



B.28AP(07)

Parliamentary paper

Annual Plan 2007/08





Office of the Auditor-General
Private Box 3928, Wellington

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

E-mail: reports@oag.govt.nz
www.oag.govt.nz

Annual plan 2007/08

Prepared in accordance with section
36(4) of the Public Audit Act 2001.

May 2007

ISSN 1175-8258

Speaker's foreword

In my capacity as Speaker, I am responsible for Vote Audit under the Public Finance Act 1989. I am therefore pleased to introduce the Controller and Auditor-General's annual plan for the financial year 2007/08. The document includes a statement of future operating intentions (Statement of Intent) under sections 38(1) and 45G of the Public Finance Act 1989.

The Controller and Auditor-General is an Officer of Parliament whose role is to assist Parliament in its scrutiny of executive government, to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

This *Annual Plan 2007/08*, and its Statement of Intent, indicate how the Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Auditor-General to account for the performance of his Office during 2007/08.



Hon Margaret Wilson MP
Speaker of the House of Representatives

3 May 2007

Contents

Statement of responsibility	5
Auditor-General's overview	7
Key issues and risks in our operating environment	7
Responding to issues and risks in our operating environment	9
Feedback from Parliamentary consultation	10
Working to achieve the objectives described in our strategic plan	11
Part 1: Background	12
Role and functions of the Auditor-General	13
Our operating model	13
Size and scale of our operations	14
Our current staff and contracted resource base	15
Our strategic direction	15
Part 2: Our desired outcomes	16
Our output classes, performance measures, and targets	19
Part 3: Statement of forecast service performance	22
Our output classes	23
Output class: Provision of audit and assurance services	23
Output class: Parliamentary services	26
Output class: Performance audits and inquiries	28
Part 4: The risks to our success	34
Mitigation actions	35
Operational risk	35
Organisational health and capability	36
Part 5: Forecast financial statements for 2007/08	40
Introduction	41
Statement of significant underlying assumptions	41
Statement of accounting policies	42
Statement of prospective financial performance	47
Statement of prospective movements in taxpayers' funds (equity)	48
Statement of prospective financial position	49
Statement of prospective cash flows	50
Reconciliation of surplus in the Statement of prospective financial performance to the prospective net cash flow from operating activities	51
Statement of forecast capital expenditure	52
Forecast details of physical assets by category	53
Prospective appropriation statement	54
Forecast output class operating statements	55
Forecast financial indicators	56

Appendix 1: Our proposed performance audit work programme	57
Appendix 2: Areas of focus for the Auditor-General	65
Appendix 3: Approach and method used for our stakeholder survey	69
Appendix 4: The 2007/08 international peer review	71
Appendix 5: Our demographics and other statistics	73

Statement of responsibility

The information on future operating intentions of the Controller and Auditor-General for the year ending 30 June 2008 contained in this *Annual Plan 2007/08* has been prepared in accordance with section 36 of the Public Audit Act 2001 and Part 4 of the Public Finance Act 1989.

As Controller and Auditor-General, I acknowledge that, in signing this statement, I am responsible for the information contained in this *Annual Plan 2007/08*.

The forecast financial statements, which include the service performance forecast for each class of outputs, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2007/08 budgetary estimates for the Auditor-General submitted under section 45G of the Public Finance Act 1989.

I certify that the information contained in this *Annual Plan 2007/08* is consistent with existing appropriations and with the appropriations set out in the Appropriation (2007/08 Estimates) Bill.



K B Brady
Controller and Auditor-General

3 April 2007



(Countersigned)
M J Reid
Assistant Auditor-General
Corporate Services

3 April 2007

Auditor-General's overview

I am pleased to present my annual plan for 2007/08.

I have changed the presentation of this annual plan to better reflect what I consider is good practice in the presentation of performance information. The main change has been to put outcome information and measures with the statement of service performance information. This should make the flow of information more logical and understandable.

This annual plan is based on three key strategies:

- shaping our services to anticipate and respond to Parliament's and other stakeholders' needs and our changing environment;
- building our capability to create and deliver our services; and
- fostering relationships and ways of working that support our strategic plan.

Within these three key strategies are a number of specific organisational development intentions. Since 2004, we have made good progress in most of these, including:

- increasing the number of performance audits we carry out;
- establishing a research and development team;
- implementing a project management approach to improve the timeliness of performance audits and inquiries;
- achieving efficiencies through merging the corporate services teams of Audit New Zealand and the Office of the Auditor-General; and
- improving recruitment and retention strategies, including starting a comprehensive professional development programme and an internship programme at Audit New Zealand.

Key issues and risks in our operating environment

Significant changes occurring in the accounting and auditing profession and in the legislative and operating environments of public entities continue to have a major effect on our work.

Changes in the public sector

Changes in the public sector include:

- increasingly high public expectations and scrutiny, particularly relating to ethical conduct and transparent and accountable decisions and transactions;

- an expectation that public entities will work collaboratively so that services to the public are better integrated, and that public entities will consider the longer term effects of their activities (especially in managing finite or fragile environmental resources); and
- changes in 2004 to the Public Finance Act 1989 and the Local Government Act 2002, and enactment of the Crown Entities Act 2004. These Acts require changes to be made to the planning, budgeting, and reporting responsibilities of many public sector entities.

Changes in the accounting and auditing profession

A significant change in the accounting and auditing profession is the adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the public sector for periods starting on or after 1 January 2007. Earlier adoption is permitted. The local government sector decided to comply earlier, and will prepare financial statements in keeping with NZ IFRS for the year ending 30 June 2007. Most other entities within the public sector will follow a year later (that is, for the year ending 30 June 2008).

Another significant change in the accounting and auditing profession is the adoption of New Zealand equivalents to International Standards on Auditing. This change is likely to necessitate a complete review and update of the Auditor-General's auditing standards.

The effect of these changes on our work

The effect of these changes is increasing complexity for those preparing financial reports and those auditing them. This puts pressure on both the quality of the audit work carried out and the cost of performing the audit work. These changes have also generated an environment in which financial expertise and audit assurance expertise are in high demand. We continue to face challenges in recruiting and retaining suitably qualified and experienced senior staff because of industry and labour market shortages.

For several years, we have identified our key strategic risks to be the loss of our independence, and audit failure. The changes in the public sector and the accounting and auditing professions, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff, mean that these risks remain.

Responding to issues and risks in our operating environment

Responding to changes in the public sector

During the next two to three years, our audit work needs to provide assurance to the public and Parliament in the areas where there are concerns about, or greater expectations of, public entities. We also need to provide assurance that the recent legislative changes affecting the public sector have been implemented and are having the effect desired by Parliament.

To provide the necessary assurance, I have identified several areas for us to focus on. I have selected these areas because they are strongly related to my statutory role and because these concerns tend to be challenging for the public sector. They cover both central and local government, and are areas where, in my view, public sector performance should be improved. The areas of focus are:

- probity;
- fraud;
- sustainable development;
- stewardship and management of infrastructure assets; and
- performance information.¹

I expect our work in these areas to involve the full range of our audit assurance services (annual audits, performance audits, inquiries, and advice and assistance). We will ensure that our annual audits place greater emphasis on non-financial reporting, waste, probity, and accountability.

Responding to changes in the accounting and auditing profession

To ensure that our annual audits comply with changing financial reporting and auditing standards, we will continue with the research and development work of the last two to three years.

Public sector audit fees have been increasing to keep pace with the wider international demand for assurance services – and that fee pressure is likely to continue for the next two to three years. In 2003 I decided to shift to an allocation method for contracting audits, rather than a tendering model. In my view, the allocation method is a cost-effective way of encouraging auditors to share methodologies and work together to improve audit work. I have systems in place to ensure that audit services are provided at a reasonable cost to public entities.

¹ See Appendix 2 for more detailed discussion.

For example, I regularly seek independent assurance that our fee-monitoring mechanisms ensure that fee levels are fair and reasonable for audited entities and auditors. However, I must also ensure that audits are performed well. To do this, my audit service providers must be fairly remunerated.

The 2006 review confirmed that our fee-monitoring mechanisms, while capable of some modest enhancement and refinement, are performing well and ensuring that audit fees are fair and reasonable. I am also seeking a review of the audit allocation method, to ensure that the wider pressure on audit fees is managed as well as it can be.

Feedback from Parliamentary consultation

Under section 36(1) of the Public Audit Act 2001, our proposed work programme is subject to Parliamentary consultation. We sought feedback on two occasions — once on a preliminary early draft and again on the statutory *Draft annual plan 2007/08*.

This feedback:

- mainly supported the approach we have taken to determining our work programme, and
- gave us guidance on the scope and relative emphasis we should place on one or two key studies.

I thank Parliament for this feedback, and will ensure that it is incorporated into our scoping of the respective studies.

Having regard to the requirements of section 36(3) of the Public Audit Act, I acknowledge that the Finance and Expenditure Committee provided a written response to the statutory *Draft annual plan 2007/08*, and note that neither the Speaker nor any committee of the House requested any change to our work programme priorities.

Since we sought feedback on our draft annual plan, two additional pieces of work are likely to be included in our 2007/08 work programme. They are:

- a performance audit into systems and processes for managing conflicts of interest in the Auckland regional District Health Boards; and
- ongoing monitoring of the implementation by New Zealand Police of the recommendations made by the Commission of Inquiry into Police Conduct.

I am confident that the performance audits we intend to conduct in 2007/08 are relevant and likely to be useful to Parliament, public entities, and the public.

Working to achieve the objectives described in our strategic plan

Recruiting and retaining good staff and continuing to invest in developing our staff is a core component of our strategic plan. In the coming year I will be focusing on:

- strengthening the management and leadership skills of our people, including further embedding the national professional development programme and introducing High Potential and Talent Management programmes to recognise, reward, and develop high performers;
- supporting staff members with Individual Development Programmes and ongoing investment in targeted areas of training; and
- completing a significant “future business model” project that will provide us with an effective planning tool to better forecast our staffing requirements.

While the 2007/08 financial year has several challenges in store for us, I am confident that we have the systems and processes in place to achieve our strategic plan. Most importantly, in fulfilling the statutory purpose of the Auditor-General, I am fortunate to be working with exceptionally skilled and talented people within Audit New Zealand and the Office of the Auditor-General. Each day my staff show their commitment to integrity, honesty, and independence. I look forward to achieving the objectives of this annual plan with them during 2007/08.



