

The Controller and Auditor-General's Strategy 2009-12

June 2009

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Introduction

My Office has faced many changes and challenges in the past four years. Some have come from the changing international environment for accounting and auditing, and others have arisen at the domestic level. However, the rapidly deteriorating economic conditions of 2009 mean that the country as a whole – and therefore the public sector and my Office – faces perhaps the most significant and fundamental challenges we have experienced in many years.

As Auditor-General, I am responsible for auditing all of New Zealand's 4000 or so public entities. My Strategy 2009-12 emphasises the need to generate greater insight from my Office's audit work to support the public sector in responding to economic challenges, while maintaining vital services and building the trust of citizens.

We will step up our efforts to better use the wealth of information and knowledge that we have about the public sector to add value through reporting the performance of public entities, individually and collectively. This will give Parliament, public entities, and the public the maximum assurance and improvement benefit from our work.

Operating in the changing economic environment

In the changing economic environment, we need to continue to ensure that our audit fees are reasonable and that our audit effort is appropriately directed. We are acutely aware that accountability requirements – including those for an audit – are often a burden for smaller public entities and subsidiaries of larger public entities, which do not often present significant public risk. They include public entities such as schools, cemetery trusts, and reserve boards.

We have systems in place to ensure that we provide audit services at a reasonable cost to public entities. However, much of our annual audit work is set by statute and accounting and auditing professional standards, and therefore is largely beyond our control. To the extent that our annual audit work is within our control, we aim to streamline what we do so that we can gather the maximum amount of information from each audit, while keeping the level of audit work in proportion to the level of public risk for the public entity.

We also intend to include in the next few years a stronger emphasis in our work on non-financial reporting, waste, probity, and accountability. As we do this, we will be mindful of how such changes may affect the way we cost, resource, carry out, and report our audits.

In my view, we currently do not give enough audit attention to non-financial performance reporting in larger and publicly significant public entities. On the other hand, statutory compliance and audit requirements for smaller public entities may be too onerous. These requirements include adoption of the New Zealand equivalents to International Financial Reporting Standards, which were originally designed for large companies in the private sector.

Audit fees also traditionally reflect wage movements in the wider market for financial and assurance professionals. During the last few years, auditors have been required to do more work. The cost of employing auditors has also been steadily increasing, largely as a result of the adoption of international accounting and auditing standards. We are not yet certain how the current economic conditions will affect audit fees. However, I must continue to ensure that audits are performed well, both now and in the future, which means that my audit service providers must be fairly remunerated.

Focusing our audit work on the public interest

I am concerned that the demands created by changes within the accounting and auditing profession mean that our audit work has had to focus more heavily on the financial statements of public entities. This has been at the expense of “public interest” audit work, which is based on fuller consideration of the strategic, governance, and operational risks and challenges faced by public entities.

The proposed changes to the Auditor-General’s auditing standard on service performance information (AG-4) are a central part of my Strategy 2009-12. The changes will put a stronger focus on issues with, and risks to, the business of public entities, and on assessing the outcomes, impacts, and cost-effectiveness of services. Our AG-4 work should improve our own reporting and encourage improved performance reporting by public entities.

I expect our work in this area, and in other strategic areas of focus that we will set in our annual plan each year, to involve the full range of our audit assurance services (annual audits, performance audits, inquiries, and advice and assistance).

Building on our strengths

Although our strategy is to do better, we will be building on a position of strength. An international peer review in 2007 reported very positively on our operations, noting that the Office “would rate highly both absolutely and relatively in any international comparison”.

I am confident that we are moving strongly in the right direction and will be in a good position for the transition to a new Auditor-General during 2009.

A handwritten signature in black ink, consisting of a horizontal line that curves upwards and loops back to the left.

K B Brady
Controller and Auditor-General

12 June 2009

Setting the context for our Strategy 2009-12

In forming our Strategy 2009-12, we considered:

- our legislative audit mandate; and
- our operating environment.

Our legislative audit mandate

In New Zealand's system of government, Parliament authorises all government spending and gives statutory powers to public entities to enable them to carry out their role. Public entities are accountable to Parliament for their use of the public resources and powers that Parliament gives them. As part of this accountability, Parliament seeks independent assurance from the Controller and Auditor-General (the Auditor-General) that public entities are operating and accounting for their performance in the way that Parliament intended.

The Auditor-General is an Officer of Parliament. This means that the Auditor-General is answerable directly and only to Parliament, and is independent of the Executive Government. The Auditor-General is responsible for auditing all public entities in New Zealand – a total of about 4000 public entities – and for reporting to Parliament about the performance of the public sector.

The work of the Auditor-General is carried out by staff in two business units (the Office of the Auditor-General and Audit New Zealand) and by auditors contracted from the private sector. We refer to these collective resources as the "Office".

Under the Public Audit Act 2001 (the Act), the Auditor-General carries out:

- annual audits;
- performance audits and other studies; and
- inquiries into any matter relating to a public entity's use of its resources.

In addition, the Auditor-General must audit every local authority's Long-Term Council Community Plan (LTCCP). The Auditor-General may also perform other auditing or assurance services at the request of a public entity, such as auditing financial information in a prospectus or giving assurance to a public entity about its purchasing or contracting procedures.

Public entities use the public funds allocated to them by Parliament to pay audit fees (for annual audits and LTCCP audits, and other auditing or assurance services that they request). Parliament gives the Auditor-General separate funding to carry out performance audits, studies, and inquiries at the Auditor-General's discretion (discretionary funding).

Under the Act, the Auditor-General fulfils the statutory functions of the Office by “reporting”. At the broadest level, the Auditor-General may report to a Minister, a committee of the House of Representatives, a public entity, or any person on any matter arising out of the performance and exercise of the Auditor-General’s functions, duties, and powers that the Auditor-General considers it desirable to report on. The Auditor-General’s reporting should support Parliament in holding the Executive Government to account, resulting in improvement in the performance of public entities and the public sector, and contributing to the public’s trust in the public sector.

The Auditor-General’s legislative audit mandate, set out in the Act, considers five areas:

- **Authority:** Are activities being carried out, and accountability requirements observed, within the authority granted by Parliament?
- **Waste:** Are taxpayers’ dollars and public resources being wasted? Do governance and management arrangements ensure that public entities obtain and apply resources in an efficient and economical way?
- **Probity:** Are public entities meeting Parliament’s and the public’s expectations of an appropriate standard of behaviour?
- **Performance:** Are services and activities being carried out effectively, and achieving their intentions and their desired effect on outcomes or objectives?
- **Accountability:** Have public entities given full and accurate public accounts?

Our operating environment

We have been mindful of the changing economic conditions and other factors in our operating environment when developing our Strategy 2009-12. Major influences on our work in this environment include:

- potential for fraud or corruption;
- ongoing spending constraints;
- accountability requirements for public entities;
- taking a longer-term view of operating environments;
- effect of adopting New Zealand equivalents to International Financial Reporting Standards (NZ IFRS);
- increasing audit fees;
- feedback that we receive from public entities, select committees, and other stakeholders, to understand what Parliament and public entities expect of us; and
- changes we have been making to the focus of our annual audits of public entities.

Potential for fraud or corruption

In the current economic conditions, it is widely anticipated that there will be increasing attempts by individuals to fraudulently or corruptly use public resources for personal gain. New Zealand continues to have a high ranking as a “clean” country in the most recent Transparency International survey, and the more extreme forms of fraud or corruption do not appear to be prevalent here. However, we should not be complacent, given the increasing pressure on the wise use of public money and the wider economic conditions.

