Doing more with even less

The increasing internal audit gaps in New Zealand's public sector

November 2025

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Introduction

Twenty four public sector internal audit (IA) leaders participated in Grant Thornton New Zealand's annual research into IA in the public sector, representing a mix of central government agencies, crown entities and state owned enterprises.

This year's research reveals changes to the public sector continue to increase the pressure on services, systems, processes, people and budgets. And while doing more with less has been the new normal for a number of years, it appears IA leaders and their teams are working with less than ever before. Most public sector organisations, and IA teams, have had their budgets cut or have undergone a reorganisation – or both.

While the survey identified more organisations were impacted by budget cuts or reorganisation than expected, the impact has been less significant on IA team members than feared.

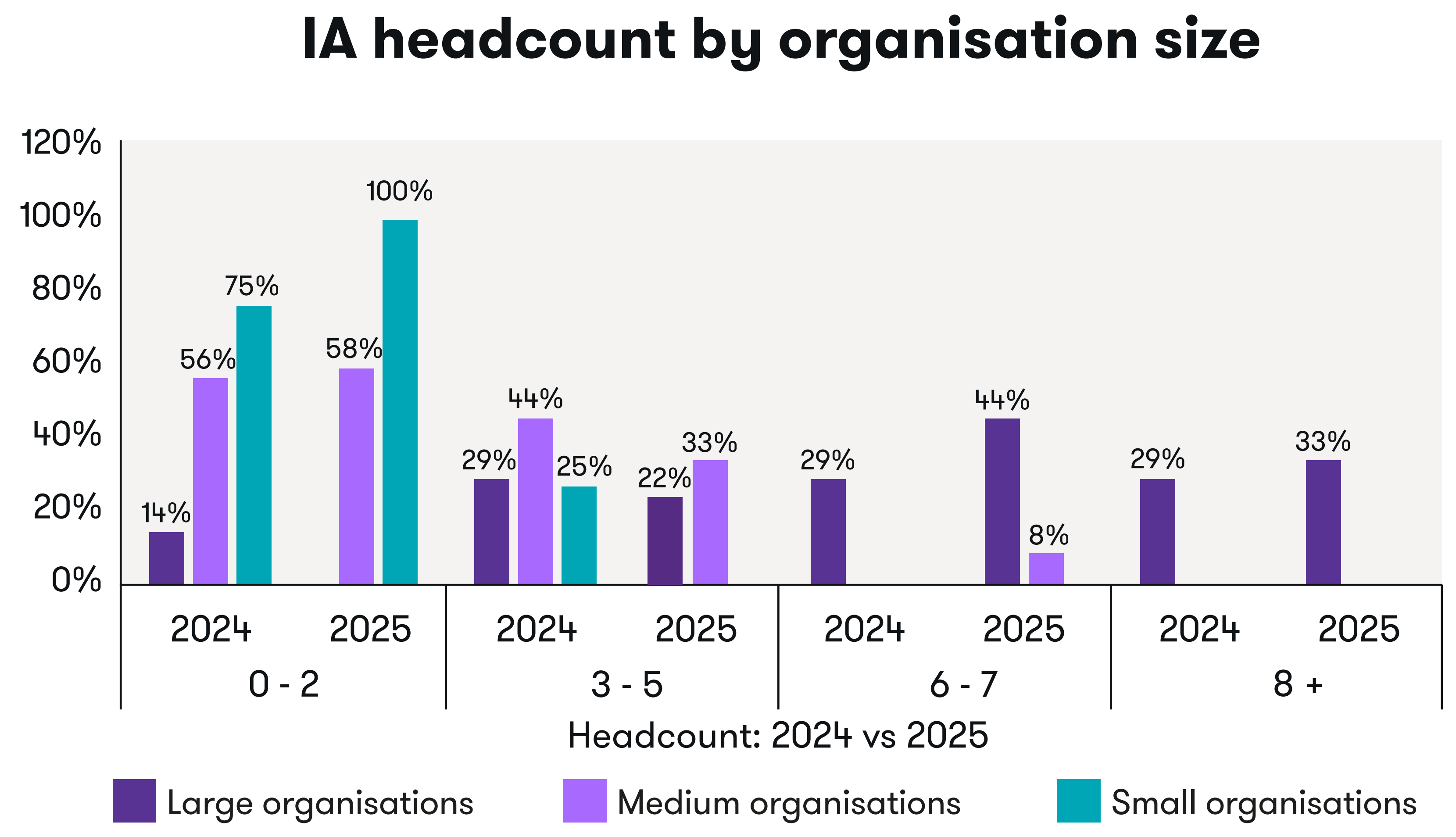
Over half the survey participants identified competing organisational priorities as a key challenge, exacerbated by continued "firefighting" as they, and their organisations strive to cope with the additional stress on control environments caused by reduced budgets and headcount, and increasing demands from central agencies.

Public sector IA is at risk of becoming locked into reactive responses rather than proactively assuring their organisation is safe, effective and efficient. While immediate firefighting is beneficial to the organisation, losing focus on the risks that matter to the organisation is potentially detrimental in the long term.

Our research clearly demonstrates IA leaders are increasingly looking to technology to help them deliver assurance effectively and efficiently; however, it's also clear there is a marked difference between their intention to use technology and actually implementing it in certain areas.