Kevin Brady
Controller and Auditor-General

3 April 2007

Part 1
Background

Part 1

Background

Role and functions of the Auditor-General

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. His mandate and responsibilities are set out in the Public Audit Act 2001.

The Auditor-General is independent of executive government and Parliament in discharging the functions of the statutory office, but is answerable to Parliament for his stewardship of the public resources entrusted to him.

Parliament seeks independent assurance that public sector organisations are operating, and accounting for their performance, in accordance with Parliament’s intentions. There is also a need for independent assurance of local government – local authorities are accountable to the public for the activities they fund through locally raised revenue. As an Officer of Parliament, the Auditor-General provides this independent assurance to both Parliament and the public.

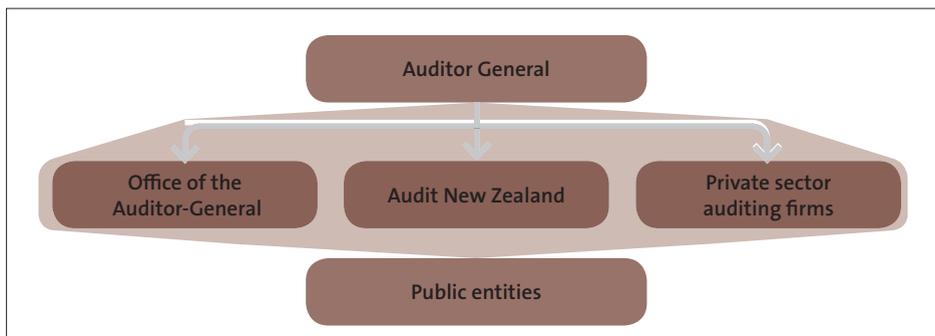
Our operating model

The Auditor-General’s staff are organised into two business units – the Office of the Auditor-General and Audit New Zealand.

The Office of the Auditor-General undertakes strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and carries out inquiries and other special studies.

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 accordance with the Auditor-General’s auditing standard relating to the independence of auditors.

The Auditor-General also engages private sector auditing firms (audit service providers) to carry out his statutory functions in relation to some public entities.



For the majority of public entities (other than schools), the Auditor-General allocates annual audits to auditors. He chooses from a pool of audit service providers that includes Audit New Zealand, the four major chartered accountancy firms, and a range of smaller firms. The appointments of auditors of schools as well as some public entities that have a strong commercial focus are given the option of a contestable regime where the Auditor-General deems that option to be appropriate.

Size and scale of our operations

Annual audits

The Auditor-General has a statutory duty to conduct annual audits of the financial reports and other audits required by various statutes of about 4000 public entities, of which 3000 are schools and other very small entities.

Performance audits and inquiries

The Office of the Auditor-General aims to complete 19 to 21 performance audits, special studies, and major inquiries each financial year. It also considers 200 to 300 requests for inquiries each year from taxpayers, ratepayers, and members of Parliament. A few of these requests lead to the Auditor-General carrying out a major inquiry. The Office of the Auditor-General also administers the provisions of the Local Authorities (Members' Interests) Act 1968. There are 50 to 100 enquiries each year in relation to this Act.

Services to Parliament

The Office of the Auditor-General provides reports and advice to select committees and responsible Ministers. Each year, we prepare 120 to 140 reports to assist select committees with their financial reviews of public entities and Estimates examinations, and 120 to 130 reports to Ministers on the results of annual financial audits. The Office of the Auditor-General and appointed auditors also provide independent assurance to Parliament that expenses and capital expenditure of departments and Officers of Parliament have been incurred for purposes that are lawful, and within the scope, amount, and period of the appropriation or other authority.

Our current staff and contracted resource base

We employ about 270 staff in eight locations throughout New Zealand. We also engage about 70 audit service providers, in addition to Audit New Zealand, to carry out annual audits of public entities.

Our strategic direction

Figure 1
Statement of our purpose, vision, strategy, and identity

Core purpose Why are we here?	To provide independent assurance that public entities are operating and accounting for their performance in accordance with Parliament’s intentions.		Our stakeholders <ul style="list-style-type: none"> • Parliament • Public entities • Taxpayers • Ratepayers • Local authorities • Audit service providers • Staff 	
	Vision Where are we going?	To set the benchmark for design and delivery of audit assurance products and services, both nationally and internationally.		
		Strategy How do we get there?		Our strategy is based on product leadership. We facilitate real change and improvement in the public sector by: <ul style="list-style-type: none"> • shaping our services to anticipate and respond to Parliament’s and other stakeholders’ needs and our changing environment; • building our capability to create and deliver our services; and • fostering relationships and ways of working that support our strategic plan.
Identity What do we want to be known for?	People Professional leadership Technically strong Expert advice Adaptability Access to best people		Output classes Annual audits and other assurance services Advice to Parliament and other stakeholders and Controller function Performance audits and inquiries	Intermediate outcomes Parliament and the public know that public entities undertake activities: <ul style="list-style-type: none"> • in an effective and efficient manner; • within the authority granted by Parliament, • using resources in an economical manner; • according to appropriate standards of behaviour; • giving full, accurate accounts of their activities, and of their compliance with Parliament’s intentions; and that, if not, we will tell them.

Part 2
Our desired outcomes

Part 2

Our desired outcomes

Our desired overall outcome is trust in the effectiveness and efficiency of the public sector. A measure of trust in the effectiveness and efficiency of the public sector is that New Zealand's Transparency International Corruption Perception Index score is maintained or improved. In 2006, New Zealand's score was 9.6, meaning it scored first equal on the index with Finland and Iceland.

The Auditor-General helps create trust in the effectiveness and efficiency of the public sector by providing independent assurance and advice to Parliament and the public that governance and management arrangements are suitable to address five key areas¹ – our intermediate outcomes – and where they are not by saying so. These five key areas are that:

- public entities undertake activities in keeping with Parliament's intentions, and in an effective and efficient manner;
- activities, resourcing, and accountability requirements are carried out within the authority granted by Parliament;
- resources are obtained and applied in an economical manner (that is, taxpayers' dollars are not being wasted);
- public entities meet parliamentary and public expectations of an appropriate standard of behaviour for the public sector; and
- entities give full and accurate accounts of their activities, and of their compliance with Parliament's intentions, through the annual reporting cycle.

We gather the information necessary to provide this independent advice and assurance through the activities that form our output classes. The activities are:

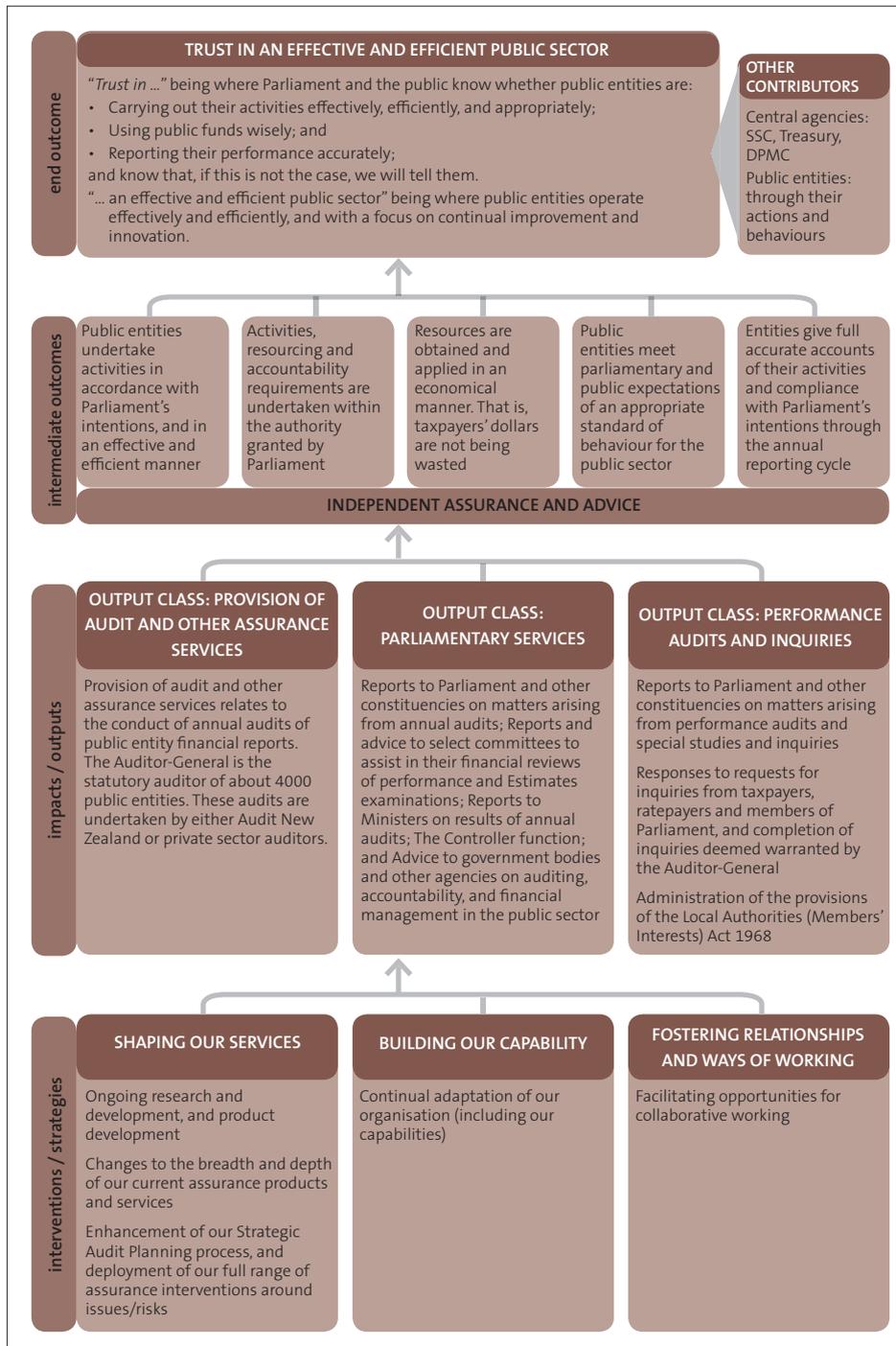
- auditing all public entities;
- providing advice to Parliament and others and performing the Controller function; and
- carrying out performance audits and inquiries.

