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Parliamentary paper

Annual Plan 2011/12

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Annual Plan 2011/12

including the Auditor-General's
Statement of Intent 2011–14

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Auditor-General's overview

As I finalise this *Annual Plan 2011/12*, my thoughts are again with the people of Christchurch and their friends and families, and the many people from New Zealand and overseas who are doing whatever they can to help our second largest city recover from a series of major earthquakes and continuing aftershocks. Our resilience as a nation has certainly been under intense pressure in recent times and I have given considerable thought to how my Office can use its resources in ways that will be most effective and relevant in this context.

I am aware how much our priorities as a country have changed as a result of events such as the Christchurch earthquakes and the influence of prevailing economic conditions. My Office has put a lot of thought and development work into preparing the proposed work programme outlined in this Annual Plan. However, in the context of rapid change in the wider environment, I will consider amending specific proposals or substituting other work should the need arise.

I consulted the Speaker and parliamentary select committees about my proposed annual work programme. I thank them all for their feedback and supportive comments. In particular, the Speaker endorses our study on road safety and has suggested further work in this area in future. The Finance and Expenditure Committee, which co-ordinated the consultation process with select committees, is satisfied with the content of my annual plan and is looking forward to us finalising and implementing the proposed work programme. No issues of concern were raised by select committees.

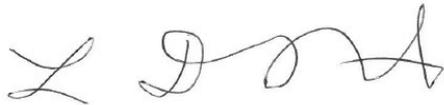
My *Draft Annual Plan 2011/12* included a proposed performance audit of the management of care and protection services for children and young people in care. However, I have decided not to proceed with this work. I acknowledge the importance of this topic and that the Social Services Committee noted its interest in this audit. However, after wider consultation, it is clear that others are planning or doing useful work in this area and that involvement by my Office will be better timed in a year or two. I intend to assess the ongoing work to determine when and how my Office can provide insight of most benefit. At that stage, I will consider whether to examine this topic across the range of agencies involved with the care of our young people.

Consultation with Parliament helps me to ensure that the work done using my discretionary audit reporting powers will be relevant and useful to Parliament, public entities, and the public. It is an important way in which I can continue to ensure that the work of my Office remains relevant and responsive to the needs of my key stakeholders – Parliament and the public.

This *Annual Plan 2011/12* includes my *Statement of Intent 2011–14* (SOI) that I prepared under the Public Finance Act 1989 and which was presented to the

House of Representatives at the time of the Budget this year. My SOI includes the forecast financial and service performance for my Office in 2011/12.

I am committed to making sure that my Office continues to be well positioned to contribute to a more effective and efficient public sector by helping to speed up the learning process around the effective use of public resources. This will include looking at our own operations and processes. It is in everyone's best interests to ensure that the public sector adapts quickly and smoothly to a more efficient model without losing effectiveness.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

17 June 2011

Part 1

Introduction

Why is there an Auditor-General?

In New Zealand's system of government, Parliament authorises all government spending and gives statutory powers to public entities. Public entities are therefore accountable to Parliament for their use of the public resources and powers that Parliament gives them.

As part of this accountability, Parliament seeks independent assurance from the Auditor-General that public entities are operating and accounting for their performance in the way that Parliament intended.

The need for independent assurance also covers local government. Local authorities are accountable to the public for how they use the resources they collect through rates and other sources.

It is not the role of the Auditor-General to question the policies of the Government or local authorities.

The role and independence of the Auditor-General

The Auditor-General's role is to assist Parliament to scrutinise the effectiveness, efficiency, and accountability of public entities. To be effective and credible in this role, the Auditor-General must be independent of executive government. To ensure their independence, the Auditor-General (and the Deputy Auditor-General):

- are appointed by the Governor-General on the recommendation of the House of Representatives;
- report directly to the House of Representatives (and have the power to report to anyone else);
- are paid under a permanent authority from Parliament that does not require the approval of the Government; and
- make requests for funding directly to the House of Representatives (rather than through the Executive), after which the House commends the sum required to the Governor-General for inclusion in an Appropriation Bill.

Consulting with members of Parliament about our proposed annual work programme is another way for the Auditor-General to be accountable to Parliament.

The public sector audit

The Auditor-General carries out work that is designed to give assurance that:

- public entities fairly reflect the results of their activities in their annual reports;
- public entities carry out their activities effectively and efficiently;
- public entities comply with their statutory obligations;
- waste is not occurring, and is not likely to occur in the future, as a consequence of any act or omission of a public entity;
- there is no indication of, and no appearance of, a lack of probity as a result of any act or omission by a public entity or by one or more of its members, office holders, and employees; and
- there is no indication of, and no appearance of, a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, and employees.

The above matters are consistent with sections 15, 16, and 19 of the Public Audit Act 2001 (the Act). The “routine” audit processes that give effect to these matters are supplemented by:

- other auditing services, which the Auditor-General may, with the agreement of a public entity, perform for that entity – being any services of a kind that it is reasonable and appropriate for an auditor to perform (under section 17 of the Act); and
- inquiries, which the Auditor-General may carry out into any matter concerning a public entity’s use of its resources (under section 18 of the Act).

The appropriate identification, scoping, investigation, and reporting of audits (under sections 15, 16, and 19 of the Act), other auditing services (under section 17), and inquiries (under section 18) is underpinned by the Auditor-General’s auditing standards. The work is facilitated by various processes carried out in the Office of the Auditor-General and by audit service providers contracted to work on behalf of the Auditor-General.

Part 2

Our work programme for 2011/12

Our proposed work programme is set out in four main parts:

- **our response to major trends and themes** in the public sector environment that we will focus on in the next two or so years, along with the areas of focus that the Auditor-General identified in 2010;
- our **annual audits** to provide assurance about the financial statements and, in some instances, the performance statements of public entities;
- promoting improvement in sector and specific entity matters through our in-depth **performance audits, inquiries, and other studies**; and
- our **contribution to the international auditing community and development of accounting and auditing standards**.

We give considerable thought to the content of our proposed work programme to ensure that we apply the resources available for our work to get the best return, and to fulfil the Auditor-General's statutory responsibilities and meet her professional obligations.

Most of the work of the Office (about 87%) comprises annual audits of the financial reports of public entities. This work is required by statute and carried out in accordance with professional standards. The rest of our work is done under the Auditor-General's other reporting powers, and includes:

- advice to Parliament and select committees;
- responding to enquiries from ratepayers, taxpayers, and members of Parliament;
- performance audits and studies;
- working with the accounting and auditing profession;
- wider assurance work;
- international liaison and involvement; and
- advice to, and liaison with, government bodies and other agencies in the public sector.

Part 3

Challenges facing the public sector, and our response

Delivering effective and efficient public services in a fiscally constrained environment

Since the global recession, reduced public revenue and increased levels of national debt have become part of our broader environment. At the same time, the recovery and rebuilding of Christchurch, our second-largest city, will require an extraordinary amount of human endeavour and financial support as the implications of the disaster work their way through the lives of individuals, and through New Zealand's business and financial institutions.

Public debt is expected to continue to rise, reducing the net worth of the Government. Maintaining a financial buffer over time is necessary for the Government to absorb future shocks to the wider economy, such as those arising from the recent recession and the Canterbury earthquakes. Demographic change is permanent and the ageing population will place increasing pressure on government spending. This means Governments have to make choices and trade-offs to manage the long-term fiscal challenge.

