Statements of corporate intent:
Legislative compliance and performance reporting
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Statements of corporate intent: Legislative compliance and performance reporting

This is the report of a performance audit we carried out under section 16 of the Public Audit Act 2001

June 2007

Statements of corporate intent are designed to have an important accountability function for many public entities. The entities are required by law to publicly set out their intentions and activities for the forthcoming three years in their statements. The statements also provide a basis for shareholders and the wider public to assess an entity’s performance. I wanted to examine the extent to which entities complied with the legislative requirements for their statements of corporate intent.

Although our performance audit found broad compliance with legislative requirements for the statements, the exceptions to this compliance were disappointing. We also found mixed results with the quality of performance targets used by some public entities to measure their performance and later report on that performance to shareholders and the public in annual reports. Public entities need to ensure that they routinely comply with all their legislative requirements.

These findings have raised some wider questions for me about whether the original intention of using statements of corporate intent for public accountability is being fulfilled. In particular, I am interested in the importance given to the statements by public entities and their shareholders. This includes assessing the extent to which public entities and shareholders meaningfully interact about the content of statements of corporate intent. It is also important to explore other accountability methods that are being used by public entities and their shareholders that serve to reduce the importance of the statements.

I intend to look into these issues further. In the meantime, I have made some specific recommendations in this report, which I encourage all public entities required to produce a statement of corporate intent to follow.

K B Brady
Controller and Auditor-General

18 June 2007
Contents

Summary
Our findings
Our recommendations

Part 1 - Introduction
Background
How we carried out our audit

Part 2 - Legislative compliance
Legislative requirements for the content of statements of corporate intent
Our findings

Part 3 - Performance targets and other measures
The role of performance targets in statements of corporate intent
Our findings about the use and quality of performance targets
Guidance on preparing performance targets

Part 4 - Subsequent reporting in annual reports
Our findings about performance reporting in annual reports

Part 5 - Wider questions about the role of statements of corporate intent
How important are statements of corporate intent to the accountability of public entities?
To what extent are directors and shareholders of public entities meaningfully involved in commenting on the content of statements of corporate intent?
What decision-making occurs about the relevance of content covered in statements of corporate intent?
To what extent do directors and shareholders of public entities use their statutory powers to modify statements of corporate intent?
What role do other accountability methods have for public entities and their shareholders?
Is public reporting of performance against targets as effective as it should be?

Appendices
1 – Exemptions – statements of corporate intent and statements of intent
2 – Legislative requirements for statements of corporate intent and statements of intent

Figures
1 – Sample of entities examined (by type of entity)
2 – Number of financial years included in our sample of statements of corporate intent
3 – Extent to which entities in our sample met the content requirements for their statement of corporate intent
4 – Range of financial and non-financial performance targets in our sample of statements of corporate intent
5 – Measurable performance targets in our sample of statements of corporate intent
6 – Extent to which performance targets given in our sample of statements of corporate intent were easy to understand
7 – Linking performance targets to stated entity objectives in our sample of statements of corporate intent
8 – Information contained in annual reports to enable assessment against the corresponding statement of corporate intent
9 – Explanations provided in annual reports for non-achievement or material variance of actual performance against targets
Summary

Statements of corporate intent are important public accountability documents required by law to be produced by a range of public entities each year. The statements should set out an entity’s planned objectives and activities for the next three years. This includes setting performance targets that the entity must report against in its annual report. Shareholders are given an opportunity to influence the direction of an entity by commenting on its draft statement.

Given the importance of statements of corporate intent for public accountability, we were interested to find out how well public entities were complying with their legislative requirements. We carried out a performance audit, in which we examined the compliance of 54 public entities in producing, and later reporting against, a statement of corporate intent. Our examination included Crown Research Institutes, energy companies, port companies, and State-owned enterprises required to produce a statement of corporate intent. We also included council-controlled organisations and council-controlled trading organisations required to produce a statement of intent. The legislative requirements for their statements of intent are very similar to the legislative requirements for statements of corporate intent.

Our findings

Compliance with legislative requirements

All the types of entity we looked at are required to include the next three financial years in the content of their statements. The intention of this requirement is to provide shareholders and the wider public with information about the intentions and direction of a public entity for the medium term. We found several cases where public entities, especially smaller council-controlled organisations and council-controlled trading organisations, produced statements of corporate intent that included only one year. This reduced their usefulness as a forward-looking accountability document.

There was also some mixed coverage of subsidiaries in the statements we examined, even though the statements are legislatively required to include the activities of the group – the parent entity and any subsidiaries. In some cases, there was no indication in the statement that the public entity had any subsidiaries.

The governing legislation relevant to the entities we examined is very specific about the content that must be included in the statements. Although there was broad compliance with most content requirements, we found some examples where the required content was missing.
The use and quality of performance targets

Performance targets are one of the most important ways a statement of corporate intent provides public accountability. They enable a public entity to state how it intends to measure its success against its stated objectives. However, we also acknowledge that, for many public entities operating in a competitive business environment, the information about their future intentions and objectives needs to be balanced against issues of commercial sensitivity.

Most entities we examined provided a wide range of targets with which their performance could later be measured, including non-financial measures. The Crown Research Institutes, energy companies, and State-owned enterprises we examined used the widest range of performance targets and measures. There were several examples among other entity types where only a narrow range of financial targets was used.