We will seek to confirm that our activities are contributing to these intermediate outcomes through an external peer review of our two business units in 2007. The peer review will be undertaken by an international panel. In 2008 and 2009, we will seek independent confirmation that we are implementing any recommendations arising from the peer review.

Figure 2 shows our outcome framework.

1 These five key areas reflect the mandate given to the Auditor-General in the Public Audit Act 2001.

Figure 2
The Auditor-General’s outcome framework



Our output classes, performance measures, and targets

In Part 3, we set out our output classes and their associated performance measures and targets. We describe:

- how we assess whether our outputs are contributing to the outcomes we seek (as required by section 40(d)(i) of the Public Finance Act 1989). We will use these as our main measures and standards for the forthcoming financial year and the next two financial years; and
- how we assess the performance achieved as a result of our output classes (as required by section 41(1)(e)(ii) of the Public Finance Act 1989).

Our logic is that:

- our performance measures and targets help us to understand whether we are producing quality outputs within time and resource constraints;
- our planning process helps us to determine the right work to do at the right time;
- our areas of strategic focus help us to ensure that we are effectively deploying the full range of audit services to address areas needing development work;
- our outcome measures for each of our three output classes help us to understand whether these outputs are having the effect we want; and
- evaluation reviews provide assurance that we are meeting good practice expectations when compared with our peers internationally.

If all of the above function as intended and have the desired effect, we will be contributing to an effective and efficient public sector that is trusted within the five areas that form the Auditor-General's mandate under the Public Audit Act 2001.

A failure to achieve satisfactory performance against an output target or budget, or to maintain a static situation or trend in the opposite direction to that desired in outcome measures, could indicate a cost-effectiveness² issue that we would explore and plan to improve.

It is worth noting that 80% of the Auditor-General's expenditure is on carrying out annual audits. To assess the effectiveness of annual audits, our performance measures include:

- ensuring the timely completion of audits or that arrears in the completion of audits are not caused by inaction on our part;
- issuing timely management reports;
- achieving client satisfaction with the quality of Audit New Zealand's audit work;

² See section 40(d)(ii) of the Public Finance Act 1989.

- obtaining assurance about the quality of annual audit work; and
- obtaining independent confirmation of the probity and objectivity of the methods and systems that we use to allocate and tender audits and monitor the reasonableness of audit fees.

Our outcome measures focus on the effectiveness of this work by comparing the numbers of audits completed according to statutory timelines, audit qualifications, and the response of entities to management letter recommendations, with data from the previous two years.

In 2007/08 an independent peer review will take place, which is in addition to this annual performance management framework. Further information about the peer review is provided in Appendix 4.

Part 3

**Statement of forecast service
performance**

Part 3

Statement of forecast service performance

Our output classes

The outputs within our three output classes are:

- auditing all public entities;
- providing advice to Parliament and others, and performing the Controller function; and
- carrying out performance audits and inquiries.

Output class: Provision of audit and assurance services

This output class relates to the Auditor-General's statutory duty to carry out annual audits of the financial reports, and in some cases performance information, of about 4000 public entities. It also includes other assurance services provided to those entities. The output class involves the following activities:

- annual audits;
- auditor appointments and fee monitoring of annual audits; and
- quality assurance of annual audits.

The annual audits account for about 80% of our total budgeted expenditure.

Audit New Zealand and private sector auditing firms carry out annual audits and provide other assurance services on behalf of the Auditor-General. The audits and other services are funded mainly by fees paid by the public entities.

Annual audits

There are two main products from an annual audit:

- **The audit report** is addressed to readers of the financial statements and performance information. It provides the auditor's independent opinion on whether the financial statements and performance information fairly reflect the public entity's position. In cases where the financial statements fairly reflect the public entity's financial performance and service position and, where applicable, performance information, the auditor will issue an audit report with an unqualified opinion. However, where the auditor identifies a material¹ error or omission in the financial statements or performance information, the auditor will issue an audit report with a qualified opinion (which we refer to as a non-standard opinion).
- **The management report** is addressed to the governing bodies and

1 Material is defined in AS-702: *The Audit Report on an Attest Audit* as:

A statement, fact, or item that is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the written assertion or set of assertions is completed, has the potential to influence users of the audit subject matter in making decisions or assessments.

management of public entities. It sets out any significant issues identified by the auditor during the audit. The report provides recommendations for improving the public entity's controls, systems, and processes.

Where public entities are subject to financial review by select committees, we report the results of the annual audits to responsible Ministers and select committees. This includes providing a grading for entities, based on our assessment of their management control environment, financial and service performance systems, and controls.

Auditor appointments and fee monitoring of annual audits

The Auditor-General appoints auditors to carry out the annual audits of public entities. Auditors are appointed from a pool of audit service providers that includes Audit New Zealand and private sector auditing 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.

Because we mainly use an allocation approach, we monitor audit fees at the point of negotiation and provide a comparative analysis to help resolve any concerns about proposed audit fees. Our objective is to ensure that audit fees are fair to the public entities subject to audit, and provide a fair return to the auditors for the work required by them to meet the Auditor-General's auditing standards.

Quality assurance of annual audits

Because the Auditor-General is responsible for auditing all public entities, it is important that we ensure that audits are performed effectively and efficiently. We carry out quality assurance reviews of auditors to ensure that they have complied with the relevant professional accounting and auditing standards, as well as the Auditor-General's own published auditing standards.

We aim to review the performance of each of our appointed auditors at least once every three years. If we identify any concerns, we carry out more frequent follow-up reviews.

Measuring our performance for output class: Provision of audit and assurance services

Main measures and standards of Impacts, outcomes, and objectives

The number of public entities' audited financial reports issued within the statutory timeframe is improved (or at least maintained), measured against the previous two years.

The number of public entities' audited financial reports containing qualified opinions is reduced (or at least maintained), measured against the previous two years.

Public entities' acceptance of Audit New Zealand's management letter recommendations is improved (or at least maintained), measured against the previous two years.

Central government entities' management control environment, financial information and service performance information systems, and controls** are improved (or at least maintained), measured against the previous two years.

* Audits may not have been completed for several different reasons, including the entity has not produced financial statements for audit, the audit of the previous year's financial statements has not been completed (and must be audited first), there are delays on the part of the entity in responding to audit queries, the audit is under way but the financial statements have not been available to us for more than 30 days, and the audit is complete and waiting for the entity's Board to adopt the financial statements.

** Benchmark data will be collected in 2007 for our first assessment of central government entities' management control environment and financial systems and controls aspects. We will collect benchmark data in 2008 for our assessment of the entities' service performance systems and controls.

Measures and forecast standards of output delivery

Less than 10% of the outstanding audit reports at 30 June 2008 are because of inaction on our part.

All management reports are issued within six weeks of issuing the audit report.

Audit New Zealand's client satisfaction survey results show that, overall, 75% of respondents are satisfied with the quality of Audit New Zealand's work (including the expertise of staff and the quality of the entities' relationships with Audit New Zealand).

Quality assurance reviews for all appointed auditors are completed during a three-year period. Of the auditors reviewed in any given year, 95% achieve a result of "satisfactory" or better.*

An annual independent review of our processes confirms the probity and objectivity of the methods and systems we use to allocate and tender audits, and monitor the reasonableness of audit fees. §

The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.

* There are five levels of quality assurance ratings, assessed using the reviewers' overall judgement of the quality of the audit work carried out. The five levels are "excellent", "very good", "good", "satisfactory", and "requires improvement". We will identify how many auditors have not achieved a "satisfactory" rating or better, and describe the actions we intend to carry out to address those with a rating below "satisfactory".

§ We will include in our annual report a copy of the independent reviewer's report, and provide an explanation of our performance.

The Output Class Vote estimate for the Provision of Audit and Assurance Services output class in 2007/08 is \$54.132 million.

Output class: Parliamentary services

This output class includes two main activities:

- advice and assistance – to select committees and other stakeholders; and
- Controller function – carrying out the Controller function.

Advice and assistance

Because of our annual audit, performance audit, and inquiry work, the Auditor-General has a broad overview of public entities both individually and throughout sectors. Through our services to Parliament, we provide advice and assistance to select committees, Ministers, and individual members of Parliament, as well as to central agencies and other public sector representative groups, to assist them in their work to improve the performance and accountability of public entities.

The main ways in which this advice and assistance occurs is through:

- reports and advice to select committees to assist their financial reviews of government departments and Officers of Parliament, State-owned enterprises, and Crown entities;
- reports and advice to select committees to assist their examination of the Estimates of Appropriations; and
- reports to responsible Ministers on the results of the annual audits.

Each year, we prepare 80 to 90 financial review reports, 40 to 50 Estimates of Appropriations examination reports, and 120 to 130 reports to responsible Ministers.

We also provide advice and assistance through:

- reports to Parliament and other constituencies on matters arising from our annual audits (with at least two reports tabled in Parliament each year);
- responding to requests and participating in working parties on matters related to financial management and accountability with other stakeholders, including government departments, central agencies, local authorities, professional bodies, sector organisations, and other public entities;
- working with other Auditors-General to encourage, promote, and advance co-operation among members in the field of public audit. This includes our roles as Secretariat of the South Pacific Association of Supreme Audit Institutions (SPASAI), membership of various committees of the International Organisation of Supreme Audit Institutions (INTOSAI), and acting as executing agent for the Pacific Regional Audit Initiative (which is funded by the Asian Development Bank, with co-financing from the Japan Special Fund and the Government of Australia).

Measuring our performance for output class: Parliamentary services (advice and assistance)

Main measures and standards of impacts, outcomes, and objectives

Select committees confirm that our advice assists them in Estimates of Appropriation and financial review examinations.*

* These measures are assessed through our Stakeholder Survey. Appendix 3 provides further information about the method used for this survey.

Measures and forecast standards of output delivery

Reports and advice are given to select committees and Ministers at least two days before an examination, unless otherwise agreed.

An internal review of a sample of financial review, Estimates, and Ministerial reports confirms that they meet the relevant standards and procedures, including that reports are consistent in their framework and approach and are peer reviewed in draft.