The public sector is a significant part of the economy. Therefore, any improvement in public sector performance would have an effect on economic growth and reduce stress on fiscal policy. The overall level of government spending is being constrained to enable a return to surplus as soon as possible, and to rebalance the economy through greater growth in the wider trading economy compared to the public sector.

Infrastructure and asset management

Good management of the Government's physical and financial assets will be beneficial to the long-term fiscal position and the performance of the economy. Raising the standard of infrastructure and asset management is a key part of the Government's economic growth agenda. The Organisation for Economic Co-operation and Development has noted that investment in infrastructure seems to boost long-term economic output more than any other kind of physical investment. In addition, the World Economic Forum has identified New Zealand's inadequate investment in infrastructure as a particular problem, second only to inadequate access to finance as a barrier to doing business.

Our State sector manages more than \$220 billion worth of assets, which are forecast to grow by \$30 billion in the next five years. Around half of these assets are physical assets, on which the Government spends about \$6 billion a year. In addition, it will invest \$7.5 billion in new capital infrastructure spending during the next four years.

Local government is expected to spend \$30 billion in the next 10 years, mainly on infrastructure.

Fundamental shift for public sector

The Government wants a fundamental shift in the way the public sector goes about its business. This amounts to embedding a focus on effectiveness, efficiency, and innovation as a priority, and developing an expectation that achieving value for money in the public sector is business as usual and not an exception or a one-off objective. The Government has been looking at improving public sector productivity by doing the same tasks in new ways, learning from the private sector and overseas experience.

A range of initiatives designed to improve the efficiency of public expenditure is under way. This includes structural changes to public sector agencies (including merging some agencies), preparing and implementing alternative approaches to delivering services (such as providing single points of entry), as well as making greater use of the private sector and the not-for-profit sector, such as using public-private partnerships.

Local government: Productivity, efficiency, and governance

Local government must also operate within this constrained economic environment. The challenge for local authorities is to balance demand for sustained first-world levels of service with affordability. To do this, local authorities are looking at their modes of service delivery and assessing what influences their costs. This includes seeking productivity and efficiency gains through shared services, such as the proposed Local Government Funding Agency, as well as smaller localised initiatives.

Auckland is recognised as being important to New Zealand's economic development, and there is much for the Government and the new Auckland Council to do to help Auckland achieve its potential and its contribution to the national economy.

Auckland Council is a new model of local government for New Zealand. The Auckland reform has increased the profile, powers, and influence of the Mayor and Chief Executive of Auckland Council. It will change how local government interacts with some central government entities – for example, the Ministry of Transport. Auckland's share of the national population and its growth rate are both unusually high in international terms. For the Government's economic development ambitions to be achieved, the Auckland reforms need to result in better governance of Auckland's local government arrangements, better service delivery to the public, and better alignment between central and local government planning and funding.

Our proposed response

Changes in structure, financing, and services will create risks for public entities, and the Auditor-General needs to understand and take account of those risks in providing assurance as the auditor of the public sector. The implications of the changes that are being considered could be considerable. An increase in contracting out, use of shared services, and use of more high-trust forms of contracting will place greater emphasis on the need for us to carefully consider the nature and extent of our audit work.

It is important that effectiveness does not become a casualty of the drive for efficiency. The continuity and effectiveness of service delivery to the public during change is imperative, as is ensuring that procurement and contracting out meet public expectations of good management of public money, probity, and fairness. We will need to keep up with the changes in the public sector so that we can provide relevant and timely guidance and advice to our auditors and update our good practice guidance for public entities and auditors as necessary.

In times of fiscal restraint, central agencies need to work to ensure that government programmes and initiatives are understood and get maximum leverage. We will look to strengthen our engagement with central agencies so that our work, while retaining its independence, provides useful insight about risks, assurance about progress in managing the risks, and advice on how to get cost-effective results.

Local authorities are now required to publish an explicit financial strategy of how they will deliver sustainable levels of service. The strategy must be published in each local authority's long-term plan for 2012–22. Our role in auditing long-term plans, and providing assurance that the plans are reasonable, will be carried out in 2011/12 – before local authorities implement their plans on 1 July 2012.

We propose to respond to these challenges in the context of our annual audits and the Auditor-General's other reporting powers under the Public Audit Act 2001 by carrying out work that will:

- raise awareness of **risks that can arise from change** and how to manage them;
- encourage better use of information to **support good decision-making**;
- give **insight into local government**;
- provide **good analysis and reporting of information about the transport sector**;
- and
- add value through our annual audits, inquiries, and performance audits.

Raise awareness of risks that can arise from change and how to manage them

We plan to focus on work that supports awareness of the risks that might undermine efficiency initiatives and adversely affect service results, and to provide assurance that key risks are being managed. We want to understand the effects of the Government's change and improvement programme on the capability and capacity of public entities. This will include understanding whether the change initiatives are being well governed and managed, so that entities deliver effective and efficient services during the medium term.

We intend to carry out development work through our annual audits and our other work as follows:

- The increased interest in, and the emergence of, the first large-scale public-private partnership will allow us to identify and report on the use of better practice in establishing and co-ordinating project partnerships and, in the longer term, on contract management, service delivery, and realisation of benefits.
- The public sector's enhanced focus on asset and financial management will be complemented by our annual audit work, which we will be strengthening to enhance our analysis of asset management and financial results in key public entities and sectors.

Encourage better use of information to support good decision-making

One of the keys to meeting the challenge of delivering effective and efficient public services in a fiscally constrained environment is to get better information about performance and then use that information to make better decisions and

hold people accountable. Using good performance information underpins many of the initiatives under way to raise State sector performance. It is important that service performance information is useful and used, and that there are significant benefits for agencies, Ministers, and Parliament in making this a reality. As public entities look for ways to cut costs, it is more important than ever that they have the information necessary to inform those decisions.

Through our annual audit interaction with public entities about their financial and performance statements, we are working to support the use of performance information to assess and enquire into effectiveness and efficiency. We are also liaising with government departments, Crown entities, and local authorities to help them improve their performance information and to use this information, alongside their financial information, to consider effectiveness and efficiency, and to better understand and manage their key financial and performance drivers.

Provide insight into local government

The amalgamation of eight local authorities into one council in Auckland on 1 November 2010 was a complex exercise with implications for the whole country and local government in particular. We have made good progress on our audit approach to the local government reform in Auckland. We will build on this in 2011/12, including formalising the changes that follow the reform and embedding the changed practices in decision-making and service delivery. We plan to review those changes through our annual audit work and report our findings to Parliament.

Local government in the Canterbury region has been severely affected by the earthquakes on 4 September 2010 and 22 February 2011. The full nature of the government response is being developed and will have far-reaching medium and long-term effects on local and central government and, in particular, how they work together to deal with the recovery. We plan to ensure that we carry out our role in these arrangements appropriately, including providing any insights to local government and Parliament.

In 2011/12, we will carry out the triennial audit of 78 local authorities' long-term plans under amendments made to the Local Government Act 2002 in 2010. The long-term plans give local communities an important opportunity to understand their local authorities' medium-term service intentions and fiscal strategies. Our main focus will be to provide assurance that the main long-term planning issues that a community needs to consider have been highlighted, and that the supporting information is reasonable for decision-making, community participation, and future accountability.