Only two-thirds of the statements we examined had performance targets that could all be measured. In several cases, the performance targets were so vague that no meaningful assessment could later be made about whether the targets had been met.

More than half of the statements used performance targets that were all easy to understand or explained any technical terms. However, among the remainder, we found financial variables or technical terms stated as targets that, in our view, might not be easily understood by readers.

The effectiveness of some useful entity objectives in the statements (for example, being a good employer) was diminished when the entity failed to provide performance targets or other measures for those objectives.

Performance reporting in annual reports

Most annual reports we examined reported actual performance against targets set in their corresponding statements of corporate intent or statements of intent. However, in many cases the entity gave this reporting a low profile (such as providing a comparison table at the back of the financial statements). We also found several instances where there was only selective reporting of the performance targets. Entities seldom provided an explanation for any significant variance between their actual and intended performance.
Our recommendations

We recommend that public entities:

1. comply with their statutory obligation to include the next three financial years in the content of their statement of corporate intent or statement of intent;
2. suitably include subsidiaries in their statement of corporate intent or statement of intent, within the accounting policies and within the summary of the nature and scope of their activities;
3. include a range of financial and non-financial performance targets or other measures in their statement of corporate intent or statement of intent, to enable a full assessment of their objectives and activities;
4. ensure that performance targets and other measures used in their statement of corporate intent or statement of intent are measurable;
5. ensure that performance targets and other measures used in their statement of corporate intent or statement of intent are easy to understand, and clearly define any technical terms;
6. ensure that all the performance targets and other measures set in their statement of corporate intent or statement of intent clearly link to the objectives also included;
7. clearly report in their annual reports their actual performance against all the targets and other measures set in their corresponding statement of corporate intent or statement of intent; and
8. clearly explain in their annual reports material variance of actual performance against performance targets set in their corresponding statement of corporate intent or statement of intent. Reasons should be provided if any targets are no longer relevant.
Part 1
Introduction

1.1 Statements of corporate intent are annual planning documents that various types of public entities are required by law to produce.

1.2 Public entities can demonstrate their accountability to shareholders and the public through their statement of corporate intent, because:
   • it outlines the entity's activities and intentions for the next three financial years;
   • it provides an opportunity for shareholders of the entity to influence the entity's direction by commenting on a draft version of the statement; and
   • the entity is required by law to report in its annual report on its performance against the targets set in the statement.

1.3 We were interested in this topic because statements of corporate intent are public accountability documents. It is important that public entities can demonstrate effective accountability by giving full and accurate reporting of their activities to their shareholders and the public.

1.4 We carried out a performance audit to examine the compliance of a range of public entities with their legislative requirements to:
   • produce a statement of corporate intent; and
   • report against the objectives and performance targets set in that statement in their annual reports.

Background

1.5 Statements of corporate intent were first introduced as a legislative requirement for State-owned enterprises in 1986. The requirement to produce such a statement was later applied – with minor variations about the content – to other types of public entities, including:
   • Crown Research Institutes, under the Crown Research Institutes Act 1992;
   • energy companies, under the Energy Companies Act 1992; and
   • port companies, under the Port Companies Act 1988.

1.6 The legislative requirement to produce a statement of corporate intent also applied to local authority trading enterprises under amendments in 1989 to the Local Government Act 1974. Most of the provisions in the Act were repealed with the enactment of the Local Government Act 2002. The Local Government Act 2002 (the 2002 Act) removed the reference to local authority trading enterprises and introduced council-controlled organisations and council-controlled trading organisations.

1   See section 14 of the State-Owned Enterprises Act 1986.
2   Local authority trading enterprises were enabled to carry out the more commercial activities of local authorities.
Part 1 Introduction

1.7 A council-controlled organisation is an organisation in which one or more local authorities control half or more of the voting rights, or have the right to appoint half or more of the organisation’s directors. A council-controlled trading organisation is a council-controlled organisation that trades to make a profit.

1.8 Council-controlled trading organisations and most council-controlled organisations are required by law to produce a statement of intent each year. Although these statements are called statements of intent, they are required by the 2002 Act to include most of the same information as statements of corporate intent. Because the requirements are so similar, we use the term statement of corporate intent to include both, and refer specifically to statements of intent only when discussing council-controlled organisations and council-controlled trading organisations.

How we carried out our audit

Our audit sample

1.9 We examined how well 54 public entities complied with their legislative requirement to produce a statement of corporate intent, and report against it in their annual reports.

1.10 Our sample of entities was chosen from council-controlled organisations and council-controlled trading organisations required to produce a statement of intent, and Crown Research Institutes, energy companies, port companies, and State-owned enterprises required to produce a statement of corporate intent. We included a range of small and large entities carrying out a diverse range of activities. In general, the council-controlled organisations tended to be smaller than other entities, and included a number of small non-profit trusts and incorporated societies.

1.11 More than 100 trusts and incorporated societies associated with local authorities became subject to the accountability requirements for council-controlled organisations under the 2002 Act. This is the first time that we have formally examined their compliance with the accountability requirements set out in the 2002 Act.

1.12 We applied different criteria to select our sample for each type of entity, because the number of each type of entity differs substantially:

- for Crown Research Institutes, energy companies, and State-owned enterprises,
we chose samples of statements of corporate intent from around half of each of the entity types;
• we chose all eight of the 13 port companies (62%) that are required to produce a statement of corporate intent;5 and
• with more than 230 council-controlled organisations and council-controlled trading organisations, we selected samples of 13% and 7% respectively. We chose entities to cover a range of entity sizes, geographical locations, and activities.

