



Implementation of recommendations – Management of the Wage Subsidy Scheme

21 December 2021

Dr Duncan Webb
Chairperson, Finance and Expenditure Committee
Parliament Buildings
WELLINGTON

Tēnā koe Dr Webb

IMPLEMENTATION OF RECOMMENDATIONS – MANAGEMENT OF THE WAGE SUBSIDY SCHEME

In May 2021, my report, *Management of the Wage Subsidy Scheme*, was presented to Parliament. The Finance and Expenditure Committee (the Committee) subsequently considered the report and provided its own report to Parliament in August 2021.

This letter describes work we carried out in November 2021, following up on the implementation of the recommendations from our report, and sets out our view of the progress that has been made.

Context

On 17 March 2020, the Government introduced the Wage Subsidy Scheme (the Scheme) to support businesses affected by Covid-19 to retain their employees. The Government intended that this would help preserve employment connections between employers and employees and provide income for employees when they were unable to work due to Covid-19 related restrictions.

Our original audit looked at the management of the first three iterations of the Scheme. At the time of our work, more than \$13 billion of public money, excluding administration costs, had been spent on the Scheme. Since our work, the Government has implemented further iterations of the Scheme in March 2021 and from August 2021. Spending on the Scheme to the end of November 2021 is almost \$18 billion (note that this figure is not yet audited and includes repayments). It remains the Government's largest single item of Covid-19 related expenditure.

As for the first three iterations of the Scheme, public servants have continued to work hard to make Wage Subsidy payments in a generally timely manner to large numbers of applicants. I acknowledge these efforts.

Findings and recommendations from our original performance audit

Our original audit found that a “high-trust” approach was taken to Wage Subsidy payments to ensure that funds were distributed quickly. This meant approving applications based on a declaration from applicants that they met the eligibility criteria. In our report, we said that because the approach involved limited verification of application information before payments were made, this needed to be balanced by appropriate integrity checks after payments had been made. This is important because a high-trust approach has greater risks of fraud and error.

I made five recommendations for the Ministry of Social Development (MSD), the Inland Revenue Department (Inland Revenue), the Treasury, and the Ministry of Business, Innovation and Employment to consider. The recommendations were focused on protecting the integrity of the Scheme to ensure that public money was spent appropriately.

I recommended that when public organisations are developing and implementing crisis-support initiatives that approve payments based on “high-trust”, they:

1. ensure that criteria are sufficiently clear and complete to allow applicant information to be adequately verified; and
2. put in place robust post-payment verification measures, including risk-based audits against source documentation, to mitigate the risks of using a high-trust approach.

In relation to the Scheme, I recommended that MSD:

3. test the reliability of a sample of the post-payment assurance work it carried out against documentary evidence held by applicants;
4. prioritise remaining enforcement work, including:
 - seeking written confirmation from applicants (which could be targeted towards larger or risk-indicated applicants) of compliance with the eligibility criteria and the obligations of receiving the subsidy; and
 - pursuing prosecutions to recover funds and to hold businesses to account for potentially unlawful behaviour.

I also recommended that MSD, Inland Revenue, the Ministry of Business, Innovation and Employment, and the Treasury:

5. carry out timely evaluation of the development, operation, and impact of the Scheme and use the findings to inform preparation for future crisis-support schemes.

My Office has followed up on the implementation of our recommendations

Given there have been subsequent iterations of the Scheme that were not covered in our original audit, I thought it would be useful to follow up on the extent to which our recommendations have been implemented in those subsequent iterations.

Our Appointed Auditor followed up on MSD's progress in implementing recommendations through the annual audit of MSD. We also sought a self-assessment of progress from MSD, Inland Revenue, and the Treasury, and reviewed some documentation to test aspects of those responses. We did not seek a self-assessment from the Ministry of Business, Innovation and Employment because it was not the primary focus of our recommendations. This letter sets out our view about the information those agencies provided and the progress that has been made.

We have shared our findings with MSD, Inland Revenue, and the Treasury. We have also shared our findings about evaluation of the Scheme with the Ministry of Business, Innovation and Employment. All those organisations' responses have been considered and are reflected in this letter, where appropriate.

Summary of progress since May 2021

Overall there has been good progress with implementing the recommendations in my original report. A requirement for applicants to keep records has been introduced; work has started to test the reliability of earlier post-payment assurance work; some prosecutions are being progressed; and an evaluation has been planned and resourced. All this work should help improve the integrity of the Scheme.

We summarise our assessment in the table in [Appendix 1](#) to this letter and provide our detailed assessment in [Appendix 2](#). [Appendix 2](#) also includes some questions the Committee may wish to ask MSD about its progress with our recommendations.

Remaining areas of concern

Although MSD and the other public organisations involved are making progress, there is more to be done.

The work to implement the recommendations from our report has revealed some previously unknown non-compliance with requirements of the Scheme. For example, MSD asked for supporting documentation from a sample of 339 applicants it had previously subjected to a post-payment review. By late October 2021, 186 people had responded. Subsequently 14 (7.5%) of those were required to provide a full or partial refund and two were referred for further investigation based on the evidence or lack of evidence provided.

This reinforces the need for MSD to better understand the level of non-compliance across all iterations of the Scheme so it can take action to recover funds where payments were made to applicants who did not meet the criteria or their obligations. If the level of non-compliance identified to date is indicative of the level across the whole Scheme, it could involve a significant amount of public money.

MSD told us that it intends to analyse the results of all integrity and assurance work to inform a risk-based assessment of next steps and determine what further integrity work needs to be completed, if any, to strengthen the integrity of the Scheme. MSD has said that this analysis will happen in 2022.

It is important for officials to continue post-payment assurance work until such time as they can provide the public and Parliament with reasonable confidence that public funds have only been paid to businesses who have met the Scheme's criteria and obligations. In my view, we are not there yet.

We will continue to monitor progress with implementing our recommendations through our annual audit and ongoing engagement our sector managers have with the relevant agencies, particularly with MSD.

We would be happy to discuss with the Committee our assessment of the agencies' progress in implementing our recommendations, and to answer any questions the Committee might have. The Committee might also wish to invite the agencies involved to present their progress on our recommendations in person.

Because of the level of public interest in the implementation of the Scheme and its integrity, we will publish this letter and appendices on our website.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JM Ryan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General