Provide good analysis and reporting of information about the transport sector

We have large amounts of data and knowledge that we can use much better to inform our audit work and to share with others. We plan to get the best from what we know and improve our understanding and reporting. In February 2011, we started an initiative to improve the way we share knowledge within our own organisation. This initiative consolidates and expands on our previous work, which focused on helping us to better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. This new initiative will extend our ability to be flexible, agile, and adaptive. We will work on two pilot projects in 2011/12, in the transport and tertiary education sectors, focusing on better analysis and reporting of sector information. The transport sector pilot is already under way.

In recent years, our transport work has focused more on specific public entities and issues. For example, we have previously examined the maintenance and renewal of the rail and state highway networks, aspects of maritime and aviation safety, regulation of the taxi industry, and truck crashes. Our annual audits in the transport sector, including local government transport-related assets, have examined the valuations of major assets, contract management, procurement, and service performance information.

Many important topics and issues in transport affect both central and local government. Issues such as the need for integrated planning, complex and high-value funding mechanisms, regulatory frameworks, asset management, and procurement are all features of the transport sector that affect and are managed by both central and local government.

We will take a cross-sector approach to our transport-related work to better identify and address issues in a way that maximises the relevance and value of the work we do. We expect this approach to help us identify two or three key issues that we will address through multi-year work using the full range of our audit interventions, from research and development to performance audit and annual audit work, to examine and report on these issues. Potential topics are transport infrastructure and services in Auckland, and integrated transport and land use planning.

Figure 1 summarises the studies we propose to carry out in 2011/12 as part of our four main responses to the challenges facing the public sector.

Figure 1**Proposed studies in 2011/12 in response to challenges facing the public sector**

Our response	Our study topic
Raise awareness of risks that can arise from change and how to manage them	<ul style="list-style-type: none"> Public-private partnerships: Our proposed study of public-private partnerships will provide an overview of experience, learning, and risks for the public sector. Financial management within government: We intend to report on the appropriateness and quality of the current financial management system in supporting and motivating better planning and decision-making across government. Fraud management: We intend to report on the results of our survey of fraud in the public sector.
Encourage better use of information to support good decision-making	<ul style="list-style-type: none"> Improving the usefulness of reporting: Identifying cost-effectiveness in local government annual reports: For this study, we will look at annual reporting information for five key local government services over several years. We produced a similar report on central government in 2010/11. Observations about the state of public entities' performance information: We will carry out a stocktake study to assess progress in reporting of performance information and the effect of our improvement work.
Provide insight into local government	<ul style="list-style-type: none"> Auckland Council's governance of its subsidiaries: We will also undertake work to meet the statutory requirement that the Auditor-General review the service performance of Auckland Council and its council-controlled organisations.
Provide good analysis and reporting of information about the transport sector	<ul style="list-style-type: none"> We plan to examine how Kiwirail has responded to our 2008 performance audit on maintenance and renewal of the rail network. We intend to carry out a special study of a transport-related topic that we will identify during 2011/12. This study will be short and focused, to provide assurance to Parliament that a specific project or issue is being managed appropriately. A potential topic is the introduction of integrated ticketing in Auckland.

Add value through our annual audits, inquiries, and performance audits

Our auditing and assurance work is our core business and the foundation for our ability to have a positive influence on public sector performance. Alongside annual audits, our performance audits, inquiries, and special studies allow us to review in depth how public entities use resources and to suggest opportunities to improve performance where we have considered specific matters.

We plan to maintain the underlying quality of all our financial and performance audits and inquiries, and focus on how to add value to the organisations that

we audit. We will also focus on improving our reporting and our supporting communications and relationships, and on improving our own effectiveness and efficiency.

The Auditor-General is the auditor of almost 4000 public entities. Of these, 3500 are small public entities, including 2500 schools. The cost to us of carrying out annual audit work is funded mainly by audit fees paid by the public entities.

In the last couple of years, the Ministry of Economic Development's review of the Financial Reporting Framework has seen progress toward a more differentiated general purpose financial reporting model. We consider that there would now be benefit in exploring the opportunities for a more differentiated model of accountability for smaller public entities that could result in reduced audit and compliance costs where appropriate.

Part 4

Providing assurance: Our annual audits

Each public entity is required to prepare and report its annual financial statements and, in many instances, to report on its service performance. The Auditor-General has a statutory duty to audit the information that these entities must report, as set out in the legislation applying to each entity. These independent annual audits play an essential role in the stewardship of public resources and corporate governance of public services, and account for about 87% of our annual expenditure.

An annual audit aims to provide assurance to the public about whether a public entity's financial statements (and, as required, any other information, such as performance statements, that is required to be audited):

- complies with a recognised framework, usually generally accepted accounting practice; and
- fairly reflects the public entity's performance and position.

The audit opinion sums up the auditor's view on the reliability of the audited information. In 2011/12, we expect to provide audit opinions on more than 3900 financial statements, 400 performance statements, and the long-term plans of 78 local authorities.

Alongside the assurance provided to the public, the additional benefit of an annual audit is the assurance that we provide to managers and governors of public entities about significant matters arising from the audit. We do this by preparing management reports for each public entity, to detail our key findings and recommendations, and to give managers and governors an insight into how well their entity's management systems and controls are working. A management report can also include our views on a public entity's policies, practices, and risk management.

As well as auditing the information that is required to be audited, we also assess the public entity's compliance with its main statutory obligations.

Forming an audit opinion on financial and performance statements and their accompanying notes requires the auditor to examine the underlying accounts and records, including the systems and processes used to generate this information. In

Figure 2, we give examples of auditing standards that set out what the auditor is expected to do and consider during an annual audit.

Figure 2

Examples of what an auditor is required to do and consider during an annual audit

1. The auditor has a responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.
(Auditing Standard 315 (ISA (NZ) 315): Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment, paragraph 1).
The auditor has a responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA (NZ) 315 in an audit of financial statements.
(Auditing Standard 330 (ISA (NZ) 330): The Auditor's Responses to Assessed Risks, paragraph 1).
2. The auditor shall, when carrying out the annual audit of the financial and non-financial information of a public entity, take into account the need to maintain alertness and awareness for any indication that:
 - (a) the public entity has not applied its resources effectively or efficiently;
 - (b) waste has occurred, either by the public entity itself or as a result of action or inaction on the part of the public entity; or
 - (c) there has been an act or omission that shows or appears to show a lack of probity or financial prudence on the part of the public entity or one or more of its members, office holders, or employees.
(Auditor-General's Auditing Standard 3 (AG-3): Effectiveness and efficiency, waste and a lack of probity or financial prudence, paragraph 8).
3. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.
(Auditing Standard 250 (ISA (NZ) 250): Consideration of Laws and Regulations in an Audit of Financial Statements, paragraph 13).

We adopt a risk-based approach to gathering and assessing audit evidence, as required by auditing standards. This includes considering both the risk that a balance or disclosure is inherently likely to be wrong and the risk that each public entity's systems of internal control will fail to pick up significant errors. To address these risks, we look for evidence that balances, results, and disclosures are not materially misstated. The results of our auditing work, including our understanding of the public entity and its internal control systems, is collated on completion of the audits of the public entities in each significant category (such as government departments, local authorities, and tertiary education institutions). Co-ordinating the audit results between public entities in each category then lets us draw out and report on overall high-level results, and any systemic issues.