1.13 Figure 1 summarises the sample of entities we examined.

**Figure 1**  
Sample of entities examined (by type of entity)

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Sample size</th>
<th>Total number of entities in category*</th>
<th>Sample as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council-controlled organisations</td>
<td>12</td>
<td>92</td>
<td>13%</td>
</tr>
<tr>
<td>Council-controlled trading organisations</td>
<td>10</td>
<td>142</td>
<td>7%</td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>5</td>
<td>9**</td>
<td>56%</td>
</tr>
<tr>
<td>Energy companies</td>
<td>10</td>
<td>22**</td>
<td>45%</td>
</tr>
<tr>
<td>Port companies</td>
<td>8</td>
<td>13**</td>
<td>62%</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>9</td>
<td>18**</td>
<td>50%</td>
</tr>
</tbody>
</table>

* As at April 2007.  
** Excluding subsidiaries.

What we looked at

1.14 We examined the compliance of each entity in our sample with its requirement to produce a statement of corporate intent. Appendix 2 summarises the legislative requirements that formed the basis of our examination.

1.15 The statements we examined for each entity were for the financial year beginning 1 July 2005. (The statements were therefore required to include the three years to 30 June 2008.) We selected statements for the financial year beginning 1 July 2005 so that we could see how the performance targets and measures given in the statements were later reported against in the entities’ 2005/06 annual reports.

What we did not look at

1.16 We did not include government departments or “statutory” Crown entities in this performance audit. Government departments prepare statements of intent in

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5 We did not include four port companies that are publicly listed on the New Zealand Exchange and therefore not required to produce a statement of corporate intent under the Port Companies Act 1988, and one entity that is still classified as a port company but no longer undertakes port-related activities.
keeping with the Public Finance Act 1989, while statutory Crown entities prepare statements of corporate intent in keeping with the Crown Entities Act 2004.

1.17 There are some differences of detail between the requirements for the entities examined in this performance audit, and the requirements imposed by the Public Finance Act on government departments and the Crown Entities Act on Crown entities. In our view, the findings and recommendations in this report provide useful lessons for all types of public entity required to produce a statement of corporate intent or statement of intent.

Our performance audit criteria

1.18 We expected public entities to comply with:
• all applicable legislative requirements for the content of their statements; and
• all applicable legislative requirements to report on the content of their statements in their annual reports.

1.19 We expected the performance targets and other measures used in the statements to:
• cover a range of financial and non-financial targets, to enable a full assessment of an entity’s activities;
• be measurable;
• be easy to understand, with any technical terms clearly explained; and
• be clearly linked to the stated objectives of the entity.

1.20 In reporting against the statements of corporate intent and statements of intent, we expected entities’ annual reports to contain:
• relevant information to enable an informed assessment of the operation of the entity and its subsidiaries;
• comparisons between planned and actual performance (an annual report should clearly and distinctly set out all the performance measures from the statement of corporate intent and the actual performance achieved); and
• an explanation of variances (effective accountability requires explanations to be given for significant differences between the actual and planned performance of an entity).
2.1 In this Part, we:

• provide an overview of the legislative requirements for the content of statements of corporate intent; and
• present our findings on the extent to which the public entities in our sample complied with those requirements.

Legislative requirements for the content of statements of corporate intent

2.2 The content requirements for statements of corporate intent differ subtly depending on the entity type and its governing legislation. Common elements include a requirement to set out:

• the objectives of the group (the parent entity and its subsidiaries), and the nature and scope of activities to be carried out;
• performance targets and other measures by which the performance of the group may be assessed; and
• certain financial information (such as accounting policies and planned dividend) that can help shareholders and other interested parties to assess the operation of the entity and its intended business success.

2.3 Appendix 2 provides more information on the content requirements of statements of corporate intent for each type of entity we examined.

Our findings

2.4 We compared the statements of corporate intent for the year beginning 1 July 2005 produced by our sample of 54 public entities against the coverage and content required by the applicable legislation (see Appendix 2).

Including the next three financial years

2.5 All the entity types we examined are required to include the next three financial years in their statements. Therefore, the statements we examined were required to cover the three financial years from 2005/06 to 2007/08. The intention of this multi-year coverage is to enable shareholders to understand the direction of an entity not just for the next year, but for the medium term.

2.6 Forty-two of the 54 entities we examined (78%) included the required three financial years when setting out their objectives, performance targets, and financial information in their statements of corporate intent (see Figure 2).
Part 2  Legislative compliance

2.7 The entities we examined that did not include the next three financial years (22% of our sample) included only the 2005/06 financial year. In our sample, seven of the 12 council-controlled organisations, and three of the 10 council-controlled trading organisations, provided information for only one financial year.

2.8 Many council-controlled organisations – including those in our sample – are small trusts or incorporated societies that run on a non-profit basis, with substantial direct operational funding from their local authorities. These types of council-controlled organisations (and their shareholders) may consider the need to provide a multi-year statement of their intentions and direction to be less important for them than for entities that are required to be a successful business.1 However, providing a three-year forecast of objectives or intentions can provide valuable accountability between council-controlled organisations and their shareholders. For example, a trust that operates a museum can advise shareholders of its longer-term intentions to change or expand its exhibitions that might require funding changes beyond the next financial year.