The skills squeeze

Internal resource



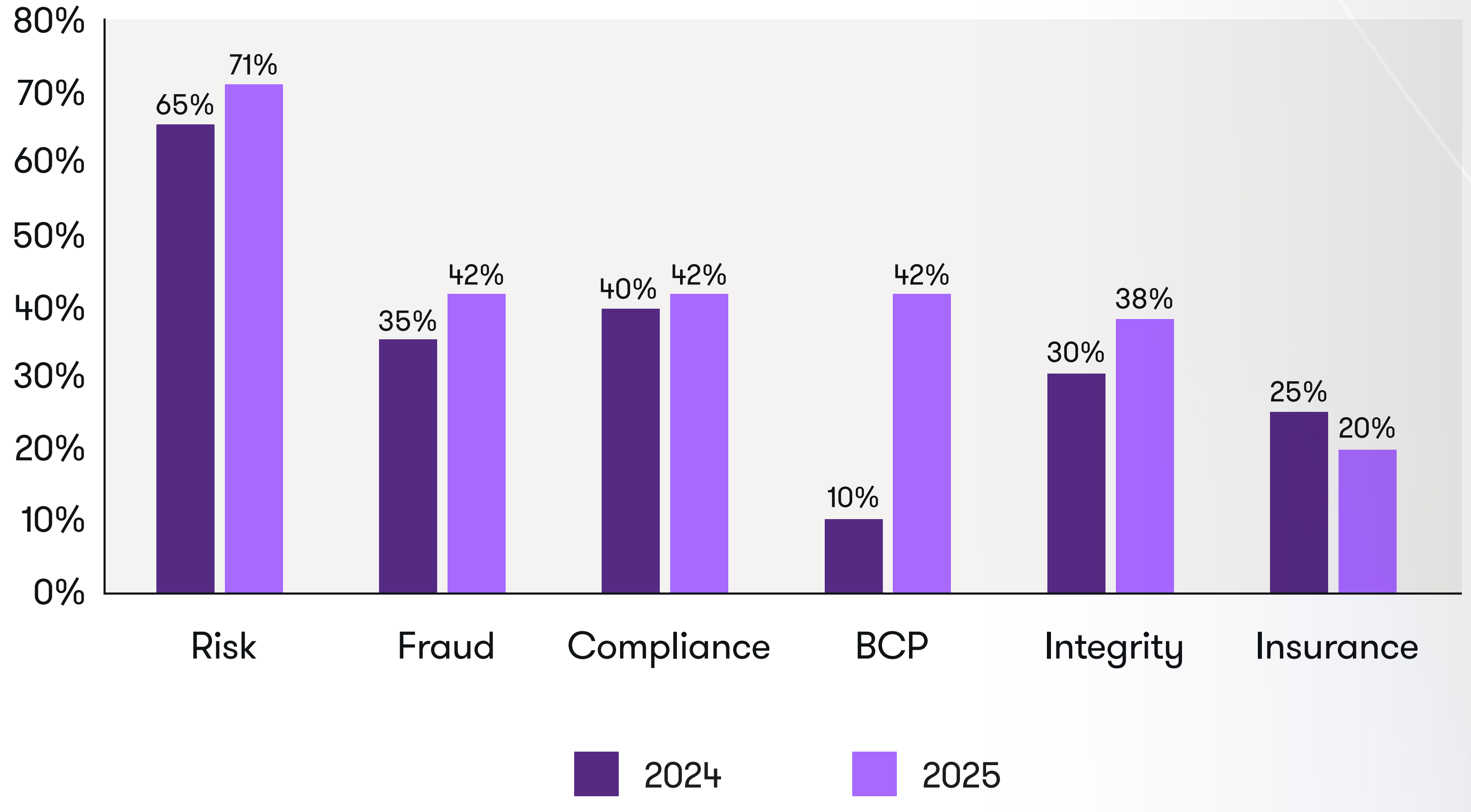
Some movement between head count bands can be identified between 2024 and 2025, but the numbers appear to be broadly consistent with 2024. Nearly two thirds of the IA leaders surveyed reported budget reductions, and 40% have had to reduce their head counts. The above results indicate the reductions, while painful, did not have a huge impact on team numbers.

The vast majority of IA leaders have other responsibilities beside IA (85%), which is consistent with 2024 (83%). The same pattern is seen with IA leaders in small organisations having significantly more responsibilities than their counterparts in medium or large organisations.

Organisation Size	% with other responsibilities	Average number of other responsibilities
Large	56%	1.7
Medium	92%	3.0
Small	100%	5.0

Consistent with 2024, risk, fraud and compliance are the most common other responsibilities. The apparent growth in BCP responsibilities is largely due to new survey participants, as is the increase in integrity as an additional responsibility. The drop in participants responsible for fraud appears to be the result of reallocation of responsibility as a consequence of reorganisations. Given central agencies' continued focus on fraud prevention, it's highly unlikely they would take the high risk step of not resourcing fraud prevention.