Reporting to Parliament on the results of annual audits

The Public Audit Act 2001 requires us to report results of our annual audits to Parliament. We report those results in two different ways. We report on a number of individual audits of central government entities through the advice we provide select committees during the annual financial review process, and we report on the overall and high level results of our central and local government annual audits in two or more reports each year.

Our reports to Parliament on the results of annual audits routinely comment on:

- the effectiveness of public entities' internal controls;
- the timeliness of financial reporting by public entities; and
- other matters of interest about public entities.

As part of the process of carrying out audits, we often advise auditors about specific matters we want them to consider for particular categories of public entities. Matters of interest that may be reported on in 2011/12 include:

- **Performance information:** In recent years there has been impetus to improve the quality of public entities' externally reported performance information. The Auditor-General's revised auditing standard for auditing performance information has contributed to this impetus. There are challenges for us in implementing that standard. Our challenges include how we maintain independence and give advice, how we build confidence for this work, and how we report. We have made good progress in the last couple of years on improving the quality of audit work on public entities' performance statements. In future we need to increase our focus on public entities use of performance and financial information to support good decision-making and cost-effectiveness. We have asked our auditors applying the revised auditing standard to continue to focus on carrying out good quality audits of performance information.
- **Governance and management in times of change:** There have been a number of structural and non-structural changes in the public sector to improve effectiveness and efficiency. The structural changes range from consolidating Government agencies to setting up the new Auckland Council and its controlled organisations. Examples of non-structural changes include increased use of shared services and partnering arrangements. Good governance and management is one of the key controls in an entity, and it is important that this is maintained, particularly in times of change. We have asked our auditors of entities affected by such changes to identify, assess, and report risks to the control environment, including governance and management controls, so that the necessary action can be taken to mitigate these risks.

- **Management of capital assets:** Some parts of the public sector have substantial asset holdings. We have asked our auditors to continue their focus around the systems and controls for the management of capital assets in those sectors where capital assets are most significant.
- **Disclosure of underlying profit:** In some of the commercially focused public entities, there is a trend to disclose not only profit as required under International Financial Reporting Standards, but also the underlying profit. This was reported in our report *Central government: Results of the 2009/10 audits (Volume 1)*. We have asked our auditors of those entities affected, to consider the appropriateness and transparency of underlying profit disclosures.
- **Emissions Trading Scheme:** The issues associated with emissions are technical in nature and usually involve significant amounts of money. We plan to provide guidance to auditors and public entities in 2011/12, which should help them deal with emission trading scheme issues in future. Also, we have asked our auditors of local authorities to look at how local authorities are measuring and managing emissions.
- **Fraud:** In carrying out annual audits, our auditors have a professional obligation to assess fraud risk factors and to respond appropriately to that assessment. Public entities are responsible for advising auditors of any actual, suspected, or alleged fraud affecting the entity to allow auditors to assess risk factors. Alongside our planned report on our survey of fraud in the public sector, we have asked our auditors to check that public entities have a fraud policy in place, that the entity's managers and employees know about the policy, and that they know the content of the policy.
- **Sensitive expenditure:** The appropriate use of public money continues to be subject to significant public scrutiny. In previous years, auditors have:
 - worked to ensure that all public entities had suitable sensitive expenditure policies in place;
 - reviewed transactions relating to sensitive expenditure for compliance with the entity's policies; and
 - reported any issues or concerns to management.

We expect that entities will have addressed any issues that were outlined in their previous year's management report and, where relevant, to have updated their policies to reflect the principles in *Controlling sensitive expenditure: Guidelines for public entities*, which we published in February 2007. We have asked our auditors to confirm that any such issues have been addressed and that public entities are appropriately dealing with sensitive expenditure.

Part 5

Promoting improvement: Performance audits, inquiries, and other studies

The Public Audit Act 2001 provides the Auditor-General with discretion to carry out performance audits and to inquire into a public entity's use of its resources.

Performance audits look at:

- the extent to which activities are carried out effectively and efficiently;
- compliance with statutory obligations;
- any acts or omissions to determine whether waste has resulted or may result; and/or
- any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or its members, office holders, or employees.

Our **inquiries** work largely reacts to issues of public concern. If there is general public interest in an inquiry, we may publicly report the results.

Our performance audits, inquiries, and other studies (such as those that lead to us publishing good practice guidance) have benefits for the audited entities and for the wider public sector. For example, our work can help to:

- develop methods to evaluate aspects of public sector management;
- encourage beneficial changes and best practice in the performance of public entities; and
- increase understanding of an audited entity, the wider environment in which public entities operate, and/or of public sector management.

Our performance audit and inquiries work allows the Auditor-General to consider and provide advice about the above matters in greater depth than is appropriate within the statutory scope of an annual audit.

In 2011/12, the Auditor-General proposes to start a range of performance audits and other studies, including work that will result in good practice guidance, on topics that we consider warrant examination.

We briefly describe our proposed performance audits and other studies for 2011/12 in Figure 3, and list the work we currently have under way in Figure 4. The work we do and the reports we deliver in 2011/12 may differ from the description in Figure 3. That will happen if we need to alter our priorities to carry out other more urgent work – such as an inquiry – or because changes in government policy or the circumstances of a particular public entity mean that a proposed examination is no longer relevant.

Reports on many of our performance audits, other studies, and inquiries that we started in 2010/11 will be completed and presented to Parliament during 2011/12, and some will be presented in 2012/13.

Each year, we also report on public entities' progress in implementing the Auditor-General's recommendations and, in 2011/12, we will be following up on our 2009 report *Effectiveness of arrangements to check the standard of services provided by rest homes*.

Figure 3

Proposed performance audits and other studies to be started in 2011/12

Bioresecurity: Preparedness for, and response to, incursions from unwanted organisms

Certain plants, animals, and associated diseases can be detrimental to our social, economic, and/or physical environment if they become established. The Ministry of Agriculture and Forestry (the Ministry) is responsible for prevention (through border control), surveillance, investigation, and responding to incursions of these unwanted organisms.

We propose to audit the Ministry's preparedness for an incursion of unwanted organisms and its systems for responding to an incursion. We anticipate that our work will examine how the Ministry has responded to some actual incursions. Where appropriate, this work will also examine how well the Ministry has worked with industry and other partners as part of the response.

Defence acquisitions

In recent years, our audit work in the defence sector has focused on major acquisition projects. This work culminated in the November 2010 release by the Ministry of Defence and New Zealand Defence Force – collectively referred to as the defence agencies – of the first Major Projects Report.

The report provided detailed information and an assessment of project management performance across eight major capability projects that were under way in the defence agencies at that time. We will continue to work with the defence agencies on the annual update of the report, which will be prepared at the time the defence agencies publish their annual reports.

We have mentioned previously to the defence agencies and the Foreign Affairs, Defence and Trade Committee that we intended to follow the first Major Projects Report with an audit of a specific acquisition project and/or an audit of an aspect of the new acquisition process.

We still intend to take this approach and are currently working with the defence agencies and central government agencies to identify a suitable project or an aspect of the new acquisition process to examine. Among the projects we are considering for audit are the project to procure and introduce into service the new NH90 medium-utility helicopters and the project to acquire a replacement pilot training capability.

Information communications technology

New Zealanders rely on the smooth operation of information communications technology (ICT) to underpin the management and delivery of, and access to, a range of public services. In 2008, the State Services Commission (SSC) estimated that the Government spent \$2 billion a year on ICT. The SSC also found that ICT was fragmented, there was duplication in infrastructure, and more could be made of online channels and other forms of electronic service delivery.