Ongoing spending constraints

The *Pre-Election Fiscal Economic Update* in 2008 and other forecasts since anticipate deficits in the Crown Financial Statements for most of the next 10 years. Therefore, there is increased pressure on the public sector to be cost-effective and to explore alternative methods of service delivery. We expect continued evolution in, and questioning of, ways of providing services, including more collaboration among public entities and more delivery of public services through non-government and private sector partners.

Spending constraints will also increase the importance of public entities having good quality internal performance management information and external performance reporting, as they will be expected to demonstrate the effect and benefits of their outputs and chosen methods of service delivery.

Accountability requirements for public entities

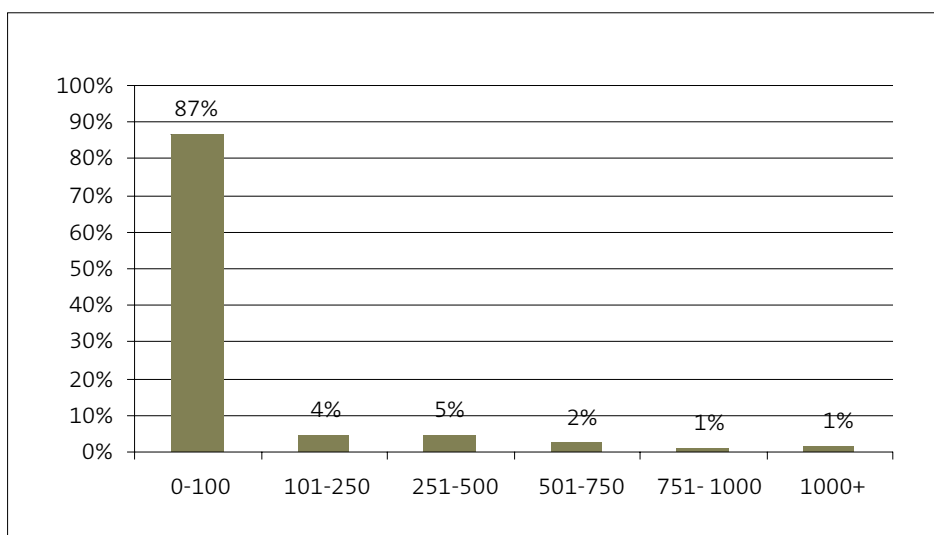
The 4000 or so public entities that we audit range from large departments, Crown entities, and State-owned enterprises to very small local bodies. The public sector audit portfolio is dominated by smaller public entities and subsidiaries of larger public entities, which do not often present significant public risk. They include public entities such as schools, cemetery trusts, and reserve boards.

All public entities, regardless of size and function, are required to prepare annual financial statements, usually in accordance with generally accepted accounting practice. They are also often required to report other information about their performance.

We are acutely aware that accountability requirements – including those for the annual audit and the associated fees – are often a burden for smaller public entities.

In Figure 1, we show that 87% of annual audits in the public sector take less than 100 hours each to complete. Of the remainder, 9% take from 100 to 500 hours, 3% take more than 500 hours, and 1% take more than 1000 hours each to complete.

Figure 1
Public sector portfolio by annual audit hours



While all public entities should have some level of accountability to Parliament or the public, we consider that many smaller public entities incur disproportionate costs to meet their statutory reporting obligations and associated assurance requirements. For example, no matter how large or small a public entity is, the Auditor-General is generally required to:

- audit the public entity in keeping with NZ IFRS and the International Standards on Auditing; and
- address the accountability requirements relevant to each public entity and the specific requirements of legislation for our own audit work.

There has generally been stability in statutory public accountability arrangements since 2002-04. However, considerable flow-on audit implications have arisen from statutory changes made in 2002-04.¹ Overall, these changes have been extremely beneficial for the Office. They have provided a platform for collaborative work between our audit service providers, and a basis for development work in response to the dominating effect of financial reporting standards.

In particular, our audit responsibilities for LTCCPs and associated amendments are having a significant effect on us and our resources. At present, based on the results of the 2006 and 2009 LTCCP audits and the issues that we identified,

¹ Examples of these changes include the Local Government Act 2002, the Crown Entities Act 2004, and the 2004 amendments to the Public Finance Act 1989.

our audit work appears to be warranted. However, a large amount of effort and resource is involved in preparing to carry out a demanding audit that occurs only once every three years.

New Zealand's system of public sector accountability has long been regarded internationally as a model approach, and should be preserved. However, accountability requirements – including those for audit and other disclosure requirements, and the associated costs – are often a burden for smaller public entities. We are aware that not all countries share New Zealand's requirement for universal annual audits of public entities, and that there are different accountability models for smaller public entities in other jurisdictions. This leads us to question whether the size and complexity of a public entity could be better used to differentiate accountability requirements.

Taking a longer-term view of operating environments

There is a greater focus on, and awareness of, the long-term implications of issues arising in the broader operating environment for public entities, and the need to address these issues in decision-making, financial management, and service delivery.

Taking a longer-term view in the current fast-moving economic and employment conditions raises risks for the public sector and for public entity performance, including the integrity of decision-making, financial management, and governance. It requires monitoring service delivery against long-term needs and plans.

For some time, there has been general public concern about asset development and management – particularly network utility assets, because of their critical importance to communities throughout New Zealand. It is vital for the public to have confidence that these assets and other important services, such as health and welfare services, will continue to be available and will meet changing community needs.

Arrangements for asset management and service delivery, and for associated information and reporting, are becoming more complex. Arrangements need to take account of a range of factors such as inter-generational equity, short-term and long-term well-being, and value for money in terms of community outcomes.

Taking a longer-term view and providing greater certainty about the availability and service capability of key assets is likely to result in a growing range of funding and delivery arrangements between public entities, the private sector, and the non-government sector. Issues about procurement, governance, conflicts

of interest, and misuse of resources need to be developed and understood in the context of the wider purposes of these arrangements. Deciding whether funds have been spent wisely and with due probity is more challenging in this environment.

An increased emphasis in statute and public expectations of consultation and regard for specific matters in decision-making, combined with complex and long-term asset management and development needs, is requiring careful judgement within our inquiries.

Effect of adopting International Financial Reporting Standards

The Accounting Standards Review Board's decision to adopt NZ IFRS has had a significant effect on the public sector and our work during the past four years.

Public entities were required to prepare financial statements under NZ IFRS for periods starting on or after 1 January 2007.

While the transition to NZ IFRS is now mostly complete, we expect an ongoing level of adjustment and review of standards as NZ IFRS "settles". However, more importantly, the standards (which were written to be applied by large profit-oriented entities) do not adequately acknowledge the needs of the public sector. Standards that are not appropriate for the public sector environment may generate concern and confusion for public entities and those interested in their reports.

The change to NZ IFRS has increased the complexity for those preparing financial reports and those auditing them. It has put pressure on the financial management capability of the public sector, and has contributed to a high demand for financial and audit expertise throughout the private and public sectors. The combination of complexity and shortage of expertise is affecting the overall performance of the public sector in meeting public accountability statutory requirements. For example, the number of audit opinions in arrears on audit reports at 30 June increased from 312 in 2006 to 362 in 2007 to 453 in 2008. This reflects the increasing pressure on those preparing financial reports and on auditors.