**Recommendation 1**

We recommend that public entities comply with their statutory obligation to include the next three financial years in the content of their statement of corporate intent or statement of intent.

**Including subsidiaries**

2.9 All the entity types we examined are legislatively required to include any public entity subsidiaries they may have in their statement of corporate intent.

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1 To operate as a successful business is a legislatively-specified principal objective of energy companies, port companies, and State-owned enterprises.
2.10 Our sample included 37 entities that we knew to have subsidiaries. Of these 37 entities, 28 (76%) included their subsidiaries in their statement of corporate intent. The remaining nine entities with known subsidiaries did not refer to them in their statements.

2.11 Given that the legislation specifically requires the inclusion of both an entity and its subsidiaries, we expected the statements to acknowledge the subsidiaries, include them in the accounting policies, and include them in the summary of the nature and scope of the group’s activities.

2.12 Where a subsidiary represents a significant or distinct trading operation of the parent entity, we also expected the statements to either:
- state that the subsidiary was covered by its own separate statement of corporate intent; or
- include the objectives, performance measures, and financial forecasts specific to the subsidiary as part of the parent entity’s statement.

Recommendation 2
We recommend that public entities suitably include subsidiaries in their statement of corporate intent or statement of intent, within the accounting policies and within the summary of the nature and scope of their activities.

Compliance with legislative requirements for the content of statements of corporate intent

2.13 We examined how well our sample of 54 entities complied with the legislative requirements for the content of their statements of corporate intent (see Appendix 2).

2.14 The legislation about statements of corporate intent sets out some very specific content requirements (as Appendix 2 shows). However, we excluded some conditional requirements from our analysis in order to aid the usefulness of our findings:
- we excluded a requirement to cover “other matters” that are agreed by shareholders and an entity board; and
- we excluded a requirement for all the entity types except energy companies to disclose any activities for which their boards seek compensation. (Many entities may not have included this in their statements because they had no plans to seek compensation).²

² We noted that some entities, especially council-controlled organisations, mistakenly included operational funding or grants they receive from shareholders as compensation.
The 2002 Act gives council-controlled organisations some flexibility with their statements of intent by allowing them to include information only:

... to the extent that it is appropriate given the organisational form of the council-controlled organisation... ³

Some of the information requirements specific to the operation of a successful business are not relevant for council-controlled organisations that are non-profit trusts or incorporated societies. Therefore, we also excluded from our analysis of compliance by council-controlled organisations, the requirements to provide:

• a ratio of consolidated shareholders’ funds to total assets;
• an estimate of the amount or proportion of accumulated profits and capital reserves intended to be distributed to shareholders; and
• the board’s estimate of the commercial value of the shareholders’ investment in the group.

Overall, we found general compliance with most content requirements for the statements we examined (see Figure 3). Thirty-one of the 54 statements (or 57%) included all the content that we expected given their entity types, while a further 21 statements (39%) omitted only one or two requirements. Only two of the statements we examined (4%) omitted three or more requirements that we expected them to include.

Figure 3
Extent to which entities in our sample met the content requirements for their statement of corporate intent

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Met all</th>
<th>Met all but one</th>
<th>Did not meet three or more</th>
<th>Total in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council-controlled organisations</td>
<td>5</td>
<td>7</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Council-controlled trading organisations</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>4</td>
<td>1</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Energy companies</td>
<td>4</td>
<td>6</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Port companies</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>21</td>
<td>2</td>
<td>54</td>
</tr>
</tbody>
</table>

All but one of the statements we examined included performance measures or targets as legislatively required. However, the range of performance measures used, their ability to be usefully measured and understood, and how clearly they linked to entities’ stated objectives, all varied. We discuss performance measures and targets in more detail in Part 3.

³ Local Government Act 2002, Schedule 8, clause 9(1).
Part 3
Performance targets and other measures

3.1 In this Part, we:
   • discuss the importance of performance targets and other measures in statements of corporate intent; and
   • present our findings relating to the performance targets and other measures in the statements we examined.

The role of performance targets in statements of corporate intent

3.2 One of the most important roles of a statement of corporate intent as a public accountability document is to provide performance objectives and targets. These enable shareholders and the public to learn how a public entity intends to measure the achievement of its stated objectives. Achievement against performance targets can then be reported in annual reports and other accountability documents (for example, half-yearly reports to shareholders), and used to assess how well an entity meets its objectives.

3.3 All of the entity types we examined are required to provide performance targets, and other measures by which their performance can be assessed in relation to stated objectives, in their statement of corporate intent or statement of intent.

3.4 In our view, the range of performance targets and measures should be wide enough to enable a full assessment of an entity’s activities. Therefore, non-financial targets and measures should be used as well as financial ones. In addition, performance targets should be measurable, with their meaning and relevance easily understood by the readers of a statement of corporate intent. Finally, performance targets and measures should clearly link to the stated objectives of an entity.

3.5 We assessed all the statements we examined against these expectations.

Our findings about the use and quality of performance targets

Using a range of performance targets

3.6 Most of the statements we examined (81%) presented a range of performance targets and measures, including a mix of financial and non-financial ones (see Figure 4).
3.7 All the statements of corporate intent in our sample that were produced by Crown Research Institutes and energy companies, and most of those produced by State-owned enterprises, presented a wide range of financial and non-financial targets and measures against which the entity’s performance could be assessed. For example, Crown Research Institutes routinely presented performance measures covering the full range of their activities, including measures for financial performance, research output, being a good employer, and customer satisfaction.