Other duties



External support

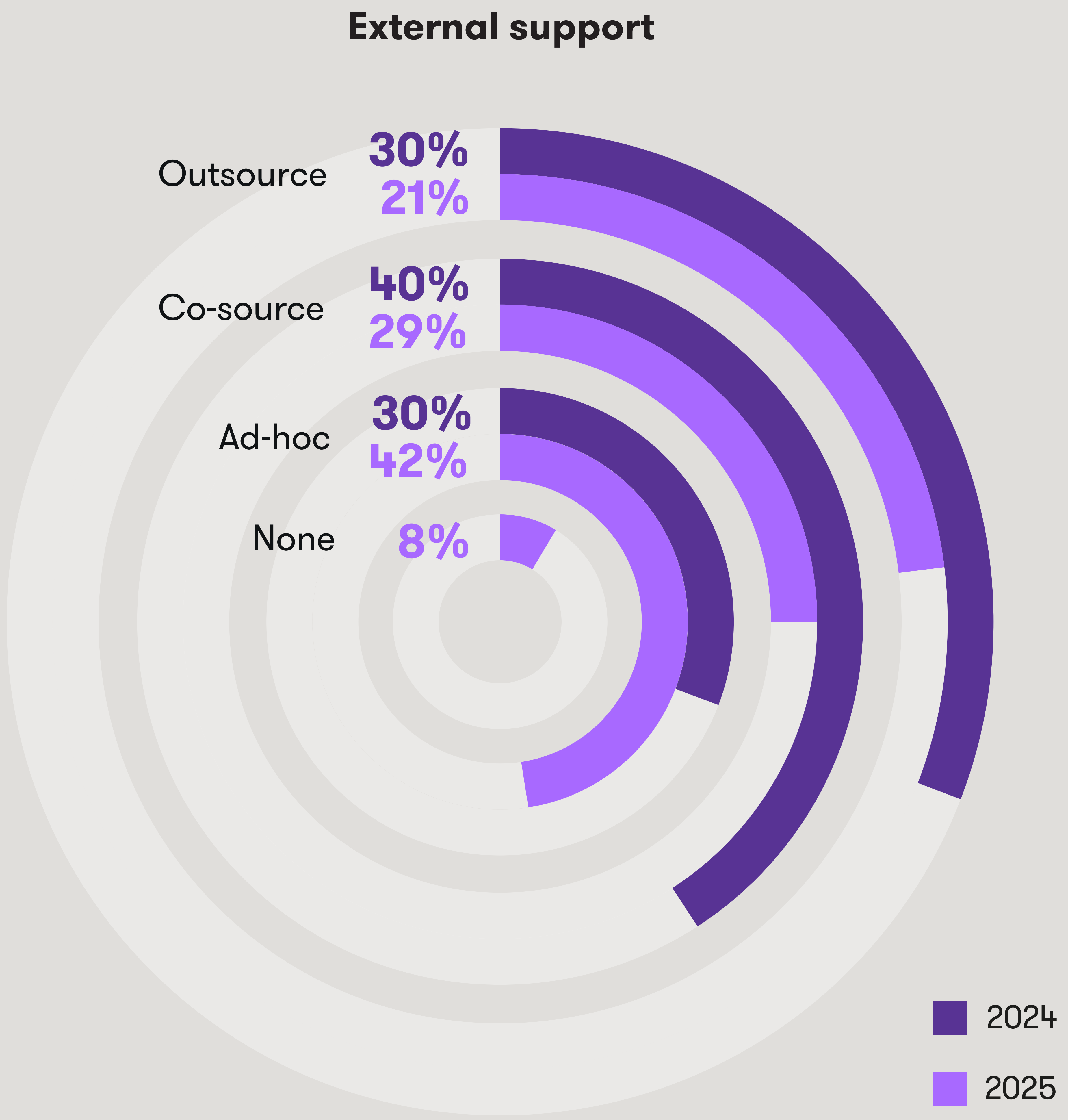
Perhaps the starkest illustration of the impact of budget reductions is the investment in external support.

The data shows a trend away outsourcing and co-sourcing arrangements towards ad-hoc support. This movement is consistent with 62% of participants cutting their external support spend in response to reduced IA budgets.

Overall, we are seeing reducing head counts and external support for IA leaders, while their responsibilities have remained consistent with the prior year. This indicates IA leaders are being asked to deliver as much as last year with less resource.

The move away from fixed external support to more flexible ad-hoc arrangements means access to specialist skills and expertise is retained, and additional resource is available when internal teams have many conflicting priorities.

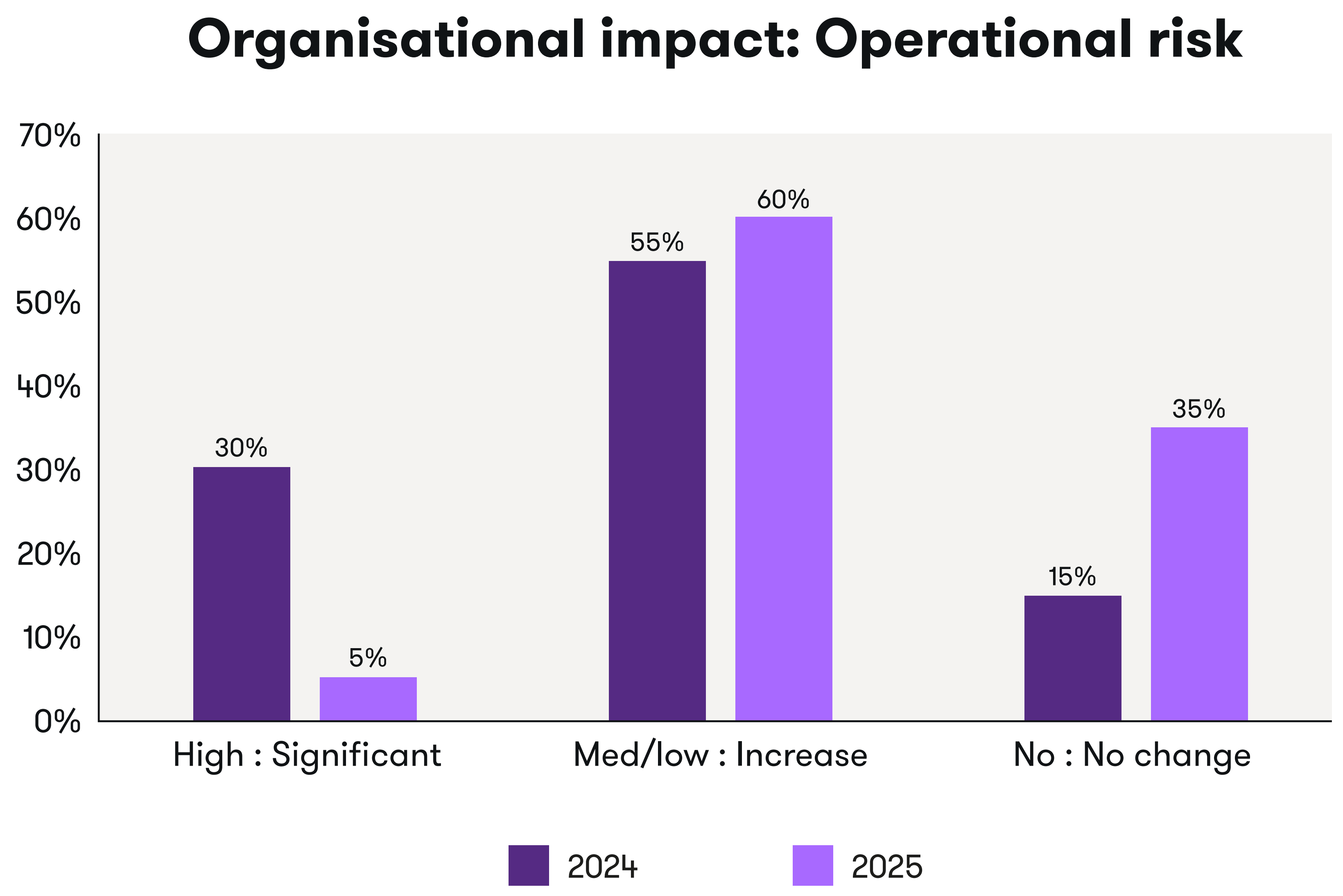
The challenge for IA teams faced with smaller headcounts and limited external budgets is ensuring they continue to focus on keeping their organisation safe, effective and efficient. Prioritisation decisions may need to be made by balancing assurance over key controls, assurance over key risk and the myriad of other demands faced by public sector IA leaders.