Increasing audit fees

Public sector audit fees have been increasing to keep pace with the wider international demand for accounting and assurance expertise. There are two main factors:

- increased audit costs because audits under NZ IFRS take longer; and
- increased demand for accounting and assurance expertise as a result of developments in both accounting and auditing standards.

Fees overall, including an allowance for the ongoing work associated with NZ IFRS, increased by about 9% for 2007/08. We also experienced greater overruns of audit hours against those anticipated. This fee pressure is likely to continue for the foreseeable future, although it may be blunted somewhat by the current economic downturn.

What Parliament and public entities expect of us

We collect feedback from public entities, select committees, and other stakeholders to give us insight into opportunities for us to contribute to public sector accountability and performance, and the public's trust in the public sector.

Our 2007/08 client satisfaction survey of public entities showed improved results on the previous year. However, overall results suggested a need for:

- changing our focus to give more attention to a public entity's business – for example, carrying out a “business audit” rather than just an “accounting audit”, by identifying issues and helping to provide solutions, by sharing beneficial information from others with similar issues, and by sharing best practice information;
- improving our legislative, sector, and public entity knowledge so that we base audit recommendations on a better understanding of each public entity's context;
- more timely communication to increase consistency among auditors, keep public entities abreast of audit expectations and progress with audit work, and inform public entities about changes in legislative and accounting requirements; and
- ensuring consistency of staff on audits by addressing high auditing staff turnover and increasing the skills of junior auditing staff.

The results of the 2007/08 survey of select committee members and other stakeholders were positive overall, suggesting that the Office is well respected. The main suggestions for development were that we should:

- provide advice on issues beyond financial reporting (while confining advice to areas in which we have established competence); and
- assist select committees to follow up on Estimates and financial review examinations.

Changing the focus of our annual audits of public entities

In the past couple of years, our annual audit work has had to focus more heavily on public entities' financial statements, and particularly on compliance with the new NZ IFRS requirements. The increased focus of our annual audits on financial statements has been at the expense of our attesting on service performance information and the wider public-interest purposes of our audit work.

We have been telling government departments, Crown entities, and local authorities of our intention to phase in, during 2009-11, the Auditor-General's revised auditing standard on service performance information (AG-4).

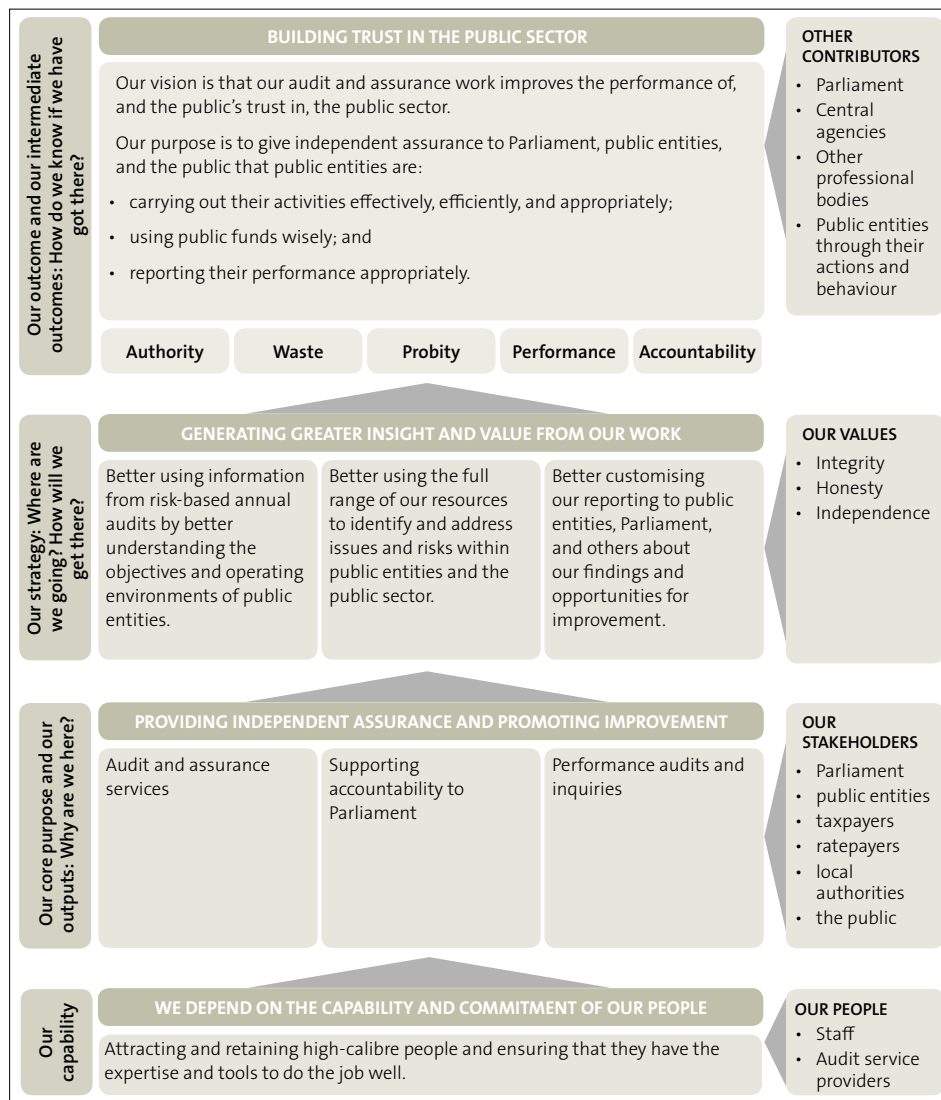
Under this revised standard, auditors will report through annual audits on whether a public entity's service performance report:

- provides an adequate basis for the assessment of service performance; and
- fairly reflects the public entity's service performance.

The current financial pressure has heightened the need for us to do further development work to support the implementation of our revised standard.

The Auditor-General's Strategy 2009-12

Figure 2: Summary of our Strategy 2009-12



Our vision

Our vision is that our audit and assurance work improves the performance of, and the public's trust in, the public sector.

Our purpose

Our purpose is to give independent assurance to Parliament, public entities, and the public about whether public entities are:

- carrying out their activities effectively, efficiently, and appropriately;
- using public funds wisely; and
- reporting their performance appropriately.

Our strategy

To achieve our vision, our strategy for 2009-12 is to generate greater insight and value from our work.

We will do this by:

- better understanding the objectives and operating environments of public entities;
- better using the full range of our resources to identify and address issues and risks within public entities and the public sector; and
- better customising our reporting.

Better understanding of public entities

We intend to put in place a broader approach to risk assessment to generate better information about the effectiveness, efficiency, and appropriateness of public entities' activities. In particular, we aim to achieve this through annual audits, which are our major output and the basis for gathering information and building knowledge about all public entities.

A broader approach to risk assessment through annual audits will involve building a better understanding of each public entity's purpose and outcomes, and its main services, processes, and financial operations.

Our intended approach will focus on elements common to a range of public entities – for example, the public entity's:

- clarity of strategic planning;
- communication of, and adherence to, integrity and ethical values;
- participation of people with governance responsibilities;
- overall legislative compliance arrangements;
- major entity-level controls over key business processes;
- risk identification, assessment, and management practices;

- information systems and communications that support the implementation and maintenance of management and service delivery intentions and controls;
- monitoring of policies and processes;
- organisational structure and assignment of authority and responsibility; and
- management philosophy and operating style.