3.8 Where we found only a narrow range of performance targets (including among some council-controlled organisations and a couple of port companies), this was usually because only a few financial targets were set out. For one council-controlled trading organisation, the only performance target given in its statement of intent was to achieve a specified profit level.

**Recommendation 3**

We recommend that public entities include a range of financial and non-financial performance targets or other measures in their statement of corporate intent or statement of intent, to enable a full assessment of their objectives and activities.

**Using measurable performance targets**

3.9 Only two-thirds of the statements that we examined included quantifiable and measurable performance targets (see Figure 5).
3.10 Many of the statements that did not include measurable performance targets simply listed a number of financial variables, without specifying the target. For example, one entity stated that a couple of its financial targets would aim to be within an “agreed budget”, but included no information for readers about what the budget was or might be.

3.11 In several other cases, we found non-financial information presented in such a way that a reader would not be able to later assess whether the targets had been achieved. For example, an entity gave as a performance target:

To undertake an appropriate level of sponsorship.

3.12 In the above example, the entity did not define what an “appropriate level” of sponsorship was. We found several other similar cases where the performance targets provided were actually objectives. For example, a couple of entities stated as performance targets that they would deliver, or put in place, business plans. In another case, a council-controlled organisation (an economic development agency) set a performance target for its region to grow faster than the national economy. As well as being an objective or vision, rather than a performance target, achieving this goal was largely outside the direct influence of the entity.

Recommendation 4
We recommend that public entities ensure that performance targets and other measures used in their statement of corporate intent or statement of intent are measurable.
Using understandable performance targets

3.13 We examined whether the performance targets given in our sample of statements of corporate intent and statements of intent were easy to understand, with any technical terms or measures explained. More than half the statements we examined (30 out of 54) used targets that were either easy to understand or had definitions for any technical measures (see Figure 6).

**Figure 6**
Extent to which performance targets given in our sample of statements of corporate intent were easy to understand

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Performance targets were easy to understand, technical terms were explained</th>
<th>Total in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council-controlled organisations</td>
<td>8 4 12</td>
<td></td>
</tr>
<tr>
<td>Council-controlled trading organisations</td>
<td>5 5 10</td>
<td></td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>5 - 5</td>
<td></td>
</tr>
<tr>
<td>Energy companies</td>
<td>4 6 10</td>
<td></td>
</tr>
<tr>
<td>Port companies</td>
<td>6 2 8</td>
<td></td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>2 7 9</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30 24 54</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Explanations or definitions were given for some but not all of the technical terms or targets.

3.14 However, for the rest of the statements in our sample, only some of the performance targets were likely to be easily understood without specialist knowledge, or the entity did not explain the technical terms. Often, financial measures were presented in abbreviated form or without explanations of their meaning or relevance – for example, EBITDA\(^1\) and Acid Test\(^2\). In our view, readers without some financial or accounting knowledge would be unlikely to understand these measures.

3.15 The tendency to abbreviate financial measures was more pronounced in statements of intent than in the corresponding annual reports. The annual reports were more likely to express financial measures in full and in plain language.

3.16 In some cases, the performance measures were so vague that we could not understand their meaning or significance as targets. For example, two council-controlled organisations simply stated as performance targets: “add value”, “cashflows”, or “balance sheet”.

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1. Earnings before interest, taxes, depreciation, and amortisation.
2. Also known as the Quick Ratio – the ratio of cash and readily realisable assets to current liabilities.
Many of the entities in our sample are involved in technical activities (for example, energy companies and council-controlled organisations involved in utility or infrastructure businesses). They therefore use technical performance targets. We identified several instances where the lack of explanation of these technical targets made their meaning or significance difficult to understand. For example, energy companies typically and justifiably use several measures relating to interruptions to electricity supply as performance targets. Some of the companies in our sample clearly defined these targets, while others stated them as abbreviated technical terms that are unlikely to be readily understood by all readers.

**Recommendation 5**

We recommend that public entities ensure that performance targets and other measures used in their statement of corporate intent or statement of intent are easy to understand, and clearly define any technical terms.

### Linking performance targets to stated objectives

To be effective, performance targets should be clearly related to an entity's stated objectives. The link between targets and objectives is a legislative requirement for all the types of entity that we included in our sample. We examined how clearly performance targets in the statements of intent were linked to the entity's objectives (see Figure 7).

**Figure 7**

Linking performance targets to stated entity objectives in our sample of statements of corporate intent

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Clear link</th>
<th>Some links</th>
<th>No links</th>
<th>Total in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council-controlled organisations</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Council-controlled trading organisations</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Energy companies</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Port companies</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>6</td>
<td>3</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
<td><strong>15</strong></td>
<td><strong>3</strong></td>
<td><strong>54</strong></td>
</tr>
</tbody>
</table>

*Clear link: It was easy to see how the performance targets addressed all of the entity's stated objectives.*
*Some links: Performance targets covered some but not all of the entity’s stated objectives.*
*No links: It was unclear how performance targets addressed any of the entity's stated objectives.*
3.19 A little more than one-third (19 out of 54) of the statements that we examined had performance targets that addressed all of the entity’s stated objectives. For the remainder, most linked only some performance targets to objectives, while three council-controlled organisations did not link performance targets to their objectives at all in their statements of intent.