Budgets

A large number of organisations surveyed (88%) have experienced budget cuts or reorganisation in the last 12 months.

The few organisations which had not experienced budget cuts or reorganisation all had alternative revenue streams such as levy income.

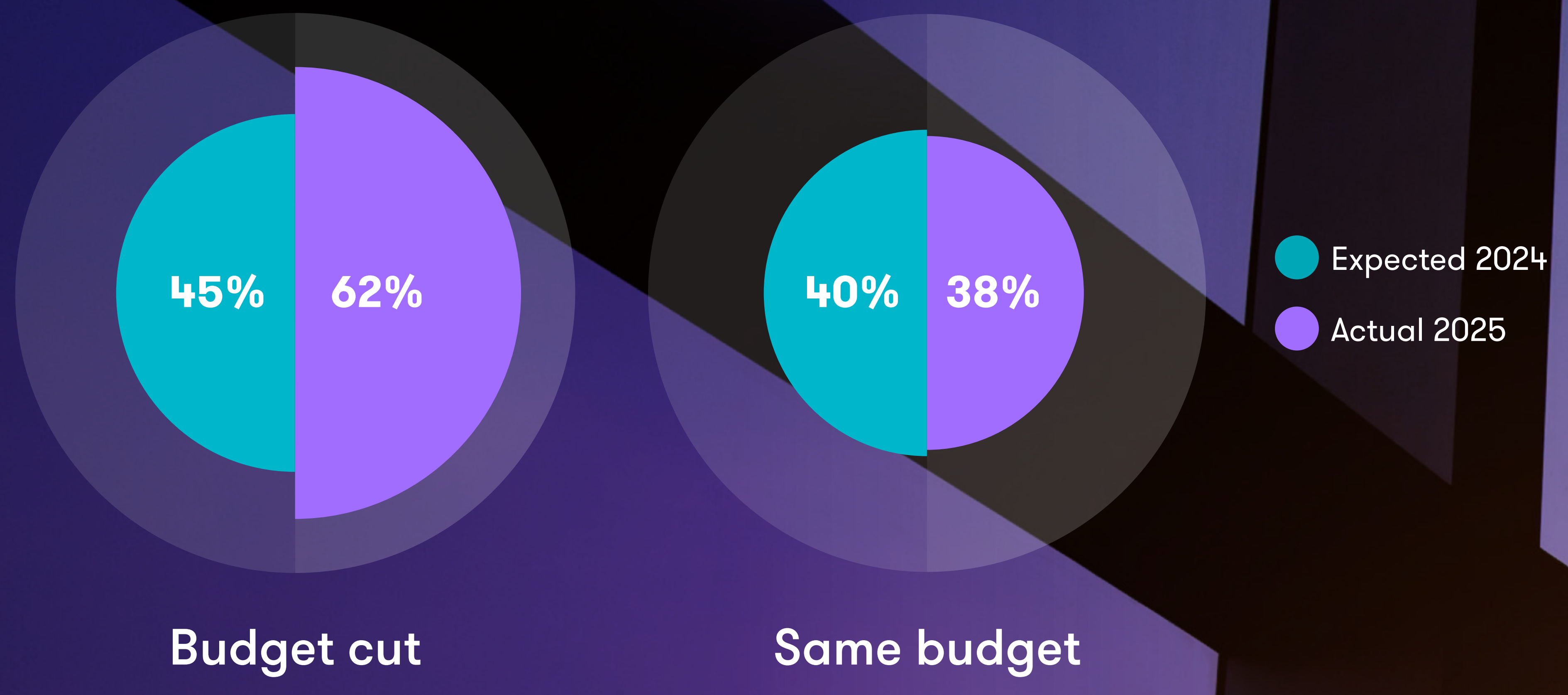


Our analysis compares two similar but not identical questions, in 2024 we asked what organisational impact the IA leader expected from the announced government policy of baseline budget cuts (options being high, medium or low impact); in 2025 we asked those organisations which had undergone budget cuts or reorganisation what the impact on the organisation's operational risk had been (significant increase, increase, similar level of risk or decrease of risk). If we equate the scale of the impact to the change in operational risk, the results show fewer organisations experienced a high impact on operational risk, while 85% of organisations expected a high or medium impact. However 65% of organisations still reported an increase in operational risk, with 35% experiencing no change in the level of operational risk.

Overall, the impact of the public sector budget cuts and reorganisations has increased operational risk but not to the extent anticipated last year. However, the increase in operational risk was identified as a key driver of the reported increase in "firefighting" experienced by internal auditors across the public sector.

Conversely the impact on IA teams has been more significant than anticipated.