Better using the full range of our resources

An annual audit provides assurance about the fair disclosure of information. The annual audit cannot ensure that the public entity has properly assessed, reported, and addressed the effect of all issues and risks identified from an organisational perspective.

However, through annual audits, we have contact every year with every public entity in New Zealand. This is a unique position that potentially gives us more information and knowledge about the state of the public sector and its risks and issues than anyone else. Such issues and risks may relate to individual public entities, groups of public entities, or the public sector as a whole.

We intend to use the Auditor-General's discretionary reporting mandate (for performance audits, inquiries, and other audit and assurance services) to focus more on risks and issues that arise from annual audits, but that are not necessarily able to be fully explored within those audits. This will allow us to give more in-depth consideration to risks and issues arising from the annual audits within individual public entities, within sectors, or throughout the public sector. We would then apply what we learn from our discretionary reporting work to our annual audit work and to specific feedback to help public entities improve their performance.

Public entities vary significantly in their purpose, size, complexity, nature, and effect on the public. Therefore, as part of achieving our strategy, we need to address the extent to which issues and risks are assessed within public entities or sectors, and how we manage information and knowledge about public entities to identify risks for sectors and the public sector overall.

We recognise that, while the independence of the Auditor-General is an important constitutional safeguard, we are part of a wider system to ensure that public entities operate effectively and efficiently and are publicly accountable. We intend to explore how to better communicate with, and support action by, other agencies in the wider system so that we can contribute to the understanding and addressing of risks within and across public entities.

Assessing risk and escalating issues from annual audits

We intend to further develop our approach to assessing risk and escalating issues from annual audits. For smaller public entities, this approach will involve:

- high-level risk assessments as part of annual audits, with analysis focused on identifying sector issues;
- a limited number of performance audits and specific annual audit work based on identified sector issues, and inquiries carried out in response to public and Parliamentary requests; and
- escalation, where appropriate, of significant issues (in particular, issues not addressed through any of our assurance or reporting mechanisms) to other agencies, such as the State Services Commission or a monitoring department.

For larger and more complex public entities, we will take a more intensive approach to assessing risk and escalating issues from annual audits. This will involve:

- comprehensive risk assessments to identify public entity, sector, and across-sector issues;
- integration and deployment of discretionary resources through a planning process to consider public entity, sector, and across-sector issues – in particular, issues not able to be explored through annual audit work;
- addressing selected issues through the Auditor-General's range of discretionary auditing and reporting powers, including performance audits, specific issues-based work as part of annual audits, and Office-initiated inquiries (as well as responding to public and Parliamentary requests); and
- escalation to other agencies (where appropriate) of significant issues – in particular, issues not being addressed through any of our assurance or reporting mechanisms.

Better customising our reporting

Our overall intention is to ensure that our reporting is relevant and timely so that Parliament, the public, and public entities can get the maximum assurance and improvement benefit from our work.

In particular, the public entities that we audit want us to focus on:

- demonstrating greater understanding of their business rather than just auditing their finances;
- helping them to identify issues and solutions;
- sharing beneficial information from others with similar issues and good practice information; and

- providing them with timely information about audit expectations, and changes and opportunities for improvement related to legislative and accounting requirements.

We envisage generating greater insight from our work by customising our reporting to public entities, Parliament, and others. This will involve changing the way we report to better suit the issue and the audience.

Our reporting will be informed by our efforts to better understand public entity risks, and by better integrating and deploying the Auditor-General's discretionary auditing and reporting powers around these risks. For each issue, we will identify who the information is relevant to and the most timely and effective way to provide it.

Much of our current discretionary reporting focuses on producing a specified number of reports that are presented to Parliament. Parliament is our main stakeholder, and formal reporting to Parliament will continue to be important. However, we consider that expanding the range of ways and formats that we use for reporting will allow us to provide more effective products to help public entities improve their performance.

How we will implement our Strategy 2009-12

To achieve our Strategy 2009-12, we will use a Strategy Implementation Plan to link the strategy to our business plans and our overall communications strategy. We will establish a governance group to monitor, evaluate, and report on progress. We will develop and implement initiatives in the four areas that most influence the way we operate:

- our work;
- our finances;
- our processes; and
- our people.

Our work

Annual audits

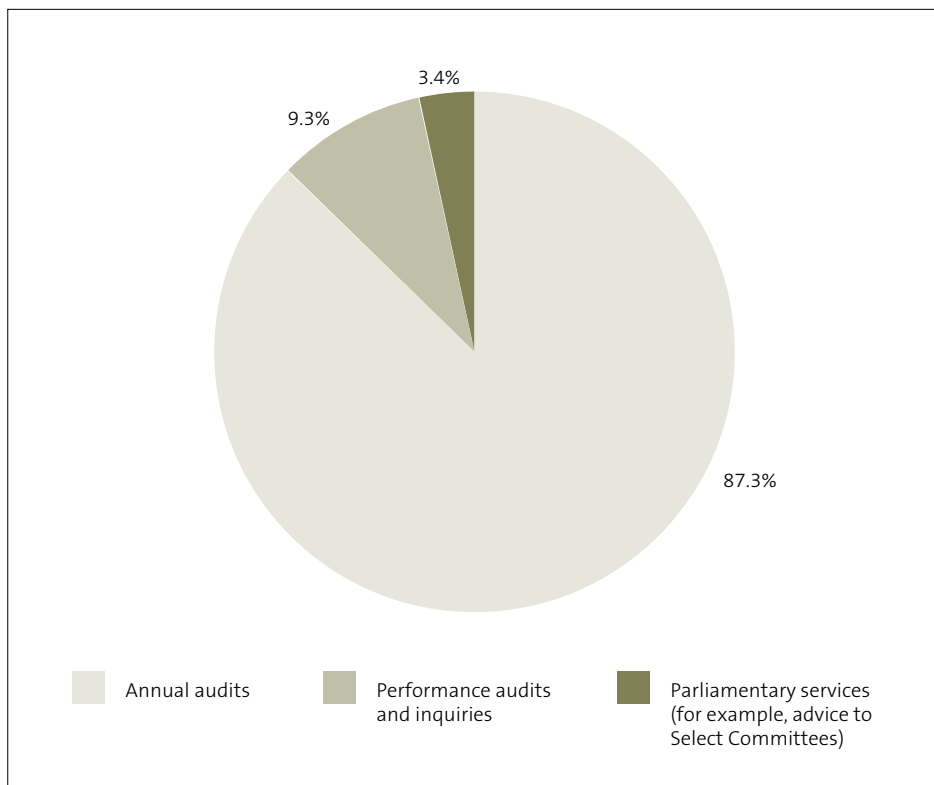
The Auditor-General is the auditor of about 4000 public entities. Of these, 3500 are small public entities, including 2500 schools. Each of those public entities is required to prepare annual financial statements and, in many cases, to report on service performance. The Auditor-General has a statutory duty to audit the information that the public entity must report, including service performance information for some public entities as set out in legislation applying to those entities. The cost to us of carrying out annual audit work is funded mainly by fees paid by the public entities being audited.²

In 2007/08, annual audits and other assurance services accounted for more than 87% of our total expenditure.

In Figure 3, we show percentages of our expenditure by type of audit or service.

² Parliament also provides \$150,000 toward the cost of auditing very small entities such as cemetery trusts and reserve boards, acknowledging that many of these entities do not generate enough revenue to enable them to pay audit fees.

