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**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA



**TE TAI ŌHANGA
THE TREASURY**



Inland Revenue
Te Tari Taake

Joint Report: Update on Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Date:	5 March 2021	Report No:	T2021/411
		File Number:	SH-3-5

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents	Friday 12 March 2021
Minister for Social Development and Employment (Hon Carmel Sepuloni)	Note the contents	Friday 12 March 2021
Minister of Revenue (Hon David Parker)	Note the contents	Friday 12 March 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
9(2)(a)	Principal Adviser, Welfare & Oranga Tamariki, The Treasury	9(2)(a) (wk)	N/A (mob)	√
Keiran Kennedy	Manager, Welfare & Oranga Tamariki, The Treasury	N/A (wk)	9(2)(a) (mob)	
Richard Owen	Customer Segment Lead, Inland Revenue	N/A (wk)	9(2)(a) (mob)	
George Van Ooyen	Group General Manager, Client Service Support, Ministry of Social Development		9(2)(a) (mob)	

Minister's Office actions

All: Return the signed report to your agency.

Hon Sepuloni: Refer to the Minister for Workplace Relations and Safety, due to proposed coverage of employment law interactions in Wage Subsidy evaluation (para. 7.d).

Enclosure: No

Joint Report: Update on Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Executive Summary

On 14 September 2020, the Auditor-General announced his intention to undertake a performance audit of the COVID-19 Wage Subsidy Scheme. The Office of the Auditor-General has shared the draft performance audit report with Agencies. The draft report finds that the scheme was managed effectively overall and that many integrity steps were consistent with best practice. The report notes some further steps that could be taken to strengthen the audit and assurance processes and recommends an approach to address these, including for payments made to date.

Officials are discussing the report with the Office of the Auditor-General and developing an action plan to address the report's recommendations. We will share the action plan, including advice on communications, with Ministers by the end of March, before the Auditor-General's report is due to be published in early April.

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Recommended Action

We recommend that you:

- a **note** the contents of this report.

9(2)(a)



Keiran Kennedy
**Manager, Welfare & Oranga Tamariki
The Treasury**

9(2)(a)



George Van Ooyen
**Group General Manager, Client Service
Support,
Ministry of Social Development**

9(2)(a)



Richard Owen
**Customer Segment Lead
Inland Revenue**

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
**Minister for Social Development and
Employment**

Hon David Parker
Minister of Revenue

Joint Report: Update on Auditor-General's Performance Audit of the COVID-19 Wage Subsidy

Background

1. The Auditor-General is auditing the performance of the COVID-19 Wage Subsidy Scheme. The performance audit was announced on 14 September 2020. The purpose of a performance audit is to assure Parliament, public entities, and the public that public entities are delivering what they have been asked to.
2. The audit question is: 'How effectively has the Wage Subsidy been managed by the public sector using a "high trust" model?'. The Ministry of Social Development (MSD), Inland Revenue (IR), Ministry of Business, Innovation and Employment (MBIE) and the Treasury are in scope of the audit.
3. The Office of the Auditor General (OAG) has shared its preliminary findings with agencies. This report covers those findings and the initial agency response plan.
4. The OAG report is due to be published in early April and will be tabled in the House.

Report Findings

5. The draft report acknowledges that the COVID-19 Wage Subsidy Scheme was commissioned by Ministers to use a 'high trust' model and that officials worked under exceptional urgency to stand up the scheme.
6. In summary, key findings of the report are:
 - a. The Wage Subsidy Scheme was managed very effectively in terms of its quick development, and timely processing and payment;
 - b. Many of the integrity steps taken were consistent with best practice for emergency situations; and
 - c. There are some additional enforcement and audit actions that MSD should take to provide assurance around scheme expenditure.
7. Key recommendations in the preliminary report are:
 - a. Any future scheme should use sufficiently specific and complete criteria for applicants to make informed decisions about eligibility;
 - b. Any future scheme should use robust post-payment checks, including audits that verify eligibility against documentary evidence for a sample of applications (MSD's current audit approach generally involves verbal discussion with employers and employees);
 - c. MSD should prioritise and resource outstanding enforcement and audit work, including:
 - i. Writing to applicants to confirm they still meet scheme eligibility criteria;
 - ii. Testing a sample of paid applications by checking against documentary evidence; and
 - iii. Pursuing prosecutions.

- d. Agencies should undertake an evaluation to inform the development of any future wage subsidy settings, including the interaction with employment law.

Risks

8. The report raises some risks for agencies and the Government.
9. The OAG acknowledges the 'high-trust' model agreed for the scheme involved only light pre-payment checks in order to support rapid payments. The OAG also notes that in many instances MSD audit work is supported by joint risk analysis with IR and by information held by government or obtained by talking with the applicant. This has informed requests for refunds and more detailed investigation.
10. However, the OAG notes that, as MSD's audits often relied on discussions with applicants, the high-trust approach should be backed up with robust post-payment checks, including checking against documentary evidence. This helps assess the overall level of fraud and error, maintain a credible deterrent and provide assurance that public expenditure is effective and has appropriate controls.
11. MSD has already made changes to the new Wage Subsidy (WSSMAR21) declaration to ensure applicants prepare and retain documentary evidence of how the decline in revenue was attributable to the move to Alert Level 3 on 14 February 2021.
12. Audit NZ has made similar recommendations to MSD on strengthening its approach to auditing wage subsidy applications.
13. Carrying out the additional audit work suggested by the OAG, for historic and future schemes, will help mitigate these risks and may lead to additional voluntary repayments by subsidy recipients.
14. There is a challenge for MSD in providing resource and capability to complete the audit work as scoped by the OAG. MSD is addressing this by defining an appropriate scope for the work (in discussion with OAG) and working with IR to access appropriate skills.
15. IR notes that it also faces resourcing constraints currently, due to delivery and support of other COVID-19 measures, including the Small Business Cashflow Scheme, the Resurgence Support Payment, WSSMAR21, the final Business Transformation release, its upcoming annual peak period and overall "business as usual" activity to maintain the integrity of the tax and social policy systems.
16. Any resource requirements from IR in relation to the OAG's recommendations will need to be considered in this context – and this will continue to be a focus of the working group considering these recommendations.

Next Steps

17. MSD, IR and the Treasury have established a working group that is developing a plan of actions in response to the OAG findings. We are engaging with MBIE as necessary on employment law aspects.
18. The action plan is likely to include:
 - a. Writing to applicants and auditing a sample of applications from the Wage Subsidy Schemes, in line with the OAG recommendation;
 - b. Ongoing and planned work on prosecutions;

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- c. Communications to accompany the publication of the report; and
 - d. A cross-agency evaluation plan (we note Cabinet has authorised joint Ministers to draw down up to \$1m from the COVID-19 Response and Recovery Fund for this purpose [CAB-21-MIN-0043 refers]).
19. We are discussing the approach with the OAG to ensure the actions proposed will fully address concerns in the report.
20. Agencies will report back before the end of March on the OAG's finalised report, the proposed plan of action, any resourcing requirements and support for Ministers to plan for communications around the release.

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