At least 85% of select committee members we survey rate the quality and usefulness of the advice they receive from us as 4 or better on a scale of 1 to 5.*

At least 85% of other stakeholders we survey rate the relevance and usefulness of the advice they receive from us as 4 or better on a scale of 1 to 5.*

* These measures are assessed through our Stakeholder Survey. Appendix 3 provides further information about the method used for this survey.

Controller function

The Controller function of the Controller and Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of departments and Offices of Parliament have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.

The Office of the Auditor-General and appointed auditors carry out standard procedures to give effect to the Controller function in keeping with the Auditor-General's auditing standards and the Memorandum of Understanding with the Treasury. This involves reviewing the monthly reports provided by the Treasury, and advising the Treasury of any issues arising and the action to be taken.

Each year, we report to Parliament on the significant issues arising from the operation of the Controller function.

Measuring our performance for output class: Parliamentary services (Controller function)

Main measures and standards of impacts, outcomes, and objectives

Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Where there is a breach or suspected breach, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury.

Measures and forecast standards of output delivery

Monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.

Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately.

The Vote estimate for the Parliamentary services output class in 2007/08 is \$3.034 million.

Output class: Performance audits and inquiries

This output class includes two main activities:

- performance audits – reports to Parliament and other constituencies on matters arising from performance audits and special studies; and
- inquiries – undertaking and reporting on inquiries relating to central and local government entities.

Performance audits

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. Performance audits provide assurance about specific issues or programmes and their management by the relevant public entity or entities. We also publish good practice guidance on topical issues of public sector accountability and performance.

To select performance audits and studies, each year we undertake a process of environmental scanning, identification of issues and risk assessment, and assurance response identification, to help determine how we can use our discretionary resources to best effect.

In deciding the discretionary work programme, the Auditor-General considers that – regardless of any other work he might do – he has a responsibility to Parliament and the public to regularly provide 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:

- major public investment or liability management (focusing on the New Zealand Debt Management Office, Accident Compensation Corporation, New Zealand Superannuation Fund, Government Superannuation Fund, Earthquake Commission, and Student Loans Scheme);
- major public revenue management or generation (focusing on the Inland Revenue Department and New Zealand Customs Service);
- major asset management or infrastructure spending or management (focusing on health, correctional facilities, education, defence, conservation, transport, housing, and energy); and
- major expenditure including service delivery expenditure (focusing on health, education, and social security and welfare).

The Auditor-General will also regularly perform similar work in the local government sector.

We also identify areas within or throughout entities or sectors that warrant further examination. To assign priorities to these assurance interventions, we consider the:

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

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

Our proposed performance audit work programme for 2007/08 is in Appendix 1.

Because we assess the undertaking of activities by entities and make recommendations for improvement, it is important that our performance audits are conducted in keeping with sound audit methodology, and that the undertaking and reporting of audit work is effectively managed. We maintain a performance audit methodology, and use project management disciplines. Independent reviews of the quality and reasonableness of a sample of our reports are also undertaken each year.

Measuring our performance for output class: Performance audits and inquiries (performance audits)

Main measures and standards of impacts, outcomes, and objectives

Entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of three reports of performance audits published in the previous year and selected by our independent Audit and Risk Management Committee. The results of these reviews are presented to the Officers of Parliament Committee.

Measures and forecast standards of output delivery

We complete 19 to 21 reports on matters arising from performance audits and special studies, and inquiries.*

Select committees and other stakeholders are satisfied with the proposed work programme of performance audits (as indicated by feedback on our draft work programme).

At least 85% of the stakeholders that we survey rate the quality and usefulness of performance audit reports (relevant to their sector or interest) as 4 or better on a scale of 1 to 5.**

Our performance audit methodology reflects good practice for undertaking such audits, as assessed every second year by the National Audit Office of Australia. The next review is scheduled for 2008/09.

Each year, independent reviews of two performance audits are undertaken. These reviews confirm the quality of these reports in terms of the presentation of administrative and management context, report structure, presentation, and format (including use of graphics and statistics), and the reasonableness of the methodology used and the resulting conclusions and recommendations. §

Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology. §§

* It is not always possible for us to complete the full range of work that we propose. This is because entities may have initiated their own internal or independent reviews, or are undergoing legislative or structural change; detailed project development shows that our initial proposal needs to be amended; and/or other events happen that change the Auditor-General's priorities.

** These measures are assessed through our Stakeholder Survey. Appendix 3 provides further information about the method used for this survey.

§ An independent Audit and Risk Management Committee selects the two performance audit reports to be externally reviewed.

§§ An independent Audit and Risk Management Committee selects the performance audits to be internally reviewed.

Inquiries

The Auditor-General has the discretion to inquire into a public entity's use of resources. Inquiries can be undertaken at the Auditor-General's own initiative, or when correspondence from taxpayers, ratepayers, or members of Parliament draws his attention to potential issues. A few such issues lead to major inquiries. We also administer the Local Authorities (Members' Interests) Act 1968, which governs the financial interests of members of local authorities.

Each year we usually receive:

- 200 to 300 requests for inquiries from taxpayers, ratepayers, and members of Parliament; and
- 50 to 100 enquiries under the Local Authorities (Members' Interests) Act.

Our inquiries manual establishes the process for, and priority for dealing with, requests for inquiries and for undertaking inquiries.

We carefully consider each request to determine the most appropriate manner in which to proceed. Factors in the decision 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. We often undertake a considerable amount of preliminary work, such as reviewing documents and talking with the public entity, when deciding how to proceed with a request.

Where correspondence does not raise issues that warrant an inquiry, we:

- advise the correspondent of our decision not to undertake an inquiry, and the reasons for our decision; and
- in some instances, advise the public entity of the matter.

Depending on the seriousness of the issues raised, we classify the inquiries undertaken into three categories – routine, sensitive, and major. A routine inquiry is one that involves straight-forward issues, can often be undertaken through correspondence with the public entity, and does not usually result in a published report. Sensitive and major inquiries involve more complex issues and arrangements, may involve us formally interviewing people, and may be reported publicly.

Measuring our performance for output class: Performance audits and inquiries (inquiries)

Main measures and standards of impacts, outcomes, and objectives

Entities take action in response to concerns identified in inquiry reports, as assessed by follow up on a sample of sensitive and major inquiries undertaken in the previous year.

Measures and forecast standards of output delivery

Our findings on inquiries are reported to the relevant parties within three months for 80% of “routine” inquiries, within six months for 80% of “sensitive” inquiries, and within 12 months for 80% of “major” inquiries.

For inquiries under the Local Authorities (Members’ Interests) Act 1968, we complete 80% within 30 working days.

Responses to requests for inquiries and our administering of the Local Authorities (Members’ Interests) Act 1968 requests are undertaken in accordance with relevant policies, procedures, and standards as confirmed by internal quality assurance review.

The Vote estimate for the Performance audits and inquiries output class in 2007/08 is \$6.415 million.

Part 4
The risks to our success

Part 4

The risks to our success

The identification and management of risks are integral to our business. In our view, we face two key 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.

These risks will always be present, but much of the work we do has the effect of mitigating them.

Mitigation actions

The key mitigation actions are:

- the Auditor-General’s independence standards – the Auditor-General sets a high standard for independence for both his employees and the auditors he appoints;
- monitoring the independence of statutory officers, employees, and appointed auditors – the system includes regular declarations of interest and, where necessary, implementation of measures to avoid conflicts of interest;
- adhering to professional auditing standards;
- quality assurance regimes including implementing and complying with New Zealand Institute of Chartered Accountants’ revised quality control standards;
- 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, stakeholder feedback studies, and, this year, an international peer review of our operations to be carried out by four external reviewers;
- an independent Audit and Risk Management 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.

Operational risk

Identifying more specific risks is a key part of our annual planning process.

We carry out a review of the environment in which we operate. We consider

economic, legal, social, environmental, and technological developments, and changes in the accounting and auditing professions, which might affect us. We look too at the effect such matters might have on our stakeholders and the entities that we audit.

In the coming year, we will continue to develop our processes for managing strategic and operational risks, to ensure that all significant risks are identified, that mitigation measures are put in place where appropriate, and that responsibility for the implementation of those measures is clearly allocated. We will also ensure that all such activity is clearly documented.

Organisational health and capability

“Developing our people” is a critical business objective to achieving our goal of being a benchmark provider of independent assurance services. This was highlighted in our five-year strategic plan, which Parliament supported with additional funding in 2004.

Since 2004 we have made good progress in:

- building up our capability to undertake performance audits;
- implementing our project office approach;
- building up our research and development capability;
- improving how we manage inquiries;
- achieving efficiencies through merging the corporate services teams of Audit New Zealand and the Office of the Auditor-General;
- implementing Audit New Zealand’s comprehensive professional development programme for audit staff;
- investing in leadership and management development of senior staff;
- improving the self-awareness of senior staff through a comprehensive 360-degree feedback process;
- improving our recruitment strategies, including starting an internship programme at Audit New Zealand; and
- devoting greater resources to our Human Resources team, so they can better support staff development.

However, we continue to experience difficulties in recruiting suitably qualified and experienced senior staff because of industry and labour market shortages. Retaining good staff is therefore critical, and the ongoing investment in development is essential.

The aim of the investment in leadership and management development is to improve the performance of our leaders and managers, in order to deliver on our vision as the “benchmark provider”. Investing in our leaders and managers is also important because:

- to respond to environmental changes, our leaders and managers need to deliver high quality audit and assurance services with an increasingly proactive and innovative approach;
- it gives them the increased motivation, commitment, and capability to take responsibility for developing themselves and their staff;
- they will demonstrate the style and behaviours we need to develop a “constructive” culture; and
- our leaders and managers need the skills and ability to lead the cultural change required by our commitment to organisational development.

During 2007/08 we intend to focus on:

- strengthening the management and leadership development of our people;
- further embedding the national professional development programme;
- supporting all staff members with Individual Development Programmes;
- ongoing investment in targeted areas of generic training (for example, Te Reo, presentation skills, media liaison, and writing);
- completing a significant “future business model” project that will provide us with a robust planning tool to better forecast staff requirements;
- introducing High Potential and Talent Management programmes to recognise, reward, and develop our high performers;
- further embedding our national internship programme; and
- further aligning our human resources policies and procedures to support recruitment, retention, and development of the best people.