Figure 3
Our expenditure in 2007/08 by type of audit or service



Annual audits are our major output, and the basis for gathering information and building knowledge about all public entities. It is important that we carry out annual audits as efficiently as possible, and that we gather and manage information from the audits as effectively as possible.

Introducing a streamlined approach to audits

To the extent that our annual audit work is within our control, we aim to streamline what we do to gather the maximum amount of information from each audit, while keeping the level of audit work in proportion to the level of public risk for the public entity.

By keeping the level of audit work in proportion to the level of risk, we expect to be able to free up auditing expertise within the Office to improve our risk assessment for annual audits. We can use this risk assessment information to better address risk in areas of high public significance, as well as to generally deal with risks across public entities.

To achieve this streamlined approach for smaller public entities (such as those with no revenue to pay audit fees, smaller subsidiaries of other public entities, and schools), we envisage:

- better using sector-specific risk assessments;
- increasing our efforts to simplify annual audit processes and documentation; and
- carrying out specifically directed work on financial management, legislative compliance, and probity matters where we have identified issues through previous audit work.

For larger and more complex public entities (such as Crown entities, council-controlled organisations, energy companies, Crown research institutes, local authorities, government departments, tertiary education institutions, State-owned enterprises, and district health boards), we envisage:

- better using public entity-specific, sector-specific, and across-sector risk assessments that focus on corporate and governance risk, including improving our auditors' management reporting to public entities and Parliament;
- better using risk assessment likely to affect our attest opinion on financial and service performance information;
- bringing in our revised AG-4 auditing standard for attesting to service performance information in government departments, Crown entities, and local authorities;
- increasing our sector knowledge and expertise by preparing three-year sector plans, to provide greater strategic context and specific audit work directions;
- carrying out other assurance services as negotiated with public entities, or initiating inquiries on the advice of appointed auditors to explore or pursue identified risk not directly affecting the annual audit opinion.

Investigating differentiated accountability requirements

Any variation in approach is only possible to the extent permitted by our professional and statutory obligations. However, we are acutely aware that accountability requirements – including those for an audit and the associated fees – are often a burden for smaller public entities.

Consideration of whether the size and complexity of an entity could be better used to differentiate accountability requirements could take place with the Ministry of Economic Development's review of the Financial Reporting Framework. We also intend to research practice in jurisdictions similar to New Zealand, particularly for small public entities.

Should there prove to be appropriate alternatives to our current system, we propose bringing that information to the attention of Parliament and other authorities. Possible alternatives could include assessment of whether all public entities require an audit and allowing for assurance arrangements other than audits, such as conducting reviews rather than audits that result in positive assurance reports.

Performance audits and other studies

The Auditor-General has a discretionary mandate to conduct performance audits, which are funded by Parliament. Performance audits are significant in-depth projects. They usually involve extensive reviews of a public entity's documents and formal interviews with a range of people. Performance audits form the bulk of the Auditor-General's discretionary work programme.

Since 2004, we have worked on our approach for planning and prioritising our performance audit work. We scan the environment each year to assess risks and identify the issues and programmes that our performance audits could examine. Environmental scanning helps determine how we can best use our discretionary resources.

We address our responsibility to Parliament and the public to provide regular assurance about the activities of public entities that are large and complex, and/or where it is difficult to assess their performance. Core areas of interest for the Auditor-General include public entities with responsibilities for:

- major public investment or liability management;
- public revenue management or generation;
- asset management or infrastructure spending or management; and
- expenditure, including service delivery expenditure.

We identify areas within or across public entities or sectors that warrant further examination. To assign priorities to these areas, we consider:

- the severity and significance of the issue;
- the benefit to the public of examining the issue;
- the extent to which the performance of the public entity or sector could be improved; and
- how the issue fits with the Auditor-General's role and mandate.

We consult with Parliament and other stakeholders on our draft annual plan (and in particular on our proposed discretionary work programme) to ensure that stakeholders agree that we are addressing the issues of greatest relevance.

Our statutory responsibilities, reporting framework, and broad audit mandate mean that we carry out a lot of annual audits compared to our international counterparts. We have, comparatively, very limited discretionary resources to carry out in-depth performance audit work. For example, Auditors-General in Australia, the United Kingdom, and Canada spend from 28% to 50% annually on performance audits, while we spend less than 9%.

This means that we carry out our performance audits with significantly less resource, and at less cost, than most of our international peers. However, it also means that, at times, we are not able to do as much in-depth work as we or our stakeholders would like, and that many significant public entities may receive little or no in-depth attention.

Using annual audit information to improve our performance audit planning

Topics for performance audits must be of interest and use to our stakeholders, and must also produce results that can be useful to as many public entities as possible. We are satisfied that the approach we have developed as part of our 2004-09 Strategic Plan has improved the way we plan and prioritise performance audits, particularly in identifying and addressing the interests of Parliament and other stakeholders. However:

- much of our knowledge about public entities and their risks results from our annual audit work; and
- we anticipate increasing financial constraints on public entities, accompanied by expectations that they can demonstrate the outcomes of services and cost-effective delivery of those services.

As a result, we consider that during 2009-12 we need to better integrate the risk information and intelligence from our annual audit work and other audit and inquiry work into our process to identify and select topics for performance audits and other studies. We expect to continue developing good practice guides as needed during 2009-12 and will consider other performance audit initiatives that respond to annual audit risks and issues at the public entity, sector, and across-sector levels.

We also need to better develop our scoping and planning of performance audits to consider whether and how these audits can assess the effect of services and the cost-effectiveness of service delivery. Carrying out such performance audits may result in more complex and costly performance audits than those we currently

do. For our 2004-09 Strategic Plan, we received additional funding to increase the number of performance audits and other studies to 19-21 a year. We have achieved this level and aim to continue to do so in the future, while maximising the value and insight that can be generated from our work in this area.

During 2009-12, we will consider whether the amount we spend on performance audits is adequate to provide the assurance expected by Parliament and the public, and whether we may need additional funding for performance audits and other studies in future. While our discretionary resource is a small part of the Office's total resource, the discretionary work is strategically important given its in-depth nature and its public and Parliamentary profile. The Auditor-General's discretionary reporting mandate allows us to focus more on risks and issues that arise from annual audits, but that are not necessarily able to be fully addressed within these audits.

Inquiries

The Auditor-General has discretion to inquire into a public entity's use of resources. The Auditor-General can carry out inquiries on his own initiative or when a request from a member of Parliament or the public draws attention to a particular issue. The Auditor-General has not usually initiated inquiries in the past, and this function has for many years effectively operated as an avenue for people to request an independent review of the actions of a public entity when they have concerns. This is an important role, but our ability to discharge it is constrained by the funding we receive from Parliament.

We receive about 250 requests for inquiries each year, most of which are classed as routine. Sensitive and major inquiries involve more complex issues and may attract a broader level of public interest and attention. In these inquiries, we will often review a public entity's files in some depth and may also formally interview people. Consultation with affected parties on our draft findings is a significant and often time-consuming part of the process, but is important to ensure the accuracy of our conclusions and to protect the rights of those involved. We advise the correspondent and the public entity of our inquiry results and will also report publicly in appropriate cases.

Changing demand for inquiries

While the number of major and sensitive inquiries is not necessarily increasing, those we carry out are becoming more complex and demanding. For example, we are often requested to inquire into the decision-making of local authorities throughout the life of major infrastructure projects, particularly if the project is at all controversial. Such requests often involve consideration of some or all of the

legal and administrative requirements associated with local government decision-making, good procurement practice, and conflict of interest questions. The factual and legal context can also be very complex.