The Office of the Government Chief Information Officer is developing a new ICT strategy for the whole of government. The strategy will aim to create more effective and efficient use of ICT to deliver public services and to realise the potential to reduce back-office costs while improving delivery of the services.

In the past, attention has tended to focus on the failures of ICT in the public sector. However, there is evidence of good practice in some important ICT systems that deliver public services.

We plan to examine ICT projects to detail some of the key factors that need to be in place if ICT projects are to deliver improved public services. Our study and report will provide guidance for ICT managers responsible for public sector ICT, and will promote good practice and beneficial change in the use of ICT to deliver public services.

Ka Hikitia: Māori education strategy 2008-2012

Māori underachievement in education has long been seen as a significant national issue because of its future effect on the capabilities and skills of our working-age population. *Ka Hikitia – Managing for Success: The Māori Education Strategy 2008-2012* is the education sector's strategy to lift Māori participation and achievement in education.

Implementing Ka Hikitia depends on a whole-of-government response involving educators, iwi, communities, and the Government working in partnership. The Ministry of Education (the Ministry) is responsible for leading and supporting the implementation of the strategy, including building better connections among government and education agencies.

Our proposed audit will examine how effectively the Ministry carries out its role to help implement and embed Ka Hikitia into the complex, multi-entity, educational sector.

New Zealand Blood Service

We plan to examine the effectiveness and efficiency of what the New Zealand Blood Service (NZBS) has in place (or plans to have in place) to ensure the safety and surety of supply of blood and blood products:

- “Safety” covers matters such as donor selection, testing of donations, and maintenance of the integrity of the cold chain and the vein-to-vein supply.
- “Surety” means ensuring that the donor pool is adequate to meet demand.

The NZBS does more than provide blood and blood products. It also “banks” tissues and bone, and provides laboratory services. Our audit will also examine the safety and surety of these products. We exclude from the audit the laboratory services provided by the NZBS.

Protecting and maintaining our biodiversity and natural ecosystems

Globally, the increasing loss of biodiversity is a major concern. Much of New Zealand's biodiversity is unique and makes a significant contribution to our quality of life. Our biodiversity and natural ecosystems have considerable economic, social, and cultural value.

The Department of Conservation (the Department) has a lead role in working, together with other agencies, to ensure that the diversity of our natural heritage is protected and our natural ecosystems are healthy. We plan to audit the work of the Department and other agencies to protect and maintain our biodiversity and natural ecosystems.

Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Third monitoring report

We have committed to monitoring, over a 10-year period, the New Zealand Police's implementation of recommendations arising from the 2007 Commission of Inquiry (COI) into Police Conduct.

This will be our third monitoring report. It will focus on whether there have been sustainable improvements to the level and quality of police services as a result of the programmes and initiatives arising in the Police's response to the COI.

Our 10-year monitoring plan and details on earlier findings can be found in *Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: First monitoring report* (2009); and *Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report* (2010).

Road safety: Enforcement efforts to reduce drink-driving

In the last decade, there has been no reduction in the number of fatal road accidents caused by alcohol-impaired driving.

We intend to audit the effectiveness and efficiency of the various agencies with responsibilities for dealing with this issue. We are currently scoping this audit with the Ministry of Transport, the New Zealand Transport Agency, and the New Zealand Police.

School governance: How well school boards of trustees plan and review

School governance is important because each school's board of trustees is ultimately responsible and accountable for almost everything that happens in their school. This includes setting priorities and goals for learning and student achievement, and monitoring the school's performance against student achievement outcomes.

Although boards of trustees have considerable discretion, they are not autonomous. They need to be able to demonstrate that:

- students in the school are receiving a high quality standard of education;
- the school is addressing national priorities for school education; and
- the school's resources are being used prudently to ensure that the highest possible quality programmes are provided for students.

Previously, we have looked at how well the Ministry monitors and supports boards of trustees. However, we have not assessed the quality of governance by boards. We also note that the Ministry and the Education Review Office intervene only where problems with a board of trustees have been identified.

We plan to assess a sample of boards to see how well they carry out strategic planning and self-review. In particular, we will focus on:

- how well the board uses information to underpin its strategic planning and self-review;
- how coherently the school focuses its efforts on student achievement, including alignment of resources, policies, and practices; and
- how well the board uses and responds to assessment data.

The audit will build on the work that we have done with analysis of variance reports. We will report on examples of good governance practice that we identify during the audit. We therefore expect the audit to add considerable value by helping boards to focus and improve their strategic planning and self-review function.

Figure 4**Performance audits started in 2010/11 and due to be finished in 2011/12**

Demand for water - Auckland region*
Effectiveness of government planning and support for housing on Māori land
Freshwater quality in New Zealand: Effectiveness of management responses*
Ministry of Health and district health boards: Provision of home-based support services for older people*
New Zealand Customs Service: Effectiveness of the customs revenue assurance strategy and programme*
New Zealand Qualifications Authority: Quality assurance and administration of internally assessed standards for the National Certificate of Educational Achievement*
New Zealand Transport Agency: State highway maintenance – Part 2*
Role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools*
The Treasury: Administration of the Retail Deposit Guarantee Scheme
Transpower: Managing the national grid*

*From our 2010/11 work programme.

Part 6

Contributing to the international auditing community and development of accounting and auditing standards

We make a significant ongoing contribution to the international auditing community. For example, we provide input to the development of accounting and auditing standards and to improving the quality of public sector auditing in the Pacific and beyond.

We take part in a range of national and international organisations, forums, and working groups, which develop guidance and standards for the auditing and accounting professions, and provide advice to public sector practitioners. These groups include:

- the Accounting Standards Review Board;
- the Professional Standards Board of the New Zealand Institute of Chartered Accountants;
- the Financial Management Working Party of the Society of Local Government Managers; and
- the International Organisation of Supreme Audit Institutions (INTOSAI).

In particular, in 2011/12, we will be focusing on work with:

- The **Pacific Association of Supreme Audit Institutions (PASAI)**: PASAI is the official association of supreme audit institutions (government Audit Offices and similar organisations) in the Pacific region. PASAI is one of the regional working groups belonging to INTOSAI. As the current Secretary-General of PASAI, New Zealand's Auditor-General provides leadership and guidance to the Secretariat in carrying out PASAI's long-term strategic plans and work programmes, and advises the PASAI Congress and the Governing Board. The strategic goals of PASAI are to:
 - strengthen regional co-operation and co-ordination;
 - build and sustain public auditing capability;
 - conduct co-operative financial and performance audits; and
 - strengthen communication, and advocate transparency and accountability.
- The **Accounting Standards Review Board**: The Board has decided to adopt two sets of accounting standards for New Zealand, which is likely to mean public sector standards will be based on International Public Sector Accounting Standards (IPSAS) in future. However, there is still a lot of work to do to arrive at the right set of financial reporting standards for the public sector in New Zealand. We will be working to make a positive contribution to applying these new standards, and to participating in the standard-setting process. We are keen to ensure that changes to the standards are applied smoothly and sensibly for the New Zealand public sector context.