Measuring our organisational health and capability

As with previous years, we will use an existing framework to measure our organisational health and capability. Central to this will be our annual climate survey completed by all staff. The climate survey provides us with an indication of overall staff satisfaction as well as a staff assessment of:

- their own professional development;
- the implementation of our strategy;
- management and leadership effectiveness; and
- the usefulness of business processes and systems.

As well as the annual climate survey, we will also continue to measure key statistics against previous years to provide us with a picture of our capability. These include:

- staff numbers and the distribution of staff by function, gender, and ethnicity;
- numbers of internal promotions to senior roles;
- average investment in staff training and development; and
- data on staff tenure and turnover.

In 2007/08 we aim to:

- maintain and improve our overall rating as assessed by staff in our annual climate survey; and
- maintain and improve all of the key capability statistics from the previous year.

A summary of information from previous years is included as Appendix 5.

Part 5

**Forecast financial statements for
2007/08**

Part 5

Forecast financial statements for 2007/08

Introduction

The Auditor-General's forecast financial statements have been prepared in accordance with Part 4 of the Public Finance Act 1989, and are consistent with generally accepted accounting practice.¹ The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Auditor-General. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here, and that the variations may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Auditor-General reasonably expects to occur, associated with the actions he reasonably expects to take, as at the date that this information was prepared.

It is not intended that this published material will be updated.

Statement of significant underlying assumptions

The forecast financial statements on pages 42-56 have been compiled on the basis of existing Government policies and after the Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Auditor-General will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of annual audits will remain substantially the same.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand and the effects of the Public Audit Act 2001.
- The Auditor-General will continue to use audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 3 April 2007.

¹ We will adopt NZ IFRS from 1 July 2007, in line with the programme for NZ IFRS adoption by the Crown.

Statement of accounting policies

Reporting entity

These are the prospective financial statements of the Auditor-General, prepared in accordance with Part 4 of the Public Finance Act 1989.

The Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purpose of the Public Finance Act 1989.

The Auditor-General's activities include work undertaken by the Office of the Auditor-General, Audit New Zealand, and contracted audit service providers.

The financial statements have been prepared in accordance with NZ GAAP. They comply with NZ equivalents to IFRS and other applicable financial reporting standards, as for public benefit entity.

Measurement base

The prospective financial statements have been prepared on a historical cost basis. The financial statements are presented in New Zealand dollars, which is the functional and presentation currency of the entity, and values are rounded to the nearest thousand dollars.

Statement of compliance

The prospective financial statements for 2007/08 comply with the applicable financial reporting standards, which include NZ IFRS and other standards as for a public benefit entity. These are our first prospective financial statements complying with NZ IFRS, and we have applied NZ IFRS 1: *First-time Adoption of NZ Equivalents to International Financial Reporting Standards*.

See page 46 for an explanation of how the transition to NZ IFRS has affected our reported equity.

This Annual Plan complies with Financial Reporting Standard 42: *Prospective Financial Statements*.

Budgeted and estimated actual figures for 2006/07 are based on generally accepted accounting practice and policies applicable to that financial year.

Accounting policies

Revenue

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Office of the Auditor-General and Audit New Zealand and the revenue can be reliably measured.

Crown operating appropriations

Revenue is derived from the Crown for outputs provided to Parliament, from audit fees for the audit of public entities' financial statements, and from other assurance work carried out by Audit New Zealand at the request of public entities.

Revenue Crown is recognised in the period to which it relates. Audit fee and other assurance revenue earned by the Office of the Auditor-General and Audit New Zealand is recognised as the work progresses and time is allocated within work in progress to public entities.

Income of audit service providers

Audit fee revenue from audits carried out by contracted audit service providers is also recognised as the work progresses based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Expenses

Fees paid to contracted audit service providers are recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Leases

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as *operating leases*. All of our leases are operating leases.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Revenue in advance

Revenue in advance is recognised where invoiced audit fees exceed the value of time allocated within work in progress to public entities.

Cash and cash equivalents

The bank balance in the Statement of prospective financial position comprises cash at bank and cash in hand.

For the purpose of the Statement of prospective cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above.

Work in progress

Work in progress is recognised at cost or net realisable value, whichever is lower.

Trade and other receivables

Receivables are recognised and carried at the original invoice amount less any allowable allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Provision for doubtful debts is determined with reference to objective evidence of impairment. Bad debts are written off when they are identified.

Plant and equipment

Motor vehicles, office equipment, furniture and fittings, and computer hardware are stated at cost less accumulated depreciation and any accumulated impairment in value. All items of plant and equipment costing more than \$1,000 are capitalised.

Depreciation

Depreciation of plant and equipment is provided on a straight-line basis to allocate the cost of the assets, less their residual value, over their expected useful lives. The depreciation is charged to the statement of financial performance. The estimated useful lives are:

- Furniture and fittings 4 years
- Office equipment 2.5-5 years
- Computer hardware 2.5-5 years
- Motor vehicles 3-4 years.

An item of plant and or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net sale proceeds and the carrying amount of the item, is included in the statement of financial performance in the year the item is derecognised.

Intangible assets

Computer software is a non-monetary asset without physical substance, and is therefore classified as an intangible asset. The useful life of the software has been assessed as being finite, and between 2.5 and 5 years.

Computer software is capitalised at cost, and the capitalised cost is amortised on a straight line basis over 2.5 to 5 years. After initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation is taken to the statement of financial performance.

Computer software is tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Gains and losses arising from derecognition of computer software is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment

All assets are assessed for impairment at least annually. Where there are indicators of impairment for these assets, the asset's recoverable amount will be determined. Where the recoverable amount is lower than the carrying amount, an impairment loss will be recognised and the asset written down to the recoverable amount.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST, except for payables and receivables in the Statement of prospective financial position, which include GST.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in payables or receivables (as appropriate).

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Annual leave and time off in lieu for overtime worked are recognised as they accrue to employees, based on current rates of pay. The present value of the estimated future cash loss relating to long service leave and retiring or resigning leave are recognised on an actuarial basis, annually.

Where sick leave balances accrue, a liability is recognised according to the portion of unutilised sick leave entitlements that are expected to be utilised in future periods.

The expense relating to the provision is recognised in the Statement of prospective financial performance.

Foreign currency

Foreign currency transactions, relating primarily to subscriptions and travel, are recorded at the New Zealand dollar exchange rate at the date of the transaction.

Income tax

The organisation is exempt from paying income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

Commitments

Future payments are disclosed as operating and capital commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts are not disclosed unless they had vested at balance date, in which case they are reflected in the item "Provision for employee entitlements" in the Statement of prospective financial position.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Impact of the adoption of NZ IFRS – treatment of sick leave

The impact of adopting NZ IFRS on the total equity is the recognition of a liability for sick leave (a provision of \$21,000 that has accrued from past services at transition) on 1 July 2007.

Explanation of material adjustments to the Statement of prospective cash flows

There are no material differences between the cash flow statement presented under NZ IFRS and the cash flow statement presented under previous NZ GAAP.

Output cost allocation

Direct costs are those costs that are directly attributable to a single output.

Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contracted audit service providers is charged directly to the output class for the provision of audit and assurance services.

Indirect costs are all other costs. These costs include payroll costs, variable costs such as travel, and operating overheads such as property costs, depreciation, and capital charges.

Indirect costs are allocated according to the time charged to a particular activity.

Changes in accounting policies

We have changed our accounting policies to align with the adoption of NZ IFRS from 1 July 2007. We now accrue for non-vesting employee liabilities - that is, sick leave. Formerly, sick leave was not recognised until the period in which it was taken. Under NZ IFRS, sick leave is accrued when it is earned, as a liability to the Statement of financial position.

Statement of prospective financial performance for the year ending 30 June 2008

This statement reports the revenue and expenses relating to all outputs (goods and services) that we produce. A supporting statement showing the revenue and expenditure of each output class is on page 50.

	2006/07		2007/08
	Budgeted* \$000	Estimated actual** \$000	Forecast \$000
Revenue			
Crown	9,335	9,335	9,599
Departments	10,147	10,147	9,177
Income of audit service providers	27,665	27,665	22,603
Other	21,884	21,884	22,201
Total revenue	69,031	69,031	63,580
Expenses			
Personnel costs	28,353	28,353	29,045
Operating costs	11,711	11,711	10,499
Depreciation and amortisation	1,175	1,175	1,313
Fees charged by contract auditors	27,665	27,665	22,603
Capital charge	120	120	120
Total expenses	69,024	69,024	63,580
Surplus	7	7	-

* Budgeted figures incorporated both the Main Estimates and Supplementary Estimates appropriations for 2006/07.

** The amounts in this column reflect actual results to 28 February 2007 and the forecast results for the remaining four months to 30 June 2007.

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand Generally Accepted Accounting Practice, and the 2007/08 forecast financial statements have been prepared under New Zealand International Financial Reporting Standards.

Statement of prospective movements in taxpayers' funds (equity) for the year ending 30 June 2008

This statement combines information about the surplus with other aspects of our financial performance to give a comprehensive measure of income.

	2006/07		2007/08
	Budgeted* \$000	Estimated actual** \$000	Forecast \$000
Taxpayers' funds brought forward to 1 July	3,586	3,586	3,565
Movements during the year			
Surplus	7	-	-
Total recognised revenues and expenses for the year	7	-	-
Flows to and from the Crown			
Provision for payment to the Crown	(7)	-	-
Taxpayers' funds at 30 June	3,586	3,586	3,565

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand Generally Accepted Accounting Practice, and the 2007/08 forecast financial statements have been prepared under New Zealand International Financial Reporting Standards.

Statement of prospective financial position as at 30 June 2008

This statement reports the total assets and liabilities. The difference between the assets and liabilities is called taxpayers' funds.