Given the focus on infrastructure investment across the public sector at present, and concerns about value for money, we expect such requests to continue and perhaps to increase. We understand the concern that people may have about decision-making of this kind and consider that it is important to be able to provide public assurance over it. However, we note that major and sensitive inquiries often have high resource requirements and can take many months. It remains a challenge to manage them in a way that does not affect our ability to complete our other commitments to Parliament.

We note two other factors that are contributing to the increasing pressure of major and sensitive inquiries on our resources:

- Many inquiry requests are from Ministers and other members of Parliament on matters where other agencies are also carrying out reviews. This possibly reflects that, despite other work, an independent perspective is also seen as valuable. The immigration inquiry, with its wide-ranging issues, is an example of a particularly complex inquiry that involves concurrent review of various aspects by other agencies.
- Legislation such as the Local Government Act 2002 describes requirements in terms of decision-making responsibilities that a local authority must take into account throughout a decision-making process. As noted, where there is a high level of public interest in a particular decision, we are often asked to inquire into a local authority's decision-making processes. Two recent examples are the proposed redevelopment of Carisbrook Stadium and Christchurch City Council's inner city property purchases in 2008. We investigated both of these matters because they involved the use of public resources and because we have a statutory role in legislative compliance. While a judicial review is available to those who raise concerns, the costs are high relative to other public administration processes such as writing to the Ombudsmen or us. We are therefore increasingly being asked to examine questions of legislative compliance in what are often very complex circumstances.

To date, we have attempted to get the most out of our resources for inquiries by improving and formalising our inquiry processes. Many requests can be responded to in a reasonably straightforward way. We do also reserve the right to decide the level of inquiry that is warranted in each case. Factors we consider include whether the Auditor-General is the appropriate authority to consider the issues, whether we have the resources to do so, and the seriousness of the issues raised.

However, we are aware that our need to manage our resources in this way risks frustrating the expectations of those people who seek our involvement as a means of holding public entities to account.

Integrating inquiries with our other types of audit

Our strategy indicates our desire to better manage the information we have about public entity and sector risks by integrating the Office's discretionary reporting with annual audits. We can use inquiries to investigate in greater depth issues that are not directly relevant to the matters on which the annual audit must provide an opinion. In this regard, we sometimes carry out inquiries that use performance audit disciplines to explore an issue. We can also use annual audits and performance audits to follow up across a sector on issues that have emerged through a particular inquiry or from a pattern of inquiry requests.

During 2009-12, we intend to:

- continue to explore ways in which we can streamline our inquiry processes to improve their effectiveness and efficiency, and to ensure that we apply our resources appropriately to the range of competing issues being raised with us;
- continue to build links between the various streams of our work to increase our ability to explore issues of emerging significance and to provide appropriate and targeted assurance to Parliament and the public on them; and
- consider whether the amount we spend on inquiries is adequate to provide the assurance expected by Parliament and the public, and whether we may need additional funding for inquiries in future.

Supporting accountability to Parliament

Advice to, and liaison with, central agencies, individual public entities, the public sector, and other sector groups is an integral part of our presence and involvement in the public sector. We see our level of involvement in this area remaining at similar levels. However, we intend to change the nature of our reporting and advice to better support accountability to Parliament.

We will do this by focusing on a broader view of public entity risk as part of the annual audits, and by using the full range of our resources to identify and address issues and risks. An example is our recent work on procurement.

Responding to requests for more advice

The Auditor-General's annual work programme contains commitments to carry out performance audits and report on these to Parliament. However, the public entities we audit want more from us than formal reports that they can

apply to their particular circumstances. They, and agencies with co-ordination responsibilities, want to get our advice on initiatives that they are proposing and how they can ensure that they do the right thing.

We consider that responding to these expectations will help us to ensure that our work generates greater insight and value. However, we are aware that:

- our expertise lies in areas at the core of auditing such as governance, accountability, and public administration, and that we must be careful to participate in such work only to the extent that our expertise allows; and
- our independence is our strongest asset. Therefore, we must remain within our proper role as the public sector's auditor – reporting to those properly responsible for decisions about policies, governance, and management.

Our finances

It is important that we maximise the value of all the work that we do. Funding for the Office of the Auditor-General is constrained, and we are under pressure to contain the level of annual audit fees. The funding sources available to the Auditor-General are:

- fees for annual audits, paid by each public entity (other than cemetery trusts and a few other very small public entities whose audits are funded by Parliamentary appropriation to the Auditor-General), which accounted for 86% of the total of Vote Audit in 2007/08; and
- limited funding from Parliament for discretionary work, which amounted to \$9.75 million in 2008/09 – about 13% of the total Vote Audit. This funding is used for work other than the annual audits – for example, performance audits, inquiries, and the publication of good practice guides.

Annual audit fees

Our 2004-09 Strategic Plan anticipated that we would adjust annual audits to carry out significantly more work in the area of non-financial reporting, and to improve the level of work done in the areas of waste, probity, governance, and accountability. This strategic intention reflected the changes to the statutory public accountability arrangements from 2002-04 that increased performance reporting requirements for many public entities, and our audit responsibilities.

The Auditor-General appoints auditors to carry out the annual audits of public entities from a pool of 54 audit service providers. This pool includes Audit New Zealand and private sector accounting firms, ranging from the four major chartered accountancy firms to sole practitioners. Most audits are allocated directly to an auditor, but a few auditors are appointed to an audit after a competitive tender.

When we were preparing the 2004-09 Strategic Plan, our analysis clearly showed that the previous contestability model that required audit service providers to compete for public sector audits:

- did not give audit service providers enough work to justify their investment in knowledge about sectors of public entities, or to justify their effort to stay abreast of changes in the public sector environment;
- did not allow joint development work to deal with the changing public sector environment; and
- had resulted in high process costs and tension between downward price pressure and audit scope expectations, with some evidence of market distortion and failure, including predatory pricing.

As a result, audit fees were increasingly not covering the costs of audit work, including work to address wider public interests in the effectiveness and efficiency of public services and to carry out our statutory duty to report on performance information.

Continuing pressure on audit fees

Since 2004, we have worked extensively to get public audit fees on to a viable financial footing, while ensuring that audit work complies with changing financial reporting and auditing standards. Despite this, wider international market demand factors in the wake of the Sarbanes Oxley response, the post-Enron environment, and the effect of introducing NZ IFRS have increased audit effort, while qualified auditors have remained a scarce resource.

We expect continued pressure on audit fees. Some commentators' projections suggest that there will be increases of 5% a year in audit costs as a result of rising wages and other costs. The international economic conditions may reduce these projections somewhat.

The transition to NZ IFRS during 2004-09 has created more audit work and higher audit fees, mostly driven by compliance and activity levels. We have been publicly noting our concerns about the introduction of NZ IFRS and the effect on the public sector for some time. We will continue to highlight the issues and implications, and suggest other options.

Our objective is to ensure that audit fees are fair to the public entities subject to audit and provide a fair return to auditors for the work they must do to meet the Auditor-General's auditing standards. However, this focus has meant that we have made only limited progress to get annual audits to address the effectiveness and efficiency of public services, including our statutory duty to report on performance information.

Meeting all the standards and requirements

We aim to bring a greater focus on risk and differentiate the way we work to manage the size of audit fees for smaller public entities. However, we must also perform audits that meet professional standards and statutory requirements. Accountability requirements, including those for the audit, and associated fees are often a burden for smaller public entities. This leads us to question whether it is timely to ask if a more differentiated model of accountability for public entities is justified.