3.20 In the good examples of linking of performance targets in statements of corporate intent – including all Crown Research Institutes in our sample – all objectives were clearly covered by a range of both financial and non-financial performance targets. In these cases, it was easy to see how the entity would measure whether it was achieving its objectives during the three years covered by the statement.

3.21 In several cases, the use of performance targets or other measures to assess how entities intended to meet their objectives was weak or non-existent. For example, council-controlled organisations, council-controlled trading organisations, and State-owned enterprises are all required under their governing legislation to be good employers and to exhibit a sense of social responsibility. However, we found several instances among these entity types where these objectives were not covered by performance targets or other measures.

Recommendation 6
We recommend that public entities ensure that all the performance targets and other measures set in their statement of corporate intent or statement of intent clearly link to the objectives also included.

Guidance on preparing performance targets
3.22 The Treasury and State Services Commission have produced some useful guidance for setting medium-term performance measures. Although the guidance is directed specifically at government departments and their production of statements of intent, it can also assist other public entities with setting their performance targets in statements of corporate intent.

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3 These are also legislative requirements for Crown Research Institutes, but all the Crown Research Institutes in our sample linked performance targets to these objectives.

Part 4
Subsequent reporting in annual reports

4.1 In this Part, we present our findings against our expectations for how the content of a statement of corporate intent is reported against in an annual report.

4.2 We expected public entities to provide information in their annual reports:
• to enable a comparison between the planned performance set out in their statements of corporate intent, and their actual performance;
• about all the performance targets or other measures set out in the corresponding statement of corporate intent; and
• to explain why any targets were not met, or why the actual performance varied significantly from the targets (if applicable).

4.3 Our expectations were partly guided by the legal requirements for the entity types we examined. All of them are required to include in annual reports information necessary to enable an informed assessment of their operations. This includes a comparison with their statement of corporate intent. In addition, our expectation that variance between planned and actual performance be explained is a specific legal requirement for council-controlled organisations and council-controlled trading organisations under the 2002 Act.

4.4 We compared the reporting in the 2005/06 annual reports against the content of our sample of 2005/06 statements of corporate intent, especially in relation to performance targets and other measures.

Our findings about performance reporting in annual reports

Information contained in annual reports to assess entity performance

4.5 Overall, most of the entities (44 out of 54, or 81%) included enough information in their annual reports to enable an assessment of the entities’ performance against most or all targets set in their statements of corporate intent (see Figure 8).

4.6 However, we also found that six entities (11% of our sample) provided information in their annual reports that allowed only a partial assessment against their statements, while another four entities’ annual reports (8%) lacked the necessary information to enable any assessment of actual performance against the targets set in their statements. In these cases, there was no acknowledgement in the annual report of the performance targets published in the statement of corporate intent.
Part 4 Subsequent reporting in annual reports

Figure 8
Information contained in annual reports to enable assessment against the corresponding statement of corporate intent

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Information was provided to enable an assessment</th>
<th>Total in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>Some</td>
</tr>
<tr>
<td>Council-controlled organisations</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Council-controlled trading orgs</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Energy companies</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Port companies</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44</td>
<td>6</td>
</tr>
</tbody>
</table>

* Some comparison was possible, but not against all key performance targets given in the corresponding statement of corporate intent.

The reporting in annual reports of all performance targets given in statements of intent

4.7 Incomplete reporting of performance targets was a weakness we observed in the annual reports. While 69% of the entities we examined later reported in their annual reports against all their performance targets set in their statements of intent, the remaining 31% reported against only some of the targets. Typically, the entity did not explain why it excluded some of the targets it had set in its statement of corporate intent. We found this selective reporting among all entity types we examined.

Recommendation 7
We recommend that public entities clearly report in their annual reports their actual performance against all the targets and other measures set in their corresponding statement of corporate intent or statement of intent.

Explanation of variances between planned and actual performance

4.8 The quality of reporting against performance targets in an annual report is enhanced if the entity explains why targets may not have been achieved, or why the actual and intended results vary.

4.9 We found that entities only rarely provided explanations for material variance between their actual performance and their intended targets.¹ Figure 9 shows

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¹ For assessing material variance, we were guided by the New Zealand Institute of Chartered Accountants’ accounting standard for materiality in financial statements. Based on this standard, a variance was considered to be material if it was of such a nature that its disclosure would be likely to influence decision making by users of an annual report.
that only 10 of the entities we examined provided explanations for variances. An additional seven entities explained only some of the variances between actual and planned performance.

**Figure 9**
Explanations provided in annual reports for non-achievement or material variance of actual performance against targets

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Explanations were provided for variance/non-achievement</th>
<th>Total in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>Some*</td>
</tr>
<tr>
<td>Council-controlled organisations</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Council-controlled trading organisations</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Crown Research Institutes</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Energy companies</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Port companies</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>7</td>
</tr>
</tbody>
</table>

* Some explanation was provided in some, but not all, instances of significant variance between actual performance and planned targets reported.

** Not applicable, all performance targets and other measures were achieved.

4.10 Good examples of explanations included specific commentary for each performance target and its actual results. In other instances, a chairperson’s or chief executive’s review section in the annual report contained information that explained material non-achievement of the entity’s performance targets.