Part 7

List of our proposed performance audits and other studies for 2011/12

1. Public private partnerships: Overview of experience, learning, and risks for the New Zealand public sector
2. Financial management within government
3. Fraud management: Results of our survey of fraud in the public sector
4. Improving the usefulness of reporting: Identifying cost-effectiveness in local government annual reports
5. Observations about the state of public entities' performance information
6. Governance oversight of Auckland subsidiaries
7. Follow-up of Kiwirail's maintenance and renewal of the rail network*
8. Special study of a transport-related topic
9. Public entities' progress in implementing the Auditor-General's recommendations
10. Follow up on effectiveness of arrangements to check the standard of services provided by rest homes
11. Biosecurity: Preparedness for, and response to incursions from unwanted organisms
12. Defence acquisitions
13. Information communications technology
14. Ka Hikitia: Māori education strategy 2008-2012
15. New Zealand Blood Service
16. Protecting and maintaining our biodiversity and natural ecosystems
17. Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Third monitoring report
18. Road safety: Enforcement efforts to reduce drink-driving
19. School governance: How well school boards of trustees plan and review
20. Demand for water: Auckland region*
21. Effectiveness of government planning and support for housing on Māori land
22. Freshwater quality in New Zealand: Effectiveness of management responses*

23. Ministry of Health and district health boards: Provision of home-based support services for older people*
24. New Zealand Customs Service: Effectiveness of the customs revenue assurance strategy and programme*
25. New Zealand Qualifications Authority: Quality assurance and administration of internally assessed standards for the National Certificate of Educational Achievement*
26. New Zealand Transport Agency: State highway maintenance – Part 2*
27. Role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools*
28. The Treasury: Administration of the Retail Deposit Guarantee Scheme
29. Transpower: Managing the national grid*

*From our 2010/11 work programme.

Appendix
Statement of Intent 2011–14

Statement of Intent 2011–14

Prepared in accordance with Part 4
of the Public Finance Act 1989.

May 2011

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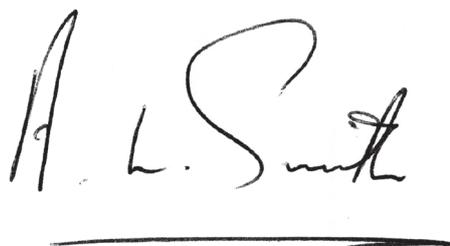
ISSN 1179-7355 (online)

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 *Statement of Intent 2011–14* under Part 4 of the Act.

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.

Along with the Estimates of Appropriations for Vote Audit, the *Statement of Intent 2011–14* indicates how the Auditor-General intends to discharge her duties and apply the resources made available to her in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Auditor-General to account for the performance of her Office during 2011/12.

A handwritten signature in black ink, reading "A. L. Smith". The signature is written in a cursive style with a large, sweeping initial "A". Below the signature is a horizontal line.

Dr The Rt Hon Lockwood Smith MP
Speaker of the House of Representatives

5 May 2011

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Statement of responsibility

In signing this statement, I acknowledge that I am responsible for the information contained in the *Statement of Intent 2011–14* for the Controller and Auditor-General.

This information has been prepared in keeping with the Public Finance Act 1989. It is also consistent with the information considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2011/12 budgetary estimates for the Auditor-General. These were submitted under section 45G of the Public Finance Act 1989, with the proposed appropriations set out in the Appropriations (2011/12 Estimates) Bill, as presented to the House of Representative in keeping with section 13 of the Public Finance Act 1989, and with existing appropriations and financial authorities.



Lyn Provost
Controller and Auditor-General

30 March 2011

Countersigned:



Maria Viviers
Financial Controller

30 March 2011

Auditor-General's overview and strategic direction

I am pleased to submit this *Statement of Intent 2011–14* for the Controller and Auditor-General.

My thoughts in preparing this statement are dominated by the Christchurch earthquake tragedy on 22 February 2011, which will remain the nation's focus for some time to come and will test the resilience of us all. Of course, New Zealand is not alone in coping with natural disasters.

Since the global recession, reduced public revenue and increased levels of national debt are now part of our broader environment, while the recovery and rebuilding of Christchurch, our second-largest city, will require an extraordinary amount of human endeavour as well as financial support.

New Zealand's landscape and physical environment is under increasing pressure from man-made activities and natural events and disasters, and our decision-makers and communities will be called on to balance immediate and ongoing economic imperatives with sustainable future needs. For many, the lure of living in Australia and other places overseas will be increasingly attractive, and we may struggle as a nation to keep our best and brightest and maintain our ability to support an ageing population.

In this context, there will be an increased drive for efficiency and better services in the public sector, with a range of structural, funding, and service changes being considered and implemented to do more with less. It is important that effectiveness does not become a casualty of that drive for efficiency. For those committed to keeping New Zealand strong, there will be many challenges. Our ability as a country to adapt cleverly will be the key to success. For my Office, these challenges will include managing pressure on audit quality, and potential loss of staff to domestic and overseas organisations.

Outlook for 2012

In 2010, I said our focus for the next two to three years would be on these main themes:

1. the local government reorganisation in Auckland;
2. performance reporting;
3. analysis and reporting of sector information (sector knowledge);
4. changes to financial reporting standards (and, more broadly, auditing standards and regulation of auditors); and
5. adding value through our 4000-plus annual audits, inquiries, and performance audits.

In addition, during this time, I wanted to identify a cross-cutting theme to underpin our audits and other work in 2012/13. We will select a topic during 2011 so that we can complete the necessary planning and research before starting work on the cross-cutting theme during 2012.

I am pleased to say that we have made good progress with the first two matters identified in 2010 – Auckland and performance reporting. Our stakeholders and clients are telling us that we have built a better understanding of their environments, businesses, and risks, and that we are bringing this understanding to our work with them. I am committed to building on this understanding to carry out audit work that addresses the change in, and growing complexity of, the public sector and the higher expectations of the public.

My emphasis for 2011/12 will be on sharing sector knowledge and accounting and auditing standards, and continuing to make an important contribution internationally.

Sharing sector knowledge

In February 2011, we started an initiative to improve the way we share knowledge within the organisation. This initiative consolidates and expands on our previous work, which focused on helping us to better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. This new initiative will be a test of our ability to be flexible, agile, and adaptive.

Accounting and auditing standards

I am pleased that the Accounting Standards Review Board has decided to adopt two sets of accounting standards for New Zealand. In my view, this is likely to mean public sector standards will be based on International Public Sector Accounting Standards (IPSAS) in future. I am looking forward to our involvement in applying these new standards, and to resuming our involvement in the standard-setting process. We will be keen to ensure that changes to the standards are applied smoothly and sensibly for the New Zealand public sector context.

Our international contribution

My Office makes a significant contribution to the international audit community, ranging from input into the development of accounting and auditing standards to our involvement with public sector auditing in the Pacific and beyond. The respect and esteem with which we are held among our overseas colleagues is humbling and heart-warming. It underlines our responsibility and commitment to improving the standard of public sector auditing globally.

Concluding comments

In 2011/12, we will continue to focus on adding value to the public sector through our audits and other work, and to review our own effectiveness and efficiency. While I do not underestimate what will be involved, I am confident that my Office has the people and expertise to respond to the challenges ahead.

I thank select committees for their consideration of my *Draft statement of intent 2011–14* and their thanks for the opportunity to comment.



Lyn Provost
Controller and Auditor-General

5 May 2011

Part 1

Medium-term intentions

Nature and scope of the Auditor-General's functions

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament who carries out her role independent of executive government and Parliament, but is accountable to Parliament for the public resources she uses to do the job.