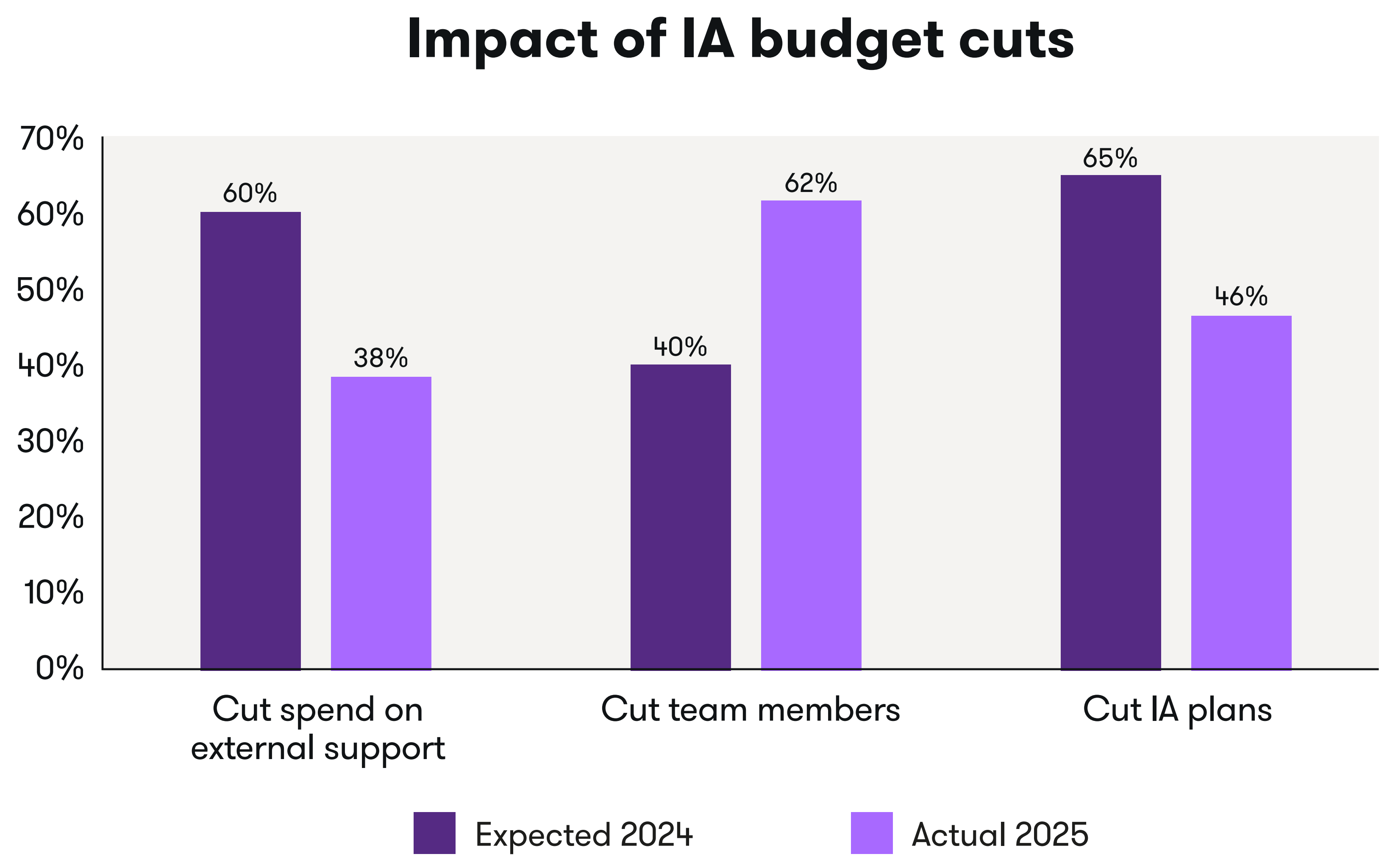
IA budget



In 2024 45% of participants expected their budget to be impacted as their organisation went through budget cuts and/or reorganisation, in fact over 60% of the sector's IA teams experienced budget cuts. We note there were a number of "don't knows" in 2024.

Overall, 65% of organisations have experienced increased operational risk, and 62% of organisations have cut their IA budgets, which indicates the public sector is operating with higher risk and lower assurance.

Expectations around how IA teams would respond to budget cuts are very similar to actual responses.



Cuts to external support, team numbers and the size of the IA plan differed between expectations in 2024 and the reality in 2025. Of those impacted by budget cuts, more had to cut their team and less had to cut external support than anticipated in 2024. Cuts to the IA programme were less common than predicted, as a number of IA teams planned to deliver their IA plan over a longer period to fit within restrained budgets and team numbers. In 2024, a number were hoping to manage budget cuts through savings in other areas (such as travel costs), but no participant reported "other" costs savings in 2025.

While responses to budget pressures appear to be relatively consistent across the public sector, agencies need to be aware that reducing assurance capability in a time of increased operational risks increases the potential for the emergence of issues requiring reactive responses from IA and management. This also reduces the organisational ability to get ahead of issues and focus on improving performance.

Increased risk and reduced assurance identified as a potential risk in 2024 appears to be the reality in 2025, with 65% reporting an increase in operational risk faced by their organisations and 62% of organisations reporting a reduction in assurance capacity.

