



## AUSTRALASIAN STUDY OF PARLIAMENT GROUP

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### **Recent developments in financial scrutiny in New Zealand**

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#### **Introduction**

In this paper, I briefly outline the work of the New Zealand Parliament's Finance and Expenditure Committee and then discuss recent amendments to the Public Finance Act 1989. The amendments are intended to improve financial flexibility to facilitate innovation and different ways of working within Government, as well as to require the provision of more meaningful information to Parliament about what State services are spending and achieving, so as to enhance its financial scrutiny functions.

#### **New Zealand's Finance and Expenditure Committee**

The Finance and Expenditure Committee was established in 1985 when it took over appropriation co-ordinating functions from the Public Expenditure Committee.<sup>1</sup> Its ability to scrutinise public accounts was strengthened in 1986 and in 1994.<sup>2</sup>

The committee is one of thirteen subject select committees established at the beginning of each Parliament and, like the other subject select committees the House may refer to it bills, petitions, international treaty examinations, and other matters which fall within its subject area. The committee's basic subject area of competence is audit of the Government's and departments' financial statements, Government finance, revenue, and taxation.<sup>3</sup>

In New Zealand financial scrutiny of the Government is undertaken by all of the thirteen subject select committees, including the Finance and Expenditure Committee. The Finance and Expenditure Committee has additional financial scrutiny functions, including responsibility for the overall co-ordination of financial scrutiny by all committees. It takes a lead role in the parliamentary oversight and scrutiny of

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<sup>1</sup> David McGee, *Parliamentary Practice in New Zealand*, 3<sup>rd</sup> edition, Dunmore Publishing Ltd, 2005, p 451 – a committee with a similar role and functions has existed in some form since 1858.

<sup>2</sup> John E Martin, *The House: New Zealand's House of Representatives 1854-2004*, Dunmore Press, 2004, p 307.

<sup>3</sup> McGee p 451.

proposed and past Government expenditure and reviews of the annual performance and operations of Government departments, Officers of Parliament, Crown entities, public organisations, and State enterprises.

All Estimates examinations stand referred to the Finance and Expenditure Committee when the Budget is presented, and the committee can choose to either examine particular Votes itself or refer them to the appropriate subject select committee for examination. The committee takes a lead in determining how the scrutiny of Estimates works across all committees by approving the standard estimates questionnaire each year.

As with the Estimates examinations, the committee can choose to retain particular financial review examinations of the performance and operations of departments or entities, or it can allocate these to the appropriate subject select committee.

The Finance and Expenditure Committee is also responsible for examining key financial reports, such as the budget policy statement and various financial statements and updates by the Government. Unlike some other public accounts committees in other Parliaments, the committee also has the opportunity to undertake a broader and more conceptual examination of New Zealand's economic direction as a result of its scrutiny of the statement on the Crown's long-term fiscal position.<sup>4</sup> The Public Finance Act 1989 requires Treasury to produce the statement at least every four years. These statements provide 40-year projections on the fiscal position, identify challenges that will face future Governments, such as those arising from society's ageing population, and provide members of the public with information on evidence-based options for meeting those challenges. The committee is currently considering the latest statement.

The committee also has the ability to initiate inquiries into, or receive briefings on, any business within its subject area.

### **Interface with the Office of the Auditor-General**

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament.<sup>5</sup> As an Officer of Parliament he or she operates independently of the Executive and of Parliament in discharging the functions of the office. The Auditor-General is, however, answerable to Parliament for the stewardship of the public resources entrusted to the office. The work of the Auditor-General is carried out by two business units—the Office of the Auditor-General and Audit New Zealand. Audit New Zealand is the operating arm of the office. Its business is to provide annual audits and other assurance services to public entities.

During the Budget process, the Finance and Expenditure Committee examines the estimates for Vote Audit.

In terms of accountability for expenditure, as with all public service entities and Officers of Parliament, the Auditor-General is required by the Public Finance Act 1989 to present an annual report to the House at the end of each financial year. The

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<sup>4</sup> Public Finance Act 1989, s 26N.

