Supplementary Estimates) Bill	Appropriation
By March	Introduce and pass Appropriation (Confirmation and Validation) Bill	

Appendix 3 – Key requirements of the Public Finance Act 1989

Key requirements in relation to appropriations

4 Expenses or capital expenditure must not be incurred unless in accordance with appropriation or statutory authority

(1) The Crown or an Office of Parliament must not incur expenses or capital expenditure, except as expressly authorised by an appropriation, or other authority, by or under an Act.

(2) In this section, **expense** does not include an expense that results from –

- (a) a re-measurement[13] of an asset or a liability; or
- (b) an operating loss incurred by –
  - (i) a Crown entity named or described in the Crown Entities Act 2004; or
  - (ia) a Schedule 4 organisation; or
  - (ii) a Schedule 4A Company; or
  - (iia) a mixed ownership model company listed in Schedule 5; or
  - (iii) a State enterprise named in Schedule 1 of the State-Owned Enterprises Act 1986; or
  - (iv) the Reserve Bank of New Zealand; or
  - (v) any other entity whose financial statements must be consolidated into the financial statements of the Government to comply with generally accepted accounting practice.

4A Authority to incur expenses or capital expenditure under Imprest Supply Act

(1) The authority given by an Imprest Supply Act to incur expenses or capital expenditure in a financial year in advance of appropriation is an authority under an Act for the purposes of sections 4(1) and 26C(1).

(2) However, subsection (1) does not apply unless an appropriation for the expenses or capital expenditure is made before the end of the financial year.

5 Public money must not be spent unless in accordance with statutory authority

The Crown or an Office of Parliament must not spend public money, except as expressly authorised by or under an Act (including this Act).

6 Authority to spend public money

Public money may be spent, without further authority than this section, for the purpose of –

- (a) meeting expenses or capital expenditure incurred in accordance with an appropriation or other authority by or under an Act; and

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[13] Re-measurements as defined in the PFA:
- *(a) means revisions of prices or estimates that result from revised expectations of future economic benefits or obligations that change the carrying amount of assets or liabilities; but*
- *(b) does not include:*
  - *(i) revisions that result from transactions or events that give rise to the initial recognition of assets or liabilities in the reporting period; or*
  - *(ii) revisions that result from transactions or events directly attributable to actions or decisions taken by the Crown; or*
  - *(iii) expenses that arise from the consumption of assets during the reporting period; or*
  - (iv) *interest income or interest expenses.*

(b) the payment of goods and services tax in relation to those expenses or capital expenditure; and

(c) the repayment of debt of the Crown or an Office of Parliament; and

(d) the settlement of liabilities of the Crown or an Office of Parliament.

7 Expenses and capital expenditure must be allocated to appropriation type

All expenses and capital expenditure to be incurred in any financial year must be allocated to one of the appropriation types set out in section 7A(1) within a Vote specified in an Appropriation Act.

7A Appropriation types

(1) An appropriation must be an appropriation for—

(a) 1 category of output expenses; or

(b) 1 category of benefits or related expenses; or

(c) 1 category of borrowing expenses; or

(d) 1 category of other expenses; or

(e) 1 category of capital expenditure; or

(f) expenses and capital expenditure to be incurred by an intelligence and security department; or

(g) 2 or more categories of 1 or more of the following:

(i) output expenses:

(ii) other expenses:

(iii) non-departmental capital expenditure.

(2) For the purposes of this section,—

(a) a category of output expenses must not include both departmental and non-departmental expenses; and

(b) a category of other expenses must not include both departmental and non-departmental expenses; and

(c) a category of capital expenditure must not include both departmental and non-departmental capital expenditure.

7B Requirements for multi-category appropriations

A multi-category appropriation described in section 7A(1)(g)—

(a) must be approved by the Minister; and

(b) must include only categories of expenses or non-departmental capital expenditure that contribute to a single overarching purpose.

7C Responsibility for, and administration and use of, appropriations

(1) An appropriation is made to the Crown or an Office of Parliament.

(2) In the case of an appropriation made to the Crown,—

(a) a Minister (the **appropriation Minister**) is responsible for the appropriation; and

(b) the appropriation must be administered by 1 department (the **appropriation administrator**) on behalf of the appropriation Minister; and

(c) if the appropriation is an appropriation for departmental expenses or a multi-category appropriation, any other department may incur expenses against the appropriation—

(i) at the direction of the appropriation Minister; or

(ii) with the agreement of the appropriation administrator.

(3) Despite subsection (2)(a), the Speaker is responsible for any appropriation administered by the Office of the Clerk of the House of Representatives or the Parliamentary Service.

(4) In the case of an appropriation made to an Office of Parliament,—

(a) the Speaker is responsible for the appropriation; and

(b) the appropriation must be administered by that Office of Parliament."

8 Appropriation limited by amount

The authority to incur expenses or capital expenditure provided by an appropriation under an Appropriation Act –

(a) is limited to the amount specified for the appropriation by or under that Act; and

(b) may not be exceeded (except as provided for in section 25 or section 26A or section 26B).

9 Appropriation limited by scope

(1) The authority to incur expenses or capital expenditure provided by an appropriation –

(a) is limited to the scope of the appropriation; and

(b) may not be used for any other purpose.

(2) For the purposes of subsection (1), –

(a) the scope of a multi-category appropriation is the scope of each of the individual categories of expenses or non-departmental capital expenditure included in that appropriation; and

(b) any variation made by the Minister of the terms and conditions of a capital injection to any entity referred to in section 27(3)(a) to (f) does not change the scope or purpose of that capital injection.

10 Appropriation limited by period

(1) The authority to incur expenses or capital expenditure provided by an appropriation under an Appropriation Act lapses at the end of the financial year to which the Act relates.