Innovation

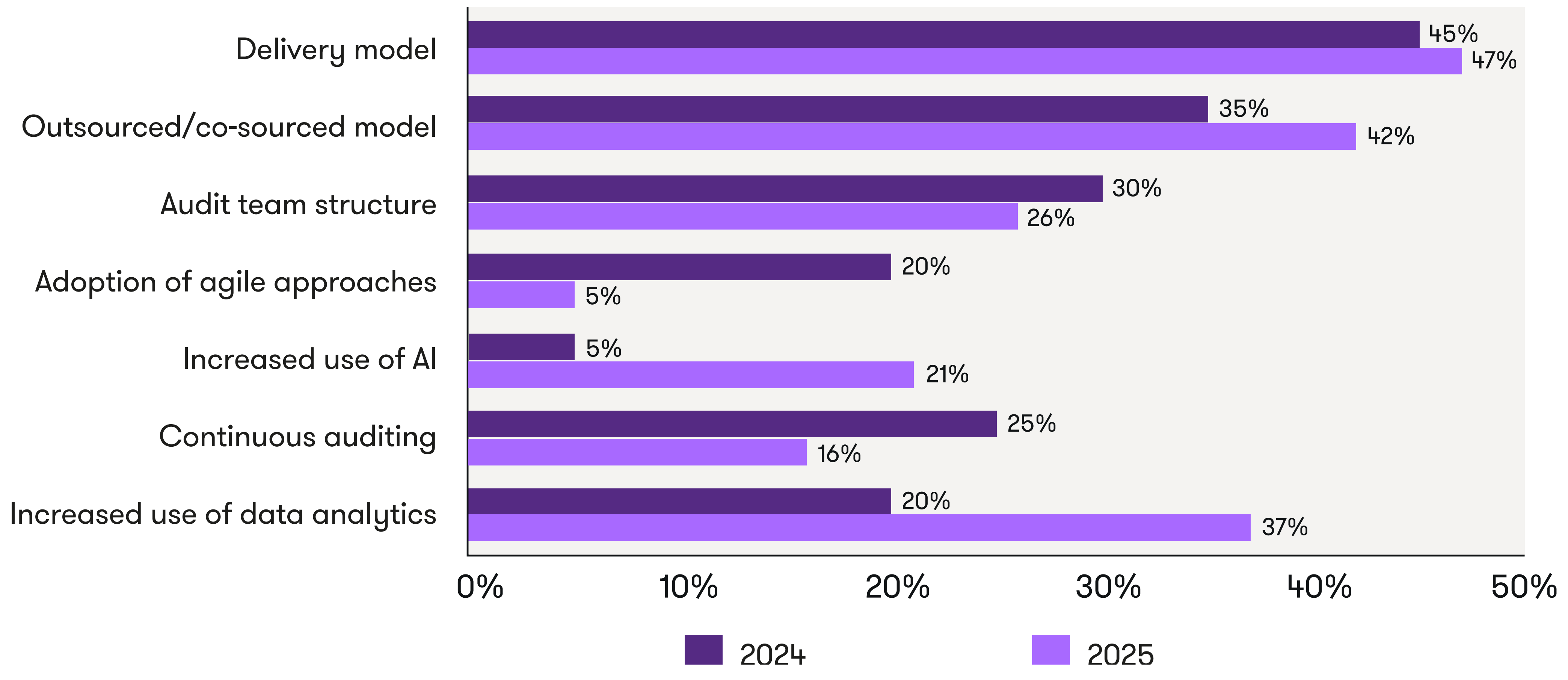
Implemented innovation

The results indicate IA teams continue to diligently evolve how they undertake their work to ensure they continue to deliver value to their organisations. We know that 62% of IA leaders surveyed experienced cuts to their IA budgets and a number of the changes identified in our survey can be linked to the challenge of trying to do more with less. The changes to external support and internal team structures reflects the cuts to IA team numbers and the reduced spend on external support.

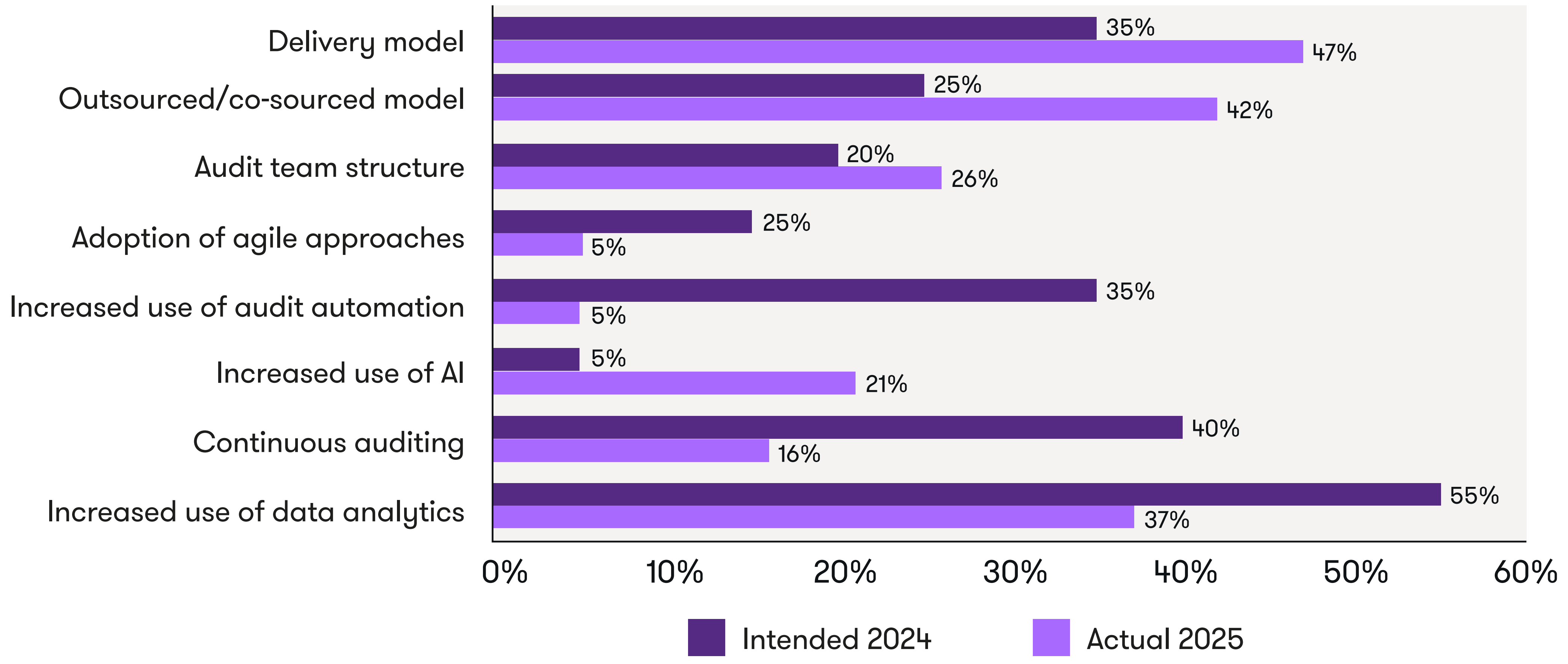
There is a trend in the increasing use of data analysis, as IA teams look to capture the efficiency and effectiveness benefits of data analytics. We are aware of IA teams using data analytics to create tools to increase the effectiveness of their Line 2 functions, which have the dual benefit of increasing assurance while reducing the need for 3rd line assurance.