<sup>5</sup> Public Audit Act 2001, s 7.

annual report enables the Auditor-General to explain to Parliament and the public what he or she has done and how well the Office has performed during the year. It includes financial and non-financial information and discusses the extent to which the Office has achieved its goals for the year. Once the annual report of the Auditor-General is presented to the House, the financial review of the Office stands referred to the Finance and Expenditure Committee for examination. The committee examines the performance and operations of the Office over the previous financial year and reports on this to the House.

### **Draft annual plan of the Auditor-General**

The Auditor-General is required to prepare and submit a draft annual plan to the Speaker of the House of Representatives at least 60 days before the beginning of each financial year.<sup>6</sup> The plan lists the proposed work programme for the year and must be finalised and presented before the beginning of the financial year. This presentation of a draft annual plan to the House is an important way of allowing Parliament some limited input into the Auditor-General's proposed work programme.

The Finance and Expenditure Committee is responsible for facilitating select committee comment on the draft annual plan. In providing comment, committees are mindful of the Auditor-General's independent role. Through the implementation of this review process the committee has helped to enhance understanding of, and respect for, the relationship between Parliament and the Auditor-General.

### **Recent amendments to the Public Finance Act**

The Public Finance Act 1989 sets out law governing the use of public financial resources. In doing so, it provides the framework to facilitate the effective and efficient application of those resources as well as transparent accountability and reporting. The Act was recently amended by the Public Finance Amendment Act 2013 with the intention of achieving two key objectives. The first key objective was to improve financial flexibility to facilitate innovation and different ways of working within executive Government. This includes a deliberate move away from a previous focus on individual departments and Votes to a more sector-based approach.

The second key objective was to require the provision of more meaningful information to Parliament about what State services are spending and achieving, so as to enhance its financial scrutiny functions.

The changes proposed are intended to:

- Shift the emphasis of end-of-year reporting from reporting by departments to reporting against appropriations
- Improve the quality of information received by Parliament and reduce the compliance costs of providing it
- Improve the ability for Parliament and Ministers to scrutinise and control departmental capital expenditure.

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<sup>6</sup> Public Audit Act 2001, s 36.

Specific changes proposed in the bill would:

- Establish a new multi-category appropriation
- Clarify that more than one department can incur expenses under an appropriation
- Shift the emphasis in reporting to what is intended to be achieved and what has been achieved with appropriations
- Remove the existing one-size-fits-all approach to reporting requirements by providing flexibility for how performance is specified and where it will be reported
- Provide a more strategic focus to reporting on a department's future intentions and providing this information at least three-yearly instead of annually
- Clarify a departmental chief executive's financial responsibilities with respect to the department
- Clarify a departmental chief executive's responsibilities with respect to non-departmental appropriations and transactions.

The amendments contained in the bill also anticipate changes being made to the content and format of the Estimates and the Information Supporting the Estimates, and to the content and format of departments' future strategic intentions as well as year-end reporting on appropriations and annual reports.

### **Further recent changes to reporting requirements**

Further amendments to the Public Finance Act were made a month ago through the enactment of the Public Finance (Fiscal Responsibility) Amendment Act 2013. This Act amends the fiscal responsibility provisions of the Public Finance Act 1989 by adding new principles of responsible fiscal management. The Act also amends some reporting requirements. For example, fiscal strategy reports will need to include an assessment of the extent to which the Government's fiscal performance is consistent with its fiscal strategy and be clear about what the Government is trying to achieve and how its management of the Crown's resources contributes to those goals.

### **Changes to House procedure**

It is likely that the Standing Orders Committee will need to consider whether any changes to Standing Orders should be made following the changes which have been discussed in this paper. The New Zealand Parliament undertakes a review of Standing Orders at the end of each Parliament. The process for the next review has recently commenced and any changes which need to be made will be considered over the next year.