(2) However, if an Appropriation Act provides that the authority to incur expenses or capital expenditure applies for more than 1 financial year, that authority –

(a) lapses at the end of the period specified in the Act; and

(b) continues in force until the end of the period specified despite the repeal of the Act, unless the authority is expressly varied, revoked, or replaced by an authority in another Appropriation Act.

(3) Despite subsection (2), the authority to incur expenses or capital expenditure must not apply for more than 5 financial years.

11 Expenses or payments authorised other than by Appropriation Act

(1) If an Act (other than an Appropriation Act) expressly provides for payments to be appropriated by or under that Act, any expense or capital expenditure incurred that gives rise to the need for those payments may be incurred without further appropriation than this section.

(2) Each expense or capital expenditure incurred in accordance with an appropriation, or other authority, by or under an Act (other than an Appropriation Act) must be managed and accounted for in the same manner as expenses or capital expenditure incurred in accordance with an Appropriation Act.

65ZH Permanent legislative authority for payment of certain expenses

(1) Any expenses incurred in connection with any of the following matters may be incurred without further appropriation, and must be paid without further authority, than this section:

Expenses in respect of money borrowed by the Crown

- (a) negotiating the borrowing of money by the Crown:
- (b) undertaking, managing, servicing, converting, or repaying borrowing described in paragraph (a):

Expenses in respect of securities

- (c) issuing a public security in respect of the Crown:
- (d) executing, redeeming, or varying a public security described in paragraph (c):

Expenses relating to derivative transactions of the Crown

- (e) negotiating a derivative transaction of the Crown:
- (f) managing, servicing, or making payments under a derivative transaction described in paragraph (e):

Expenses relating to investment

- (g) negotiating an investment referred to in section 65I:
- (h) placing, managing, servicing, or converting an investment referred to in section 65I.

(2) In this section, **expenses**—

- (a) includes—
  - (i) duties, taxes, premiums, bonuses, fees, interests, and commissions; and
  - (ii) any expenses incurred on personnel and equipment necessary in connection with the matters set out in subsection (1); but
- (b) does not include expenses incurred in connection with—
  - (i) money borrowed by the Crown under a hire purchase agreement, a finance lease agreement, or any agreement that is of the same nature as or a substantially similar nature to either of those agreements; or
  - (ii) a guarantee or an indemnity on behalf of or in the name of the Crown given under this Act or any other enactment.

The Controller Function

65Y. Treasury must report on all expenses and capital expenditure incurred with or without appropriation or other statutory authority—

(1) The Treasury must, within the time required under subsection (3), prepare and submit to the Auditor-General a report that sets out—

- (a) all actual expenses and capital expenditure incurred against an appropriation, or other authority, by or under an Act; and
- (b) all actual expenses and capital expenditure incurred in excess of, or without, an appropriation, or other authority, by or under an Act.

(2) The report must also set out, for each appropriation, or other authority, by or under an Act, the balance between—

- (a) the amount of expenses and capital expenditure authorised to be incurred; and
- (b) the amount that was actually incurred.

(3) The time required is 3 working days after the Treasury receives the information from departments that is required for the preparation of the monthly Financial Statements of the Government reporting entity under section 31A.

(4) To avoid doubt, this section does not limit the powers of the Auditor-General, under Part 4 of the Public Audit Act 2001, to access information from a public entity or any person.

(5) In this section, a reference to authority includes a reference to an authority in advance of an appropriation.

(6) In this section and sections 65Z and 65ZA, a reference to the Auditor-General is a reference to the Auditor-General in his or her capacity as Controller and Auditor-General.

65Z. Auditor-General may direct Ministers to report to House of Representatives in cases involving unlawful expenses, etc—

(1) The Auditor-General may direct a Minister to report to the House of Representatives if the Auditor-General has reason to believe that expenses or capital expenditure for which that Minister is responsible have been incurred for a purpose that—

- (a) is not within the scope, amount, or period of any appropriation, or other authority, by or under an Act; or
- (b) is, for any other reason, unlawful.

(2) The report must set out the following details:

- (a) the nature and extent of any alleged breach of the appropriation or other authority that the Auditor-General has reason to believe has occurred; and
- (b) the events that gave rise to the alleged breach; and
- (c) the remedial action taken or proposed to be taken to correct the breach and prevent its recurrence.

(3) If the Minister is of the opinion that there has not been a breach, the report—

- (a) must set out the details specified in subsection (2)(a) and (b); and
- (b) must also state—

(i) that the Minister is of that opinion; and

(ii) the Minister's reasons for that opinion.

(4) The Minister responsible for the expenses or capital expenditure must—

(a) comply with the direction within 20 working days after receiving it; or

(b) if Parliament is not in session,—

(i) publish the information required by subsection (2) or, as the case may be, subsection (3) in the *Gazette* within 20 working days after receiving the direction; and

(ii) present the information to the House as soon as possible after the commencement of the next session of Parliament; or

(c) if the direction is made after the end of the financial year,—

(i) comply with the direction by including the information required by subsection (2) or, as the case may be, subsection (3) in the report under section 26C; or

(ii) comply with the direction within 20 working days after receiving it.

65ZA. Auditor-General may stop payments out of Bank Accounts—

(1) This section applies if the Auditor-General has reason to believe that any money to be paid out of a Crown Bank Account or a Departmental Bank Account may be applied for a purpose that—

(a) is not within the scope, amount, or period of any appropriation, or other authority, by or under an Act; or

(b) is, for any other reason, unlawful.

(2) If this section applies, the Auditor-General may direct the Minister, the Treasury or, as the case may be, the department concerned to stop payments out of that Crown Bank Account or Departmental Bank Account.