The reduction in the implementation of continuous auditing potentially reflects that while it enables whole populations to be tested through controls/business rules, it can be resource intensive, particularly during implementation, and is more effective in modern ERP environments.

Implemented innovation



Intended innovation vs implemented innovation



When we look at the difference between what was intended to be implemented in 2024 and what was actually implemented in 2025, we see some interesting trends:

- The increase in organisations using AI as an IA tool in 2025 exceeds those who intended to adopt AI in 2024. This could be a reflection of how rapidly public sector organisations are engaging with this technology.
- The changes to external support and internal team structure are relatively consistent year on year and lower than the 40% who stated they were expecting budget cuts in 2024.
- The fall in the adoption of agile approaches anecdotally reflects internal auditors are utilising those aspects of agile they feel works (such as Kanban boards), but do not see value in a wholesale adoption of agile.
- The intended investment in technology across audit automation, continuous auditing and data analytics is much higher than the actual investment into these technologies; this appears to reflect the increased uptake of AI and how audit teams have coped with reduced budgets.
- There were also a significantly higher proportion of survey participants who made changes to their delivery approach than they intended. Our discussions with IA leaders reveal these changes include empowering Line 2 functions, becoming more involved in the control design phase of change and extending the delivery period of IA pans.

Planned innovation

The most obvious trend is the big jump in the number of teams who intend to increase their use of AI compared to 2024, with nearly 60% of IA teams looking to AI to improve efficiency.

The other notable trend is the continued intention to increase the use of data analytics in 2025 (48%), which is broadly consistent with 2024 (55%) and a much larger proportion of participants than those who actually increased the use of data analysis (37%).

We also see a marked decline in the proportion intending to adopt continuous auditing.

The reported increase in the use of technology will require investment in both tools and training for IA teams. The ability of IA teams to fund the required investments may become a significant challenge in these cost conscious times, however the medium to long term benefits of this investment is well established across the public sector.

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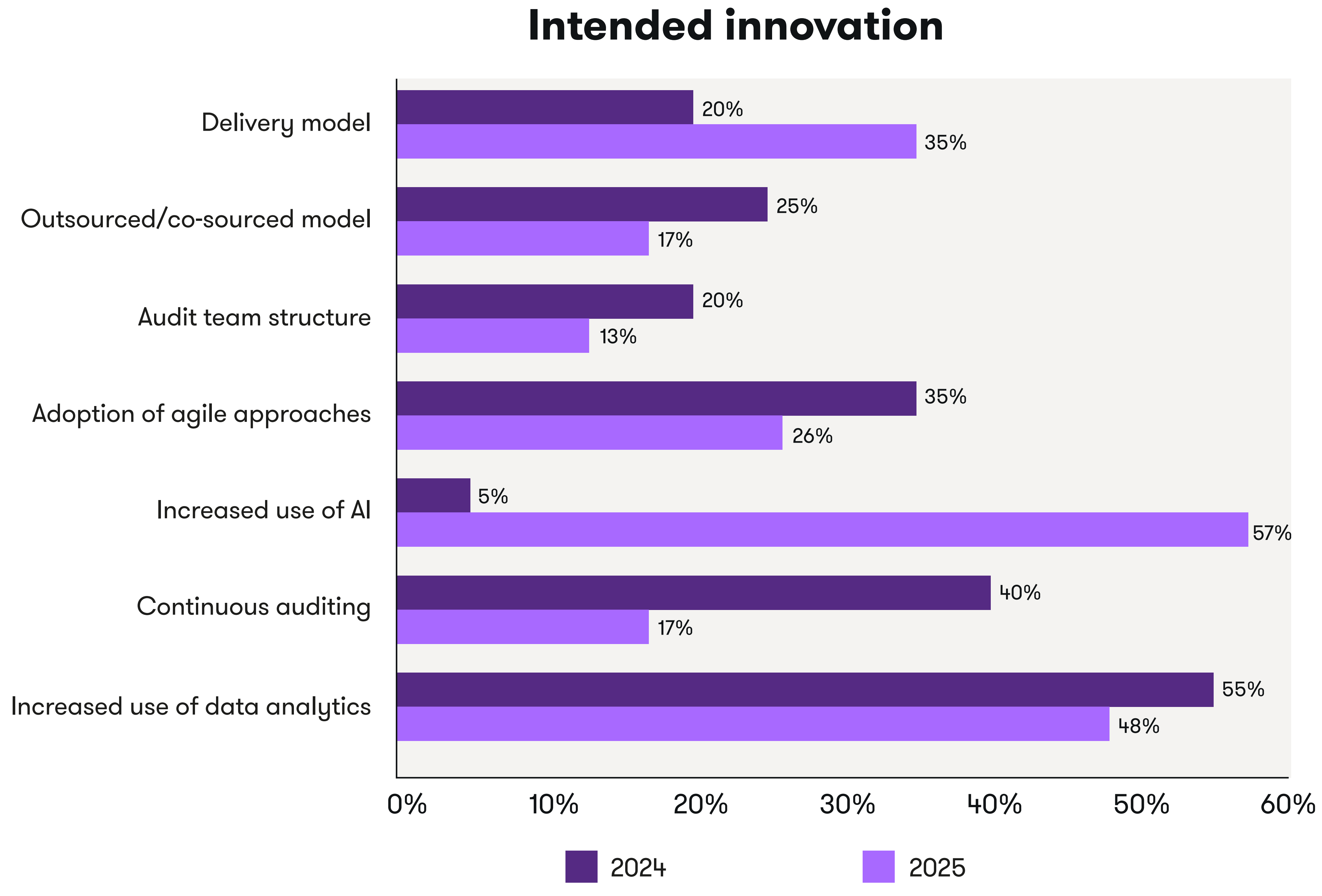