For larger and more complex public entities where our annual audit work must include attesting to service performance information, we anticipate some fee increases as a result of the way we intend to improve carrying out this work. We have been concerned that our current audit work to attest to service performance does not address statutory intentions, particularly those arising from the legislative changes in 2002-04. Our strengthened approach to attesting to service performance information will increase audit fees. We intend to try and limit these fee increases for public entities during 2009-12.

Discretionary auditing and reporting products

Our strategy proposes to focus our discretionary work more on addressing risks identified in annual audit work that are not appropriately dealt with by the annual audit. This may be because these risks are not specifically relevant to the matters on which the annual audit must provide an opinion or because they relate to groups of public entities or public sector-wide issues. We are not yet certain how this approach might change the focus and extent of our discretionary reporting, but note again that, relative to our international counterparts, we audit a very large number of public entities and have comparatively very limited discretionary resources to carry out in-depth audit work.

During 2009-12, we will be considering whether our discretionary resource is adequate to provide the assurance expected by Parliament and the public, and whether we may need additional funding for inquiry and performance audit work in future.

Our processes

We depend on information technology to carry out our work, and we need systems to manage the 4000 or so audits that we are responsible for. During 2007/08, we invested in the redevelopment of the core system we use to manage the allocation and tracking of annual audits. The new system has considerably

improved functionality. We also depend on high quality information from all our audit service providers about annual audit risk assessments. We will need to invest major effort in developing risk assessment and knowledge management tools and processes during 2009-12.

Risk assessment

Improved risk assessment tools and processes are the fundamental building blocks for us to better understand the objectives and operating environments of public entities, so that our annual audit work can be based on a broader view of public entity risk.

We have already started work on a number of initiatives in this area, and have more planned. We are also aligning contracts with our audit service providers within particular sectors. This alignment is to allow development of a long-term outlook for annual audit work in any given sector, and a clearer basis for expectations about the development of sector expertise, liaison, and communication responsibilities among auditors.

Knowledge management

We need to invest in knowledge management techniques, tools, and processes to aggregate identified risks and issues (from annual audits and our other discretionary work) to assess their pervasiveness and effect, and to identify appropriate responses. Such analysis and evaluation of risk information is intended to improve the use of our full range of resources to identify and address issues and risks within public entities and the public sector.

We will also need to develop better knowledge management techniques, tools, and processes for managing information about action taken on risks. Issues identified in annual audits are carried over to successive years of audit planning until the auditor is satisfied that the issues are satisfactorily resolved. We intend to build on the way that we identify issues in our work, and how we report to public entities or others involved in management and governance so that issues are satisfactorily resolved or escalated to others with relevant responsibilities.

We intend to explore a range of internal efficiencies so that we can free up resources and focus more on public entities and sectors of greater public interest and risk. These efficiencies include:

- improved risk assessment and prioritising of annual audit efforts across the range of public entities and sectors within the public sector;
- better integrating annual audit work with performance audits and other reporting funded by Parliament;

- better aligning existing annual audit work with other areas of public-interest audit work (while still meeting professional standards and delivering quality audits); and
- aligning three-year sector plans and contracts with audit service providers to sectors of public entities, to provide a stable basis for audit service providers to invest in sector knowledge and to share information and collaborate to address audit issues and risks.

Working with other audit service providers

With an operating model that uses a range of audit service providers and staff in two business units to deliver our range of audit products, we need to ensure that we share knowledge about:

- public entities – their purposes and obligations, their operating contexts, and their risks and issues;
- how we can carry out our audit work efficiently while meeting our professional and statutory obligations, and providing the maximum assurance value to stakeholders; and
- how we can use our audit responses to help identify issues and risks, and to help public entities and the public sector address risks and identify improvement opportunities.

We intend to build on the collaborative work that has been taking place between our audit service providers in the past few years. This has been possible because of the move from competing for audit contracts to an allocation approach.

Our risk management framework

Our Strategy 2009-12 will place significant demands on our people, capability, and resources during the next three years. This strategy will test our ability to build relationships and communicate to public entities and Parliament about the focus of our work and the benefits they may expect to see as a result. In particular, we will be tested in the wider context of financial constraint for public entities and increasing pressure on audit and assurance costs. Our strategy therefore proposes incremental movement toward providing greater insight and value from the work we do, to allow for adjustment and learning on our own part and on that of public entities.

Our risk management framework helps us to identify and manage risk. The framework is aligned to our business outcomes and the strategies designed to achieve these outcomes.

Risk identification and management is an important part of our annual planning. Our strategic audit planning defines plans and allocates resources to achieve objectives. An integral part of that process is identifying anything that threatens our ability to achieve those objectives.

We have categorised the risks that we are exposed to as strategic, professional, operational, and business operational risks. We manage all risks within the same framework, as experience shows that inadequately managed professional, operational, and business operational risks can escalate to the level of strategic risk.

Strategic risks

Identifying and managing risk is integral to our business. In our view, we face four ongoing strategic risks that will always be present, although much of the work we do helps to mitigate them. In addition, we have identified two risks that relate more specifically to the period of our strategy from 2009 to 2012.

Ongoing strategic risks

- **Loss of independence** – independence underpins the value of the Auditor-General's products. Losing that independence in fact or appearance, whether by failure on the part of the Auditor-General or his appointed auditors to act independently or otherwise, would undermine trust in our organisation.
- **Audit failure** – the risk that we issue an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process.
- **Loss of capability** – the risk that we are unable to retain, recruit, or access people with the technical and other skills our audit work requires.
- **Loss of reputation** – the risk that we may lose reputation or credibility that affects our ability to maintain effective relationships with stakeholders.

Mitigation actions

Our main mitigation actions for the ongoing strategic risks are:

- the Auditor-General's independence standards – the Auditor-General sets a high standard for independence for his employees and the other auditors he appoints;
- monitoring the independence of the two statutory officers, employees, and appointed auditors – the system includes regular declarations of interest and, where necessary, implementing measures to avoid conflicts of interest;
- adhering to professional auditing standards and supplementing such standards with the Auditor-General's auditing standards;
- quality assurance regimes, including implementing and complying with

revised quality control standards from the New Zealand Institute of Chartered Accountants;

- peer review and substantiation procedures – these include annual independent evaluation of our audit allocation and tendering processes, independent external review of two performance audits each year, and client and stakeholder feedback studies;
- an independent Audit and Risk Committee, comprising three external members and the Deputy Controller and Auditor-General; and
- ongoing training and development of our staff – including talent and capability management programmes, leadership development initiatives, and professional development programmes.

Overall, we are effectively managing our ongoing strategic risks. This view is based on our ongoing monitoring and the results of our international peer review conducted in late 2007. The review team made only minor suggestions for improvement, most of which we are adopting.