	Budgeted as at 30 June 2007 \$000	Estimated Actual as at 30 June 2007 \$000	Forecast as at 30 June 2008 \$000
Taxpayers' funds			
General funds*	3,586	3,586	3,565
Total taxpayers' funds	3,586	3,586	3,565
Represented by:			
Current assets			
Cash and cash equivalents	2,928	2,928	2,966
Prepayments	350	350	350
Work in progress	1,158	1,158	1,158
Trade and other receivables	3,500	3,500	3,500
Total current assets	7,936	7,936	7,974
Non-current assets			
Plant and equipment	1,916	1,983	1,807
Intangible assets	384	317	455
Total non-current assets	2,300	2,300	2,262
Total assets	10,236	10,236	10,236
Current liabilities			
Trade payables	3,693	3,393	3,700
Provision for payment to the Crown	7	7	-
Provision for employee entitlements	2,500	2,500	2,521
Total current liabilities	6,200	6,200	6,221
Term liabilities			
Provision for employee entitlements	450	450	450
Total term liabilities	450	450	450
Total liabilities	6,650	6,650	6,671
Net assets	3,586	3,586	3,565

* The decrease in taxpayers' funds between the 2006/07 closing balance and the 2007/08 opening balance represents the expected effect of adopting NZ IFRS. This arises from the expected liability adjustment relating to employee benefits.

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand Generally Accepted Accounting Practice, and the 2007/08 forecast financial statements have been prepared under New Zealand International Financial Reporting Standards.

Statement of prospective cash flows for the year ending 30 June 2008

This statement summarises the cash movements in and out during the year. It takes no account of money owed to us or owing by us, and therefore differs from the Statement of prospective financial performance.

		2006/07	2007/08
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Operating activities			
Cash received from:			
The Crown	9,335	9,335	9,599
Departments	10,127	10,127	9,226
Others	21,913	21,913	22,443
Cash disbursed on:			
Operating costs*	12,003	12,003	10,790
Personnel costs	28,353	28,353	29,045
Capital charge	120	120	120
Net cash flow from operating activities	899	899	1,313
Investing activities			
Cash received from:			
Sale of plant equipment & intangibles	278	278	-
Cash disbursed on:			
Purchase of plant equipment & intangibles	1,241	1,241	1,275
Net cash flow from investing activities	(963)	(963)	(1275)
Financing activities			
Cash disbursed on:			
Payment to crown	-	-	-
Net cash flow from financing activities	-	-	-
Total net increase/(decrease) in cash held	(64)	(64)	38
Add Opening cash balance at 30 June	2,992	2,992	2,928
Closing cash balance at 30 June	2,928	2,928	2,966

* The Statement of prospective cash flows does not include the audit service provider audit fees because these do not involve any cash transactions within the organisation.

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand Generally Accepted Accounting Practice, and the 2007/08 forecast financial statements have been prepared under New Zealand International Financial Reporting Standards.

Reconciliation of surplus in the Statement of prospective financial performance to the prospective net cash flow from operating activities for the year ending 30 June 2008

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of prospective financial performance on page 47 to arrive at the net cash flow from operating activities disclosed in the Statement of prospective cash flows on page 50.

	2006/07		2007/08
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Surplus	7	7	-
Non-cash items			
Depreciation and amortisation	1,175	1,175	1,313
Total non-cash items	1,175	1,175	1,313
Investing activity items			
Profit on disposal of assets	(7)	(7)	-
Total investing activity items	(7)	(7)	-
Working capital movements			
(Increase)/decrease in prepayments	12	12	-
(Increase)/decrease in receivables	10	10	-
(Increase)/decrease in work in progress	220	220	-
Increase/(decrease) in payables	(60)	(60)	-
Increase/(decrease) in current employee	(458)	(458)	-
Decrease in property lease liabilities	-	-	-
Decrease in finance lease liabilities	-	-	-
Total net working capital movements	(276)	(276)	-
Net cash flow from operating activities	899	899	1,313

The 2006/07 budgeted and estimated actual financial statements have been prepared under New Zealand Generally Accepted Accounting Practice, and the 2007/08 forecast financial statements have been prepared under New Zealand International Financial Reporting Standards.

Statement of forecast capital expenditure for the year ending 30 June 2008

This statement discloses the forecast capital expenditure for the 2006/07 financial year (incurred in accordance with section 24 of the Public Finance Act 1989) that is primarily routine replacement and upgrade of the Office's information technology, office equipment, and furniture and fittings.

	Actual June 2003	Actual June 2004	Actual June 2005	Actual June 2006	Budget June 2007	Estimated Actual* June 2007	Forecast June 2008
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Plant and Equipment							
Furniture and fittings	61	69	401	484	204	204	200
Office equipment	94	29	104	11	17	17	10
Motor vehicles	366	283	512	507	228	228	210
Computer hardware	80	623	214	373	409	409	460
Intangible Assets							
Computer software	164	188	288	176	383	383	396
Total	765	1,192	1,519	1,551	1,241	1,241	1,276

* Actual for the 8 months to 28 February 2007 plus budget for the period March-June 2007.

Forecast details of physical assets by category as at 30 June 2008

	As at 30 June 2007		Forecast Position as at 30 June 2008		
	Budgeted Net Book Value	Estimated Actual Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000
Plant and Equipment					
Furniture and fittings	803	803	2,724	2,108	616
Office equipment	41	41	211	182	29
Motor vehicles	679	679	1,453	893	560
Computer hardware	460	460	2,876	2,274	602
Intangible Assets					
Computer software	317	317	3,063	2,608	455
Total	2,300	2,300	10,327	8,065	2,262

Prospective appropriation statement for the year ending 30 June 2008

Description of statement

This statement breaks down the expenditure reported in the Statement of prospective financial performance (on page 47) and the Forecast output class operating statements (on the next page) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2007/08 in the *Estimates of Appropriations* (parliamentary paper B.5 Vol. 1).

Departmental Output Expense	\$000
Legislative auditor (multi-class output appropriation)	
Parliamentary services	
• Annual appropriation	2,364
• Other appropriation	677
	3,041
Performance audits and inquiries	6,407
Legislative auditor	9,448
Provision of audit and assurance services	
• Annual appropriation	150
• Other appropriation (Revenue Dependent)	54,132
	54,282
Total departmental output expense	63,580

Forecast output class operating statements for the year ending 30 June 2008

Departmental output expense	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total expenses \$000	Surplus \$000
Legislative auditor (multi-class output appropriation)						
Basis – these output expenses use the same resources and contribute to the same outcome.						
Parliamentary Services						
Scope: Assisting Parliament in its role of encouraging accountability for resources, including advice to Select Committees and others, and undertaking the Controller function.						
	3,042	-	-	3,042	3,042	-
Performance audits and inquiries						
Scope: Carrying out and reporting on performance audits and inquiries.						
	6,407	-	-	6,407	6,407	-
Provision of audit and assurance services						
Scope: The provision of audit services to public entities by Audit New Zealand and private sector audit providers, and audit-related assurance services undertaken by Audit New Zealand at the request of audited entities.						
	150	9,177	44,804	54,131	54,131	-
Total	9,599	9,177	44,804	63,580	63,580	-

Forecast financial indicators for the year ending 30 June 2008

	2006/07		2007/08
	Budgeted (after Supplementary Estimates)	Estimated actual	Forecast
	\$000	\$000	\$000
Operating results			
Revenue: other than Crown	59,689	59,689	53,981
Output expenses	69,024	69,024	63,581
Surplus before capital charge	127	127	120
Surplus	7	7	120
Working capital			
Net current assets*	1,736	1,736	1,774
<i>Current ratio**</i>	128%	128%	128%
<i>Average receivables and work in progress</i>	26 days	26 days	28 days
Resource utilisation			
Physical assets			
Total physical assets at year-end	2,300	2,300	2,262
<i>Additions as % of physical assets</i>	54%	54%	56%
Taxpayers' funds			
Level at year-end	3,586	3,586	3,586
Forecast net cash flows			
Surplus on operating activities	899	869	1,313
Deficit on investing activities	(963)	(963)	(1,275)
Deficit on financing activities	-	-	-
Net increase/(decrease) in cash held	(64)	(64)	38

* Current assets minus current liabilities.

** Current assets as a proportion of current liabilities.

Appendix 1

Our proposed performance audit work programme

Proposed performance audits and studies in 2007/08

The Auditor-General proposes to conduct the following performance audits and studies in 2007/08. For context, we also provide a list of work due to be completed and work about to start in the remainder of 2006/07.

The proposed performance audits and studies marked with an asterisk (*) have not previously been described in our annual plans, and are described in more detail on the following pages.

The actual work programme we deliver in 2007/08 may differ from this proposal. Our proposed annual work programme is necessarily determined many months in advance of the year to which it relates. As time elapses, we may need to alter our priorities. For example, other urgent work such as an inquiry may intervene, or government policy or the circumstances of a particular entity may change so that a particular audit is no longer relevant. The reports for some audits that will commence in 2007/08 may not be presented to the House of Representatives until 2008/09.

Proposed performance audits and studies for 2007/08

*Accident Compensation Corporation – effectiveness of implementation of the Falls Prevention Strategy

*Guidelines on audit committees in the public sector

*Civil Aviation Authority (and Ministry of Transport) – follow-up on response to 2005 audit

*Guardians of New Zealand Superannuation – governance, management, and administration of the New Zealand Superannuation Fund

*Health sector – management of funding to non-government organisations by the Ministry of Health

*Health sector – management of funding to non-government organisations by District Health Boards

*Housing New Zealand Corporation – maintenance of state housing

*Inland Revenue Department – effectiveness of the Industry Partnerships Programme

*Local government – asset management planning

*Local government – regulatory practice – liquor licensing

*Local government – water services assessments

Ministry of Defence – major acquisition projects

*Ministry of Education – effectiveness of teacher professional development services

*Ministry of Education – monitoring and support of school Boards of Trustees

*Ministry of Health – monitoring the implementation of the Primary Health Care Strategy

*Ministry of Health and Department of Corrections – prisoner mental health treatment

Ministry of Social Development – benefit fraud

New Zealand Aid – Official Development Assistance

Proposed performance audits and studies for 2007/08 (continued)

*New Zealand Trade and Enterprise – follow-up to 2004 audit of administration of grant programmes

*ONTRACK (New Zealand Railways Corporation) – systems, policies, and procedures for maintaining and renewing rail infrastructure

Procurement guidelines update

Revitalisation of Te Reo Māori

*Work and Income – effectiveness of case management of sickness and invalid beneficiaries

Performance audits and studies due to be completed by 30 June 2007

Collaboration in roading

Department of Corrections – management of Resource Management Act consultation processes

Department of Labour – management of immigration identity fraud

“Get checked” – a programme to better manage diabetes

*Guidelines on managing conflicts of interest

Local government – waste management plans

Local government – guidelines on decision-making and consultation

*Statements of corporate intent

Performance of the New Zealand Customs Service in collecting revenue

New Zealand Debt Management Office – management and administration

New Zealand Qualifications Authority – quality assurance of education provided by polytechnics

Sustainable development – implementation of the Programme of Action

Te Puni Kōkiri – administration of grant programmes

Proposed performance audits and studies not previously described in our annual plans

The following paragraphs provide more information about our proposed performance audits and studies that have not previously been described in our annual plans.