4.11 We especially expected council-controlled organisations and council-controlled trading organisations to provide explanations in their annual reports for “material variances” between actual and intended performance, because this is a specific legislative requirement of the 2002 Act. Although what constitutes a material variance is partly subjective, we found several instances where the entity’s actual performance was substantially below its targets and should have been explained.

**Recommendation 8**
We recommend that public entities clearly explain in their annual reports material variance of actual performance against performance targets set in their corresponding statement of corporate intent or statement of intent. Reasons should be provided if any targets are no longer relevant.

2 Section 68.

3 For example, for one council-controlled trading organisation, the actual dividend was nearly 40% less than a minimum target set in the statement of intent. In another example, a council-controlled organisation did not explain why the actual number of visitors to its facilities was nearly 70% below target.
Part 5
Wider questions about the role of statements of corporate intent

5.1 In this Part, we discuss the wider questions raised by our findings about the role of statements of corporate intent:
• in providing accountability between public entities, shareholders, and the public; and
• as a governance mechanism for shareholders to use.

5.2 We intend to use these questions to further consider the use and role of statements of corporate intent. In the meantime, the questions may serve as helpful discussion points for public entities and their shareholders.

How important are statements of corporate intent to the accountability of public entities?

5.3 Our work in examining a sample of statements of corporate intent for legislative compliance has suggested that these documents appear to have a low public profile. Statements of corporate intent were only rarely provided on the websites of public entities we examined. We also question if the statements of corporate intent are considered important by some public entities or their shareholders. This contrasts with annual reports, which are typically provided on entity websites and appear to have a higher profile as public accountability documents. In a few cases, we struggled to get a statement of corporate intent directly from public entities, even though legislation requires the documents to be tabled in Parliament or otherwise made publicly available.

5.4 This impression that statements of corporate intent are accorded a low profile or importance was partly reinforced by our legislative compliance findings. Although we found broad compliance, in some cases it was difficult to tell if a statement of corporate intent served any additional accountability or strategic purpose other than as a compliance document.

To what extent are directors and shareholders of public entities meaningfully involved in commenting on the content of statements of corporate intent?

5.5 In order to explore the usefulness of statements of intent in providing accountability to shareholders, we would need to examine in more detail the processes involved in preparing and finalising the content of those statements. All the entity types we examined in our performance audit are required by law to present a draft statement of corporate intent to shareholders for comment.
In our view, the involvement of directors and shareholders should focus on some key content requirements of the statements of corporate intent, including setting entity objectives and suitable performance targets for measuring achievement against those objectives.

What decision-making occurs about the relevance of content covered in statements of corporate intent?

There is scope for entities and their shareholders to decide on the relevance of some of the content in their statements of corporate intent. To improve the performance reporting, entities can also provide more information than what is legislatively required.

For example, in our examination of legislative compliance, a common omission was full coverage of accounting policies. Because accounting policies are required to be published in annual reports, it is arguable whether it is necessary to repeat them in statements of corporate intent. However, in our view, including full accounting policies can allow shareholders to discuss those policies with the entity, particularly where there is discretion in the policies selected, or where the selection of one policy over another will significantly change how an item is accounted for or reported. There is also an advantage in having accountability documents that stand alone without requiring other publications to be consulted.

In another example, although the legislative requirements are for statements of corporate intent to include the next three financial years, it might be more appropriate for longer term planning for some statements to span more than three years, particularly with entities which hold significant infrastructural assets (such as some council-controlled trading organisations and State-owned enterprises).

To what extent do directors and shareholders of public entities use their statutory powers to modify statements of corporate intent?

All of the types of public entities we examined have provisions in their legislation for directors to modify a statement of corporate intent at any time, provided written notice is first given to shareholders of the proposed modification, and any shareholder comments are considered. Some of the entity types also have provisions for shareholders to require the entity directors, by resolution, to modify a statement of corporate intent by including or omitting any content provisions.
We are not aware that these provisions to modify statement of corporate intent are commonly used by public entities. It would be useful to learn if there are specific reasons for these provisions not being used.

What role do other accountability methods have for public entities and their shareholders?

We acknowledge that, for many public entities operating in a competitive business environment, the information provided in a statement of corporate intent about their future intentions and objectives needs to be balanced against issues of commercial sensitivity. In such cases, the public reporting of strategic intentions might put them at a competitive disadvantage with private sector competitors not required to produce a statement of corporate intent. In these situations, the reporting in non-publicly available ways (for example, business plans or briefing meetings) may be more important than the processes involved with producing a statement of corporate intent.

It is possible shareholders find this type of contact with their public entities more meaningful. However, such contact needs to be balanced against wider expectations of transparency and accountability by public entities.

Is public reporting of performance against targets as effective as it should be?

In the sample we examined, the quality of reporting in annual reports against performance targets set in the statement of corporate intent was mixed. We intend to look into this further, to assess whether it was a result of poor reporting practices by some entities, or whether other factors were involved.
Appendix 1

Exemptions – statements of corporate intent and statements of intent

Council-controlled organisations and council-controlled trading organisations

The Governor-General may, by Order of Council made on the recommendation of the Minister, exempt an organisation from being classified as a council-controlled organisation (and therefore required to produce a statement of intent). The Minister must first be satisfied that the organisation’s accountability under the enactment under which it is established is appropriate for the purposes of the Local Government Act 2002.