Strategic risks in 2009-12

- **Support from Parliament and others** – the risk that we will not meet all expectations. As the Auditor-General’s discretionary mandate is broad, it is inevitable that we will not meet all expectations. That is why our strategy is based on providing greater clarity about what we are focusing on and why. However, with more than 87% of the Office’s expenditure on annual audits, for which requirements are set by statute and professional standards, achieving our strategy also depends on the willingness of Parliament:
 - and others to rigorously explore opportunities for a more differentiated model of accountability for public entities and to act to realise reduced audit and compliance costs where appropriate; and
 - to consider questions about the balance of funding available to the Office for discretionary products to allow us to conduct a greater range of work in the public interest – such as performance audits and other studies, inquiries, and supporting accountability to Parliament.
- **Leadership transition** – the risk of a loss of focus or direction resulting from uncertainty during the transition of leadership of the Auditor-General and the Executive Director of Audit New Zealand. Our Strategy 2009-12 was being developed as a new Executive Director, Mr Stephen (Steve) Walker, was appointed and took up his position in January 2009. The term of the incumbent Auditor-General Mr Kevin Brady ends in July 2009. Mr Brady has been clear that, while an incoming Auditor-General will bring their own priorities to the job, it is important for us to prepare the strategy for 2009-12 to ensure that

the Office's current intentions and position are clearly laid out for the new Auditor-General to consider. The current Deputy Auditor-General's term runs to mid-2010, providing a clear link in the transition between the incoming and outgoing Auditors-General.

Our people

The Auditor-General's staff are organised into two business units, with shared corporate services:

- **Audit New Zealand** is the operating arm, and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities within the Auditor-General's mandate and in keeping with the Auditor-General's auditing standard on the independence of auditors.
- The **Office of the Auditor-General** carries out strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, inquiries, and other special studies, and provides reports and advice to Parliament.

We rely entirely on our people and their collective skills, experience, knowledge, and culture to deliver the outputs mandated by our governing legislation. To achieve our Strategy 2009-12, we need to recruit, train, develop, and retain the best people so that our work meets and exceeds the very high standards we set. We will continue to take account of:

- changes in the market for accounting and auditing staff;
- wider skill requirements for public sector audits; and
- employee engagement.

Changes in the market for accounting and auditing staff

Audit New Zealand operates most effectively with a mix of senior and junior staff. Many of our auditors start their career with us as a graduate. We visit most universities in New Zealand every year, seeking high quality accounting students in their third or final year of study. We put all graduate candidates through an extensive evaluation process, and those that meet our requirements are offered internships or graduate roles. Interns who show promise and are keen to join us are offered positions to start with us after they graduate.

Our young staff are encouraged to become professionally qualified as chartered accountants through the New Zealand Institute of Chartered Accountants, and they generally achieve this in their third year of working with us. At this time, they have many exciting career opportunities ahead of them – in finance or accounting

roles in New Zealand and overseas. Traditionally, Audit New Zealand has lost a lot of staff at this point (year 4 and 5) in their career.

The changing economic conditions, combined with changing immigration rules by countries such as the United Kingdom, are making many newly qualified people think more about their options, and as a result turnover is starting to slow. This is providing us with a large number of business benefits, such as greater continuity with clients and within audit teams.

Historically, because people leave after qualifying we have had to recruit qualified and experienced staff from the accounting and auditing profession so that we maintain the capability and capacity we need at senior levels. Our endeavours in the last couple of years have been very successful, and Audit New Zealand is now well staffed at all levels.

It is too early to tell if this new state will continue. The attraction of overseas travel will remain for many, and our staff are likely to continue to be in demand in the global market because of their experience from the introduction of International Financial Reporting Standards in our public sector.

We will continue to supplement our staff with secondments from within New Zealand and internationally to help us through peak auditing periods.

Wider skill requirements for public sector audits

The professional training of auditors is oriented toward financial statements. For us to carry out our public sector role of auditing non-financial, waste, probity and accountability areas, we need to develop a wider range of skills in our annual audit staff. We already have staff who carry out performance audits, inquiries, and other assurance services and who have expertise in important areas of governance, accountability, and public administration. These areas include procurement, funds management, grants administration, debt management, asset management, defence acquisitions, transport safety, and strategy implementation. During 2009-12, we will need to get better at transferring what we learn from our performance audits, inquiries, and other assurance services into our annual audits.

Employee engagement

Our employee engagement and satisfaction survey results are broadly on a par with other State sector organisations, although they are also generally below the average for employees in New Zealand as a whole. In the context of our wider strategy and the general environment within which we operate, we consider it

desirable and beneficial to improve employee engagement and satisfaction across the board. We intend to focus on:

- how our staff identify with and understand our values of integrity, honesty, and independence, as these are the cornerstone of our ability to provide the assurance required by Parliament and the public;
- continuing to strengthen our expertise in areas central to our role as the public sector's auditor of governance, accountability, and public administration, and to generally broaden the familiarity of our auditors in assessing and making judgements about these areas in annual audit work; and
- continuing to invest in developing our staff. This continues to be vital in the domestic and international labour market for auditing and assurance professionals. Being a knowledge industry, our ability to retain knowledge and expertise is as important as recruiting new people and skills. Professional development will therefore continue to have a very high priority. We aim to continue to improve the overall skill, leadership capability, and experience level of staff. This will include the further development of high-potential and talent management programmes, as a way of improving staff retention and to broaden the skills of our current and future leaders.

Appendix

Progress on our 2004-09 Strategic Plan

In 2004, the Office decided to adopt an overall strategy of product leadership. By 2009, we wanted to reach a position where we set the benchmark for designing and delivering independent assurance services by:

- shaping our services to anticipate and respond to Parliament and other stakeholders' needs and our changing environment;
- building our capability to create and deliver our services;
- fostering relationships and ways of working to support our strategy of product leadership; and
- acting independently in everything we do.

The Office identified as objectives:

Products	People
Doubling the number of performance audits	Professional leadership – turning technically competent staff into professional leaders
Acknowledging inquiries as a core part of our business, and funding and resourcing inquiries appropriately	Flexible access to the best people – having a range of staff competent and available to carry out inquiries and other urgent work, or to backfill for others so engaged
Annual audits with stronger non-financial, waste, probity, and accountability flavours	Headspace to think – people and resource dedicated to research and development
Short lag time between legislative/other changes and product development	Processes
Established research capability	“Whole-of-Office” thinking and joint working, both internally and externally
Strategic deployment of our full range of assurance services around issues and risks	Innovation encouraged and rewarded

Our progress

We have made good progress against our objectives, particularly with:

- increasing the numbers of performance audits and other studies, improving and formalising inquiry processes, and managing the associated resource management implications;
- managing the implementation of significant accounting and auditing standards changes (NZ IFRS and International Standards on Auditing) and public sector legislative changes regarding the accountability arrangements for government departments, Crown entities, and local authorities (the 2004 amendments to the Public Finance Act 1989, the Crown Entities Act 2004, and the Local Government Act 2002);

- successfully establishing a research and development function, which has co-ordinated and developed our work on our areas of strategic focus that cut across central and local government and the outputs of the Office, and include areas where the Auditor-General considers that public sector performance must be improved; and
- in training and developing our people. For example, we have developed high-potential and talent management programmes as ways of improving staff retention and broadening the skills of our current and future leaders, and have introduced leadership competency frameworks. Audit New Zealand has also refreshed its national professional development programme for all audit staff and provided for ongoing maintenance of its professional practices by establishing a Professional Practices Group.

However, there are important areas where we still have some distance to go before we will have achieved our objectives:

- the development of annual audits (in conjunction with our other work) with stronger non-financial, waste, probity, and accountability flavours;
- strategic deployment of our full range of assurance services around issues and risks; and
- “whole-of-Office” thinking and joint working, both internally and externally.

These objectives are still important, indeed essential, and they are central to our Strategy 2009-12. A review of the changing environment in which we operate supports our view that we should continue to pursue those objectives.