Accident Compensation Corporation – effectiveness of implementation of the Falls Prevention Strategy

Falls are the single largest cause of injuries requiring hospital admission. In June 2005, Cabinet approved a strategy, to be led and implemented by the Accident Compensation Corporation, that is intended to reduce the number of injuries from falls. The proposed audit would examine the effectiveness of the implementation of the strategy. The audit would also report on the lessons that can be learned from implementing a sector-wide strategy that requires effective leadership of a wide range of government, private, and volunteer organisations.

Guidelines on audit committees in the public sector

We propose a publication in the nature of a “good practice guide” that will cover matters such as the role of an audit committee, its membership, and the scope of its work.

Civil Aviation Authority (and Ministry of Transport) – follow-up on response to 2005 audit

We intend to conduct an audit of the Civil Aviation Authority (CAA) to follow up on its response to the recommendations made in our 2005 audit of the CAA’s certification and surveillance functions. We have agreed to a request from the Minister of Transport to examine, as part of this audit, the CAA’s and Ministry of Transport’s responses to the recommendations made by the Christchurch Coroner in relation to the 2003 Air Adventures crash.

Guardians of New Zealand Superannuation – governance, management, and administration of the New Zealand Superannuation Fund

The New Zealand Superannuation Fund (the Fund) was established to partially provide for the future cost of New Zealand Superannuation. The Fund is governed by a Crown entity, the Guardians of New Zealand Superannuation, which is expected to invest the Fund in a prudent and commercial manner, without undue risk, and in a manner that avoids prejudice to New Zealand’s reputation. The management of the Fund appoints external firms to undertake day-to-day portfolio management.

The Government plans to allocate around \$2 billion a year for the Fund to invest. The Fund held assets of \$10.7 billion at 30 September 2006, and is expected to hold assets of \$120 billion by 2025. The Fund is a major public investment, and is therefore a high priority for a performance audit.

Our audit will provide assurance to Parliament as to whether the New Zealand Superannuation Fund is being prudently managed. It will cover those elements of the Fund’s activities that are critical to assurance about its overall management. These may include governance, development, and implementation of the Fund’s investment strategy; appointment and monitoring of external fund managers; and the planning and systems that support management of the Fund.

Health sector – management of funding to non-government organisations

Our *Annual Plan 2006/07* stated that, in 2007/08, we would start a programme of auditing selected agencies' management of public funding to non-government organisations. This follows on from our good practice guide *Principles to underpin management by public entities of funding to non-government organisations*, published in June 2006. The audits for the health sector are:

- the management of funding to non-government organisations by the Ministry of Health; and
- the management of funding to non-government organisations by District Health Boards.

Housing New Zealand Corporation – maintenance of state housing

Housing New Zealand Corporation manages more than 66,000 properties nationwide with a value of more than \$11.3 billion. Effective maintenance of the state housing portfolio is important because it protects the value of a significant national asset and has flow-on effects for the health and well-being of state housing tenants.

Our performance audit will provide assurance to Parliament on the management of Housing New Zealand Corporation's state housing maintenance programme. The audit is likely to consider overall planning for the maintenance programme, contract management, and performance monitoring and reporting of the maintenance function.

Inland Revenue Department – effectiveness of the Industry Partnerships Programme

The Inland Revenue Department's Industry Partnerships Programme involves building relationships with, and providing educative material to, industries where there is the potential for relatively high levels of cash to be obtained through legal trading activities that is under-declared for income tax purposes. A performance audit is proposed to assess the effectiveness of the Inland Revenue Department's design, implementation, monitoring, and management of the programme.

Local government – asset management planning

The Office has consistently encouraged sound asset management planning in local government. Our recent audits of Long-Term Council Community Plans indicated a need for better asset management planning in the sector, and stronger linkages to levels of service and financial forecasting. In many local

authorities, limited capacity presents a challenge to comprehensive asset planning. The proposed audit would examine the approaches taken by selected local authorities, describe good practices as models for other authorities to follow, and reinforce best practice principles.

Local government – regulatory practice – liquor licensing

The Sale of Liquor Act 1989 requires local authorities to carry out statutory liquor licensing responsibilities within their districts. The Act is designed to establish a reasonable system of control over the sale and supply of liquor to the public, with the aim of contributing to the reduction of liquor abuse. This requires local authorities to consider various sets of commercial and community interests in exercising their statutory powers under the Act, and in giving effect to their associated policies. The audit would examine how local authorities are discharging these liquor licensing responsibilities.

Local government – water services assessments

The Local Government Act 2002 requires local authorities to undertake water services assessments from time to time. The assessments relate to key infrastructure asset systems maintained by local government, and must cover water supply, wastewater, and stormwater. Management of these services is critical to the quality of life of individual local communities, and the primary purpose of the assessments is to safeguard public health. The assessments are a mechanism for local authorities to identify demand and risks for water services, which can then be incorporated into future service and asset planning to ensure that public health is maintained.

We propose a performance audit to examine water services assessments and how the assessments are integrated into planning by local authorities.

Ministry of Education – effectiveness of teacher professional development services

The Ministry of Education is responsible for funding teacher professional development services from third-party providers. There is a risk that this funding does not reach those teachers most in need of professional development, or the subject/topic areas or locations where professional development is most needed.

We propose a performance audit to examine the effectiveness of the Ministry of Education's prioritisation and provision of post-training teacher professional

development services. The audit will not examine the effectiveness of individual professional development support services.

Ministry of Education – monitoring and support of school Boards of Trustees

The schools portfolio comprises about 2450 schools, each a separate Crown entity governed by a Board of Trustees elected from the community. This system of school governance is one of the most devolved in the Organisation for Economic Co-operation and Development. A Board of Trustees is responsible for governing its school; however, the Ministry of Education is responsible for monitoring school and Board effectiveness. As part of this role, the Ministry provides and facilitates support and training for Boards and trustees. The Ministry's Schooling Strategy 2005-10 states that:

...schools will continue to be self-managing, but there are times when schools need additional support. For this reason, it is important to have review and monitoring systems so that schools with difficulties can be identified early on. Any resulting interventions will then focus on what is needed to address the situation.

The Ministry uses information from a variety of sources in its monitoring. It also has a variety of possible interventions, ranging from providing advice to (in extreme cases) removing the Board. There are risks that the Ministry is not gathering sufficient information, is not using the information gathered to identify Boards at risk in a timely manner, and is not implementing appropriate and timely interventions to support Boards.

We propose a performance audit to examine the systems used by the Ministry of Education to ensure that there is effective monitoring and support of school Boards of Trustees. We propose to assess the level of training and other support available to trustees as part of our audit.

Ministry of Health – monitoring the implementation of the Primary Health Care Strategy

The Primary Health Care Strategy's objectives are to reduce health status inequalities and improve health. The Strategy is principally being implemented through Primary Health Organisations. Since 2001, the Government has provided more than \$2 billion to improve patient access to primary care and to improve services. The Ministry of Health is responsible for ensuring that the Strategy is implemented and seeing that its objectives are being achieved. Our performance audit will assess the Ministry's performance in these areas.

Ministry of Health and Department of Corrections – prisoner mental health treatment

There is evidence that the prevalence of mental illness among the prison population is disproportionately higher than that of the general population. There is therefore a significant need for mental health services in prison. The Department of Corrections and the Ministry of Health have undertaken to provide health services to prison inmates at the same level available to the general population. Both agencies have identified the provision of mental health services to prisoners as a problem area. The extent to which prisoners' mental health needs are being met is unclear.

We propose an audit focusing on the provision of mental health services to prisoners. It will examine the roles and responsibilities of the justice and health sectors in mental health service delivery to prisoners. In particular, this will include how prisoners' mental health needs are identified, and how these needs are being met.

New Zealand Trade and Enterprise – follow-up to 2004 audit of administration of grant programmes

We intend to conduct an audit to follow up on our 2004 audit of NZTE's administration of grant programmes. Since our report on that audit, NZTE has undertaken an extensive business process improvement programme to address the concerns we raised in our report. We will examine the changes that have been made, and assess the appropriateness of NZTE's current administration of grant programmes.

ONTRACK – systems, policies, and procedures for maintaining and renewing rail infrastructure

ONTRACK (the trading name of the New Zealand Railways Corporation) took responsibility on behalf of the Crown for the ownership and maintenance of the national rail infrastructure after the Crown's repurchase of the network in 2004.

We are interested in rail as an area of major asset management. The audit will examine ONTRACK's systems, policies, and procedures for maintaining and renewing the rail network.

Work and Income – effectiveness of case management of sickness and invalid beneficiaries

Sickness and invalid beneficiaries are a significant benefit client group, in terms of both numbers and government expenditure. The Ministry has a strategy to provide more active support to these beneficiaries in achieving independence and finding employment. Options for the audit include examining the application of eligibility criteria, examining the case management of beneficiaries, or an assessment of the outcomes of the strategy. We will further consider these options with a view to focusing our audit to best effect.

Guidelines on managing conflicts of interest

We wish to improve awareness and understanding in the public sector of the nature of conflicts of interest and how best to deal with them. We have provided advice on managing conflicts of interest in the public sector in a range of inquiry and other reports. We now intend to build on our previous work, and publish guidance in a more general and accessible form.

Statements of corporate intent

Our 1998 article *Statements of Corporate Intent: Are They Working?* set out our expectations of Statements of Corporate Intent (SCIs), including recommending changes to some legislation governing SCIs. The article also reviewed, and found variable compliance with, the requirements for SCIs. We propose an update of our 1998 article. The report will review our expectations and the statutory requirements of the SCI model. It will also review compliance with legislation about SCIs by port companies, energy companies, council-controlled organisations (including council-controlled trading organisations), State-owned enterprises, and Crown research institutes.