A local authority may exempt a small organisation that is not a council-controlled trading organisation. Exemption must be granted by resolution of the local authority and take account of the following matters:
1) the nature and scope of the activities provided by the organisation; and
2) the costs and benefits, if an exemption is granted, to the local authority, the council-controlled organisation, and the community.

(Such exemptions must be reviewed every three years.)

If the shares of a council-controlled organisation, holding company of a council-controlled organisation, or controlling companies of a council-controlled organisation, are listed on the stock exchange, then the organisation does not have to deliver a statement of intent.

Specifically exempted organisations include: electricity companies, energy companies, port companies and subsidiaries, Infrastructure Auckland and subsidiaries, New Zealand Local Government Association Incorporated and subsidiaries, Watercare Services Limited and subsidiaries, and any company under direct or indirect control of New Zealand Local Government Association Incorporated.

Crown Research Institutes

Shareholding Ministers may grant exemptions from a requirement for a statement of corporate intent to cover a multi-parent subsidiary (or contain any particular information in relation to a multi-parent subsidiary) if they are satisfied that it would be unduly onerous on a parent Crown Research Institute to comply with the requirement.
Energy companies
Exempt from producing statements of corporate intent are:
• energy companies whose establishment plans did not provide for a controlling interest to be held by local authorities, or any approved person or approved persons, or any combination of one or more local authorities and one or more approved persons; and
• energy companies whose controlling interest ceases to be held by local authorities, or any approved persons, or the combination of the two.

Port companies
A port company is no longer required to produce a statement of corporate intent upon listing its shares on a registered exchange’s market.

State-owned enterprises
No exemptions.
## Appendix 2

### Legislative requirements for statements of corporate intent and statements of intent

<table>
<thead>
<tr>
<th>Requirement</th>
<th>CCOs and CCTOs*</th>
<th>Crown Research Institutes</th>
<th>Energy companies</th>
<th>Port companies</th>
<th>SOEs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of intent</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of corporate intent</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Coverage over three financial years and updated annually</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Content to be covered for the parent entity and its subsidiaries (“the group”)**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>CCOs and CCTOs*</th>
<th>Crown Research Institutes</th>
<th>Energy companies</th>
<th>Port companies</th>
<th>SOEs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives of the group</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A statement of the board’s approach to governance</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Key background information about the organisation and its operating environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature and scope of the activities to be undertaken</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ratio of consolidated shareholders’ funds to total assets, and the definitions of those terms*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting policies</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Performance targets and other measures by which the performance of the group may be judged in relation to its objectives</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>An estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders*</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of the principles adopted in determining the annual dividend (if any) together with an estimate of the amount or proportion of annual tax-paid earnings that is intended to be distributed to the Crown</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The kind of information to be provided to the shareholders/shareholding Ministers by the organisation during the course of the next three financial years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures to be followed before any member or the group subscribes for, purchases, or otherwise acquires shares in any company or other organisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*continued...*
## Legislative requirements for statements of corporate intent and statements of intent

<table>
<thead>
<tr>
<th>CCOs and CCTOs*</th>
<th>Crown Research Institutes</th>
<th>Energy Companies</th>
<th>Port Companies</th>
<th>SOEs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Local authority)</td>
<td>(Crown)</td>
<td>(Harbour Board)</td>
<td>(Crown)</td>
<td></td>
</tr>
<tr>
<td>The board’s estimate of the commercial value of the Crown/shareholders’ investment in the group and the manner in which, and the times at which, that value is to be reassessed**</td>
<td>(Shareholders)</td>
<td>(Crown)</td>
<td>(Shareholders)</td>
<td>(Crown)</td>
</tr>
<tr>
<td>The details of all transactions intended to be entered into between any member of the group and related parties as set out in the Energy Companies Act 1992</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Other matters that are agreed by the shareholders/shareholding Ministers and the board**</td>
<td>(Shareholders)</td>
<td>(Ministers)</td>
<td>(Shareholders)</td>
<td>(Shareholders)</td>
</tr>
</tbody>
</table>

### Reporting against intended performance

Annual report should contain information that is necessary to enable an informed assessment of the operations of the parent entity and its subsidiaries, including a comparison of performance with the relevant statement of intent or statement of corporate intent (Plus explanation of material variances)

### Relevant legislation

|---------------------------|-----------------------------------|---------------------------|-------------------------|----------------------------------|

### Notes

* Council-controlled organisations and council-controlled trading organisations.

** State-owned enterprises.

a We did not assess whether the council-controlled organisations in our report complied with these items.

b We did not include these items in our assessment of content compliance for all applicable entity types because they are a conditional requirement.

c Harbour Boards are still referred to in the Port Companies Act 1988. However, many of their functions have been transferred to local authorities. In practice, any compensation sought by a port company would be from relevant local authorities.
Other publications issued by the Auditor-General recently have been:

- Sustainable development: Implementing the Programme of Action
- New Zealand Customs Service: Collecting customs revenue
- Ministry of Health and district health boards: Effectiveness of the "Get Checked" diabetes programme
- Guidance for members of local authorities about the law on conflicts of interest
- Managing conflicts of interest: Guidance for public entities
- Te Puni Kōkiri: Administration of grant programmes
- New Zealand Qualifications Authority: Monitoring the quality of polytechnic education
- Annual Plan 2007/08 – B.28AP(07)
- 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

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