By law, the Auditor-General is the auditor of all public entities in New Zealand – a total of about 4000 public entities, such as government departments, central agencies, Crown entities, schools, and State-owned enterprises.

All public entities are accountable for their use of public resources and powers. It is the Auditor-General's job to give Parliament and the public independent assurance about how public entities are operating and accounting for their performance.

The role also includes auditing local authorities, which are accountable to the public for the activities they fund through locally raised revenue. As well as annual audits, the Auditor-General audits local authorities' long-term plans, which are prepared every three years.

By carrying out audits and reporting about audit findings, the Auditor-General draws attention to matters of effectiveness and efficiency, waste, probity, and financial prudence. She recommends actions to help improve public sector performance and how performance information is reported to Parliament and the public.

The Public Audit Act 2001 sets out the mandate and responsibilities of the Auditor-General. The Auditor-General's legislative mandate is confined to public entities, in respect of which the Auditor-General:

- must carry out the annual audit requirements of the Public Audit Act 2001 and other statutes (such as the Public Finance Act 1989 and Local Government Act 2002, which set out accountability responsibilities of public entities);
- may carry out other services of a kind that it is reasonable and appropriate for an auditor to perform; and
- may carry out performance audits and inquiries.

Strategic directions and operating intentions

The Auditor-General's vision is to improve the performance of, and the public's trust in, the public sector. In the medium-term, her strategy is to generate greater insight and value from our work by improving our understanding of the public

entities we audit, using the full range of our resources, customising our reporting, and improving the overall capability and engagement of our staff.

We summarise our outcomes, impacts, and outputs in Figure 1. Details of the measures and standards for achieving our outcomes, and how we have performed previously are shown in Figure 2.

Figure 1
Summary of our outcomes, impacts, and outputs



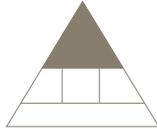
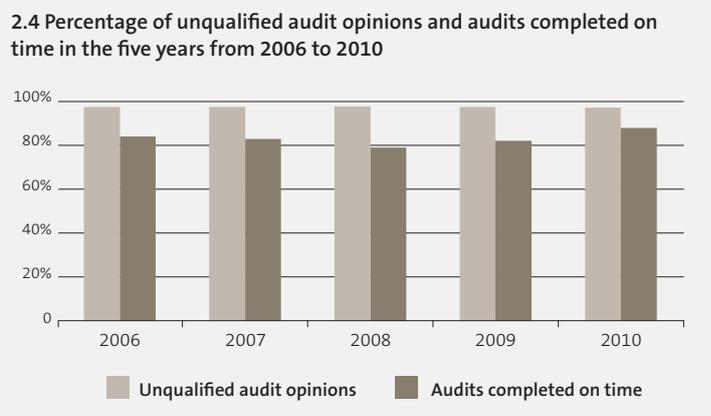


Figure 2
Measures and standards, and previous performance, for achieving our outcomes

Measures and standards	Previous performance
<p>Trusted public sector</p> <p>New Zealand's score on Transparency International's Corruption Perceptions Index is maintained or improved.</p>	<p>2.1 New Zealand's score on the Transparency International Corruption Index for the six years from 2005 to 2010</p> <p>In 2010, New Zealand was rated first equal with Denmark and Singapore. New Zealand has achieved a high place on the index since it started in 1995.</p>
<p>Trusted public sector</p> <p>New Zealand is ranked in the 90th percentile of the Worldwide Governance Indicators.</p>	<p>2.2 New Zealand's ranking in the Worldwide Governance Indicators for the five years from 2006 to 2009</p>
<p>Trusted public sector</p> <p>The State Services Commission's biannual Kiwis Count Survey shows that the public's confidence that public servants do a good job is improved (or at least maintained).</p>	<p>2.3 Kiwis Count Survey results in 2008 and 2010: Public servants do a good job</p>

Appropriately responsible public sector behaviour

Public entities' financial statements fairly reflect their actual results and are publicly available on time.



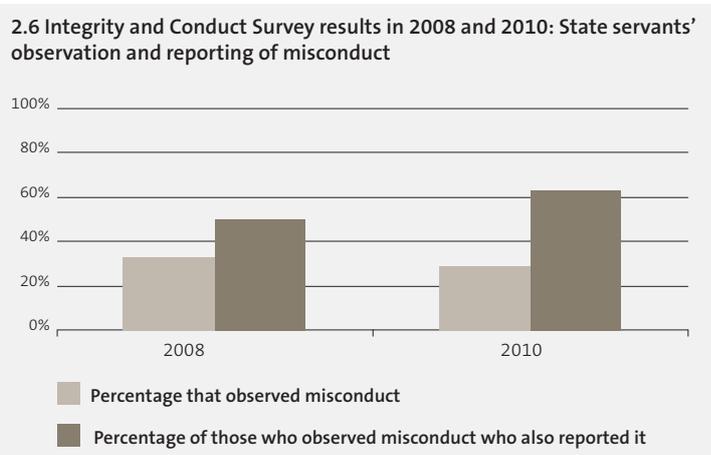
Appropriately responsible public sector behaviour

The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of State servants who reported that State service agencies promote their standards of integrity and conduct.



Appropriately responsible public sector behaviour

The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of State servants who reported that, where they observed misconduct breaches in the past year, they reported it.



<p>High-performing public sector</p> <p>The State Services Commission's biannual Kiwis Count Survey shows improved (or at least maintained) rates of respondents reporting that their most recent public service experience was an example of good value for tax dollars spent.</p>	<p>2.7 Kiwis Count Survey results in 2008 and 2010: Most recent public service experience was an example of good value for tax dollars spent</p> <table border="1"> <caption>2008 and 2010 Survey Results</caption> <thead> <tr> <th>Year</th> <th>Agree</th> <th>Neutral</th> <th>Disagree</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>55%</td> <td>20%</td> <td>25%</td> </tr> <tr> <td>2010</td> <td>65%</td> <td>18%</td> <td>17%</td> </tr> </tbody> </table>	Year	Agree	Neutral	Disagree	2008	55%	20%	25%	2010	65%	18%	17%
Year	Agree	Neutral	Disagree										
2008	55%	20%	25%										
2010	65%	18%	17%										
<p>High-performing public sector</p> <p>The State Services Commission's biannual Kiwis Count Survey shows improved (or at least maintained) rates of public satisfaction with:</p> <ul style="list-style-type: none"> • their most recent public service experience; and • public services experienced in the last year compared with non-government agencies. 	<p>2.8 There were methodology changes in the Kiwis Count Survey between 2008 and 2010, which mean that the results are not directly comparable. However, the results in 2010 confirmed that the public's satisfaction with their most recent public service experience had improved, and that the public's experiences with public services continue to be rated better than experiences with non-government services.</p>												

Managing in a changeable operating environment

The Auditor-General's overview identified external factors that are influencing the Office, that are areas of focus for us to improve the assurance we provide to Parliament and the public, or that are opportunities for public sector improvement. The issues, and our responses to managing them, are:

- **Auckland:** The amalgamation of eight local authorities into one "super" council on 1 November 2010 was a complex exercise with major implications for the whole country, and local government in particular. We have made good progress and will build on that.
- **Performance information:** There are numerous challenges for the Office to implement the Auditor-General's revised auditing standard for auditing

service performance information. During the next two years, we are focusing on carrying out good quality audits of service performance information to underpin our statutory reporting duties and our efforts to add value to the organisations we audit. Our challenges include how we maintain independence and give advice, how we build confidence for this work, and how to report.