Appendix 2

Areas of focus for the Auditor-General

The Auditor-General has identified areas of key concern within his mandate about which he wishes to give particular assurance to Parliament and the public. Work in these areas will help us to achieve our strategic intentions of better deploying our interventions and extending the depth and breadth of our annual audits.

The work will generally involve multiple initiatives undertaken during two or more years. These initiatives are likely to result in external products (such as reports) and internal development and process improvements, and will also be the focus of our research and development programme.

During 2007/08, the areas of focus for the Auditor-General are:

- probity;
- fraud;
- sustainable development;
- stewardship and management of infrastructure assets; and
- performance information.

Probity

Our *Five-year Strategic Plan* indicated our intention to do more work on probity in our annual audits. Probity is also of public interest, with probity concerns featuring strongly in our inquiry work. The base for enhancing our audit work on probity has been emerging in recent years through the development of a suite of good practice guidance (for example, our 2006 report *Principles to underpin management by public entities of funding to non-government organisations*, our 2007 report *Controlling sensitive expenditure: Guidelines for public entities*, and our forthcoming report on managing conflicts of interest). We intend to maintain our efforts to ensure probity. Effort will be put into continuing to produce guidance statements where there is an apparent need, and testing against the guidance in carrying out annual audits.

Fraud

The most recent Transparency International report on corruption within governments places New Zealand high among the least corrupt countries. However, this reputation is unlikely to be maintained without taking positive action. There is growing concern that, even if some forms of fraud or corruption are not prevalent in New Zealand, complacency may pose risks to New Zealand's reputation. For example, a recent Anti-Bribery Convention report from the Organisation for Economic Co-operation and Development recommended that New Zealand strengthen its laws to combat foreign bribery.

We intend to increase our focus on the management of fraud risk through:

- identifying fraud trends and patterns, and informing auditors about them;
- carrying out performance audits that look at fraud management (for example, in our proposed annual work programme, and in audits on immigration identity fraud and benefit fraud); and
- considering opportunities for raising the awareness of public entities about fraud issues, by issuing good practice and other guidance material to help public entities to detect and prevent fraud.

Sustainable development

It is becoming increasingly important for public entities to work and think in ways that take account of long-term sustainability. For local authorities, taking a sustainable development approach is a requirement of the Local Government Act 2002. For other parts of the public sector, a sustainable development approach can be a means to ensure that statutory requirements are given effect (such as the managing for outcomes/results initiatives, which are reflected in the Public Finance and Crown Entities Acts).

We have been considering how we can ensure that our own work takes account of the increasing importance of sustainable development to the public sector. We intend to continue this work by:

- exploring methodologies and participating in forums with overseas audit offices to build methodologies for sustainable development audit work (for example, through specific performance audits);
- continuing to develop our own audit methodologies to address public entities' sustainable development-related statutory requirements; and
- contributing to broader understanding and debate about how public sector planning, budgeting, and subsequent evaluation would be undertaken if sustainable development considerations were to have a greater prominence in these systems.

Stewardship and management of infrastructure assets

For some time, there has been general public concern about asset management, and mostly about network utility assets. We have taken an active interest in the management and stewardship of infrastructure assets for nearly two decades, through:

- performance audits (with several projects on asset management featuring in our proposed annual work programme);

- annual audits (primarily in the local government sector);
- Long-Term Council Community Plan (LTCCP) audits; and
- liaison with stakeholders in the development of good practice guidance.

We now wish to give broad assurance and information to Parliament and the public about the state of, management of, and planning for, key infrastructure assets throughout the public sector.

Service performance information

We intend to enhance the depth of annual audit work on service performance information. Enhancements are needed to address issues arising as a result of statutory change (for example, the Crown Entities Act and the changes to the Public Finance Act and the Local Government Act), as well as general improvements.

The work we carry out in this area will place us in a better position to contribute to improving the quality of service performance information reported by public entities. It will also take account of our focus on sustainable development. There will be two main pieces of work in this area:

- a review of 2007/08 Statements of Intent for government departments and most Crown entities, and incorporating the lessons learned into our audit methodology; and
- developing a methodology to support auditors in reporting on annual reports under the LTCCP framework.

Appendix 3

Approach and method used for our stakeholder survey

In our *Annual Plan 2006-07* we outlined how we would use a stakeholder feedback study to measure Parliament's and other key stakeholders' perceptions of:

- any change to the trustworthiness of public entities, and their effectiveness and efficiency; and
- the relevance of, and value added, by our reports and advice, and their timeliness.

We indicated our intention to use a stakeholder survey to assess the quality of specified reports.

In 2007/08 we will again conduct a stakeholder survey, to measure how Parliament and other key stakeholders perceive the quality, relevance, usefulness, and timeliness of our reports and advice.

Using an independent consultant, we will survey a sample of stakeholders comprising 50% of select committees, a selection of central agencies, and other representative groups. Our questions will cover the stakeholders' satisfaction with specific reports and types of advice and ask about aspects such as relevance, usefulness, and timeliness.

Where possible and appropriate, we will use questions in the 2007/08 survey that will allow results to be compared to the results of the 2006/07 survey, to assess any changes in stakeholder perceptions between the two surveys.

Appendix 4

The 2007/08 international peer review

We have commissioned an independent peer review of our organisation, to be undertaken by an international panel in 2007/08. The results will let us know whether we are operating effectively and efficiently, and in accordance with good practice.

A peer review or voluntary developmental quality assurance review evaluates how well an Auditor-General's office is doing, by looking at whether we are:

- doing the right things (purpose); and
- doing things right (processes).

The review will generally follow the *Australasian Council of Auditors-General Peer Reviews and Voluntary Development Quality Assurance Reviews – Core Reference Modules*. This process comprises core reference modules to assist a review team in addressing a combination of effectiveness and efficiency objectives in relation to an office or component area.

The 2007/08 peer review will cover the following standard module areas:

- performance measures;
- general quality controls;
- financial audit engagements;
- performance audits; and
- general management practices.

The reviewers have also been asked to take account of matters including the respective roles of the business units, and in particular address areas of work of the Office of the Auditor-General covering:

- select committee support;
- inquiries;
- strategic audit planning;
- the model for allocating annual audits; and
- annual audit fee setting and fee monitoring practices.

Appendix 5

Our demographics and other statistics

The Auditor-General employs about 270 staff in eight locations throughout New Zealand. We also engage about 70 audit service providers as well as Audit New Zealand staff to carry out annual audits of public entities.

Numbers and distribution of our staff – by function, gender, and ethnicity during the last three years

As at 30 June	2006	2005	2004
Staff numbers (full-time equivalents)			
Office of the Auditor-General	70.7	66.2	52.4
Audit New Zealand	189.1	177.6	178.4
Total	259.8	243.8	230.8
Functional distribution			
Audit/assurance	71%	69%	65%
Technical and advisory	4%	4%	4%
Corporate support	21%	23%	27%
Management	4%	4%	4%
Gender distribution			
All staff			
Women	51%	48%	46%
Men	49%	52%	54%
Management staff*			
Women	33%	30%	-
Men	67%	70%	-
Ethnicity distribution			
NZ European	49%	53%	56%
NZ Māori	3%	4%	3%
Pacific Islander	2%	2%	1%
Asian	12%	14%	13%
Other European	9%	7%	8%
Other ethnic groups	3%	2%	4%
Undeclared	22%	18%	15%

* This figure represents the staff reporting directly to the Auditor-General. It is not comparable to data shown in our annual reports before 2005.

Staff experience and training

		2005/06	2004/05
Experience			
Average "time in job"	OAG	5.6 years	4.3 years
	Audit NZ	5.0 years	3.5 years
Training and development			
Average spent on formal training (each employee)	OAG	\$1,754	\$2,356
	Audit NZ	\$2,298	\$2,087*
Pass rate of staff undertaking NZICA accreditation		97%	100%

* Recorded in the *Annual Report 2004-05* as \$3,699. That figure had incorrectly included associated training costs, such as travel and other disbursements.

Organisational health and staff satisfaction

		2005/06	2004/05
Organisational health			
Turnover	OAG	17.8%	8.0%
	Audit NZ	28.0%	34.8%
Average sick leave taken for each employee	OAG	4.3 days	4.9 days
	Audit NZ	5.2 days	5.5 days
Staff survey results (scores out of 6)			
Job satisfaction		4.3	4.5
Organisational satisfaction		4.5	4.6
Satisfaction with management		4.1	4.4
Understanding of vision and purpose		3.6	4.1
Staff assessment of:			
- The extent of innovation that occurs and is encouraged		3.4	2.9
- The extent of collaboration that occurs and is encouraged		2.5	3.0
- The quality and usefulness of business processes and systems		4.0	4.4
- The adequacy of our resource base		3.6	3.8
Audit New Zealand ratio of senior to junior staff hours		24:76	26:74

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Waste management planning by territorial authorities
- Central government: Results of the 2005/06 audits – B.29[07a]
- Department of Internal Affairs: Effectiveness of controls on non-casino gaming machines
- Controlling sensitive expenditure: Guidelines for public entities
- Performance of the contact centre for Work and Income
- Residential rates postponement
- Allocation of the 2002-05 Health Funding Package
- Advertising expenditure incurred by the Parliamentary Service in the three months before the 2005 General Election
- Inland Revenue Department: Performance of taxpayer audit – follow-up audit
- Principles to underpin management by public entities of funding to non-government organisations
- Ministry of Education: Management of the school property portfolio
- Local authority codes of conduct
- Housing New Zealand Corporation: Effectiveness of programmes to buy and lease properties for state housing
- Local government: Results of the 2004-05 audits – B.29[06b]
- Inquiry into certain allegations made about Housing New Zealand Corporation

Website

All these reports are available in PDF format on our website – www.oag.govt.nz. They can also be obtained in hard copy on request – reports@oag.govt.nz.

Subscription for notification of new reports

We offer a subscription facility for people to be notified by e-mail when new Reports and Latest News are added to our website. The link to this subscription service is in the Reports section and also in the Latest News section of the website.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system ISO 14001 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.



Office of the Auditor-General
Private Box 3928, Wellington

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

E-mail: reports@oag.govt.nz
www.oag.govt.nz