Challenges

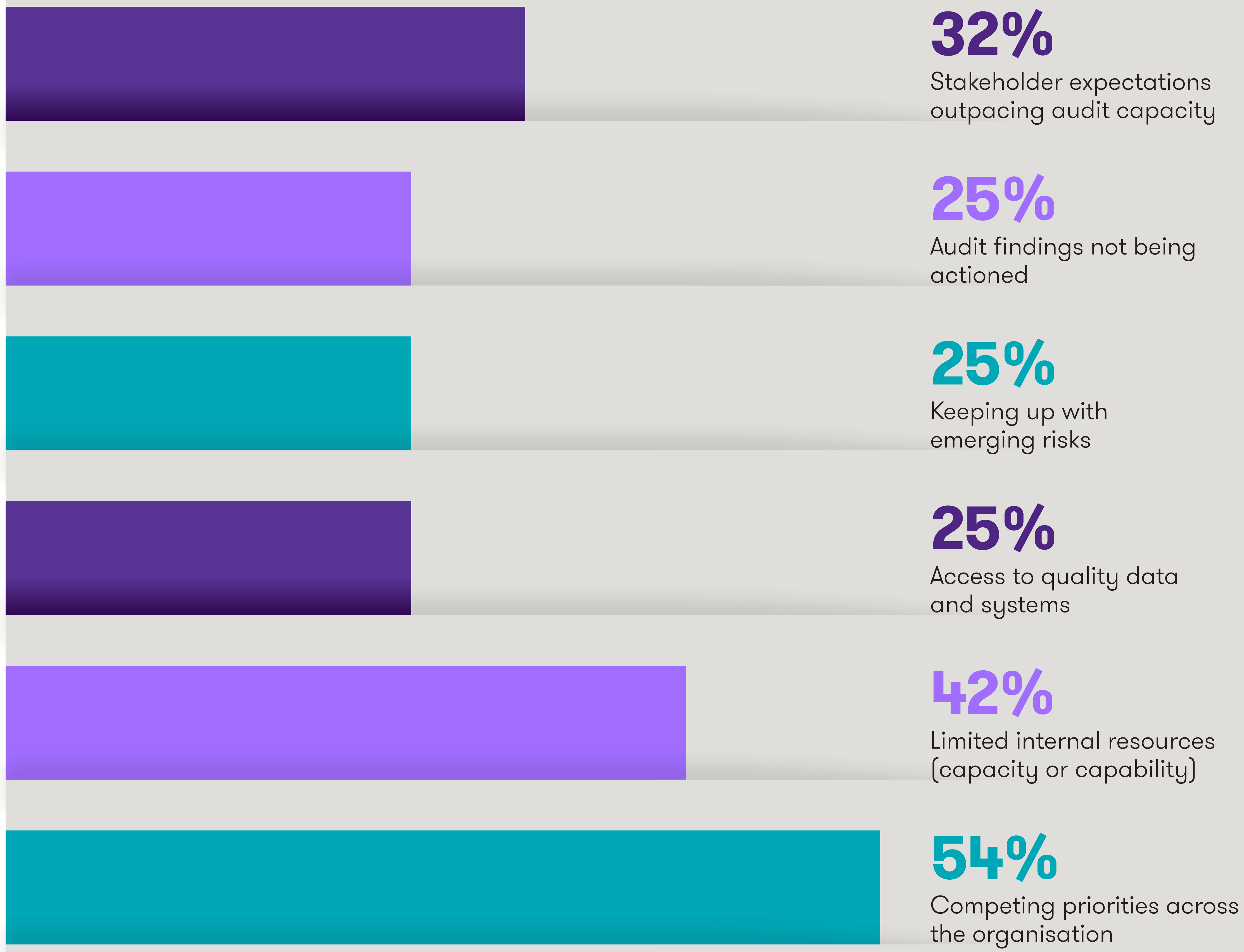
This year we asked survey participants about the challenges they're facing. The limited internal resources challenge is consistent with the survey results for the cuts to internal audit team numbers and external support.

Over half of all respondents reported competing priorities as a key challenge which reflects a series of factors impacting both the public sector and IA teams. In organisations coping with reduced budgets, the impact of reorganisations and increasing demands from central agencies, using skilled and competent IA teams to help "fight fires" or deal with immediate challenges is understandable. However, reducing the level of assurance over the internal controls relied upon to prevent those fires increases the risks faced b public sector organisations.

There are no noticeable trends in the challenges based on the size of the organisation - they are shared challenges.

We note that while the same challenges could be expected even if organisations/IA teams had not experienced reorganisation or budget cuts, the level of change and increased operational risk in the sector means addressing these challenges is critical to the effective operation of the public sector.

Challenges facing public sector IA



Looking to the future

The public sector continues to play a vital role in New Zealand society and the economy, and as the operational risk grows across the sector, the role of internal audit is more important than ever in ensuring public sector entities are safe and effective.

Assurance can be viewed as a form of preventative maintenance, checking and helping to fix controls before they fail. As with all maintenance, assurance can be deferred in an attempt to save money in the short term. However, deferring assurance can lead to key process controls breaking down, potentially costing an organisation far more than the short-term savings.

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