- **Good analysis and reporting of sector information:** We have enormous amounts of data and knowledge that we can use much better to inform our audit work and to share with others. We will focus on getting the best from what we know and improving our understanding and reporting of sector themes.
- **Implementing Ministry of Economic Development and External Reporting Board changes:** There is still a lot of work to do to arrive at the right set of financial reporting standards for the public sector in New Zealand. We will focus on making a positive contribution to the work of the Ministry of Economic Development and the External Reporting Board in setting and implementing appropriate standards.
- **Choosing a cross-cutting theme for 2012/13:** We will choose one theme for our audit effort in 2012/13 that we will report on and that will make a lasting difference to the New Zealand public sector.
- ... and, of course, **adding value through our 4000-plus annual audits, inquiries, and performance audits.** Our auditing and assurance work is our core business, and the foundation for our ability to have a positive influence on public sector performance. We will focus on maintaining the underlying quality of all our financial and performance audits and inquiries, and on how to add value to the organisations that we audit. We will also focus on improving our reporting and our supporting communications and relationships.

Strategic risks and risk management

The Auditor-General faces four ongoing strategic risks. These risks are primarily managed through processes that support the work we do, as shown in Figure 3.

Figure 3
Our strategic risks and risk management

Risk	Management
<p>1. 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, her staff, or her appointed auditors to act independently or otherwise, would undermine trust in our organisation.</p>	<p>We manage this risk by applying the Auditor-General’s independence standards. The Auditor-General sets a high standard for independence for her employees and the auditors she appoints to carry out audits on her behalf. Monitoring of the independence standards, including for the two statutory officers and all employees, is carried out through a system that includes regular declarations of interest and, where necessary, implementation of measures to mitigate conflicts of interest.</p>
<p>2. Audit failure – the risk that we issue an incorrect audit opinion with material effect, or a report that is significantly wrong in nature or process.</p>	<p>The Auditor-General adheres to professional auditing standards, including implementing and complying with the revised quality control standards from the New Zealand Institute of Chartered Accountants, supplemented by the Auditor-General’s auditing standards to address public sector matters where general auditing standards are not relevant or appropriate.</p> <p>We monitor adherence to these standards through external quality assurance regimes (such as participating in New Zealand Institute of Chartered Accountants’ practice reviews and international peer reviews from time to time). We also commission an annual independent evaluation of our audit allocation and fee-monitoring processes, an independent external review of two performance audits each year, and stakeholder feedback studies. Our internal peer review and substantiation procedures include carrying out quality assurance reviews of all our appointed auditors and our Office products on a basis of risk and at least every three years.</p> <p>A range of audit opinion and consistency review processes are used to confirm audit team conclusions where non-standard audit opinions are proposed, or changes to audit standards and work are being introduced. Before performance audits are presented to Parliament, a process of external report clearance and internal substantiation and review occurs.</p>
<p>3. Loss of capability – the risk that we are unable to retain, recruit, or access people with the technical and other skills our audit work requires.</p>	<p>Ongoing training and development of our staff and our appointed auditors and their staff is carried out, including management programmes, leadership development initiatives, and professional development programmes.</p>

4. Loss of reputation – the risk that we lose reputation or credibility that affects our ability to maintain effective relationships with stakeholders. This could arise either because of failings in one of the three areas above or because of external expectations and perceptions about the role of the Office or its findings on any particular matter that has been the subject of audit scrutiny. The Auditor-General’s discretionary mandate is broad, and it is inevitable that we will not meet all expectations.

Managing this risk requires the exercise of judgement about where to focus our audit effort and how best to report while also achieving the greatest likelihood of public sector improvement. There are a number of ways this risk is managed in our day-to-day work. The combined leadership team of the Office meets on a regular basis to discuss issues and feedback from key stakeholders and public entities on our audit work. Senior staff liaise with public entities and key stakeholders, and we carry out regular stakeholder and client feedback surveys as well as media monitoring to identify where the Office could communicate more effectively about its role and the results of its audit work.

Part 2

Organisational health and capability

To ensure that we can achieve our outcomes, impacts, and outputs, we need a strong foundation of skilled people working together in a well-run organisation.

The organisation

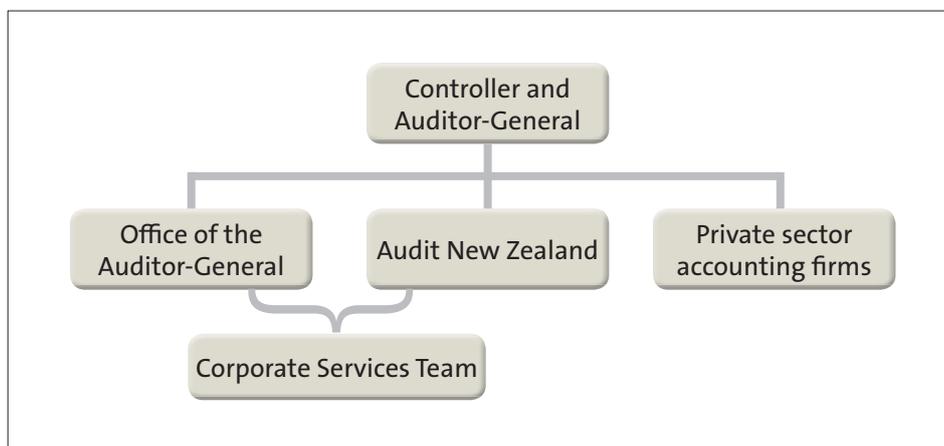
The work of the Auditor-General is carried out by about 350 staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand, supported by a shared team of corporate services staff – and by auditors contracted from about 60 private sector accounting firms.

The OAG carries out strategic 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 larger of the two business units. It carries out annual audits allocated by the Auditor-General, and operates from seven locations around the country. It also provides other assurance services to public entities within the Auditor-General's mandate and in keeping with the Auditor-General's auditing standard on the independence of auditors.

Figure 4 shows how all these parts fit together in our operating model.

Figure 4
Our operating model



Our core expertise is in auditing and public governance and management. Underlying this expertise are our technical skills (for example, in accounting and auditing) and the exercise of our professional judgement. We are able to apply this by:

- listening to, and knowing about, the public entities we audit, our stakeholders, and the public sector so that we understand their expectations and the context for our work, and know the effect of our work; and
- building our individual and collective expertise, experience, and judgement so that we can strengthen our contribution to improving public sector performance.

Our people

After a period of employment stability during the global recession, we are beginning to experience higher turnover of staff and the return to an environment where our people and their skills are in high demand among domestic and overseas organisations. We will continue to work on our staff-retention activities, but also expect to increase recruitment of experienced staff from within New Zealand and overseas.

We use a number of indicators to measure the engagement, capability, and effectiveness of our people. Many of these indicators come from surveys of public entities we have audited and surveys of our staff. We aim to improve or at least maintain these results during the next three years. We summarise our measures and standards for organisational health and capability in Figure 5, and show details with our previous performance in Figure 6.

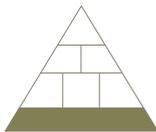


Figure 5
Summary of measures and standards for organisational health and capability

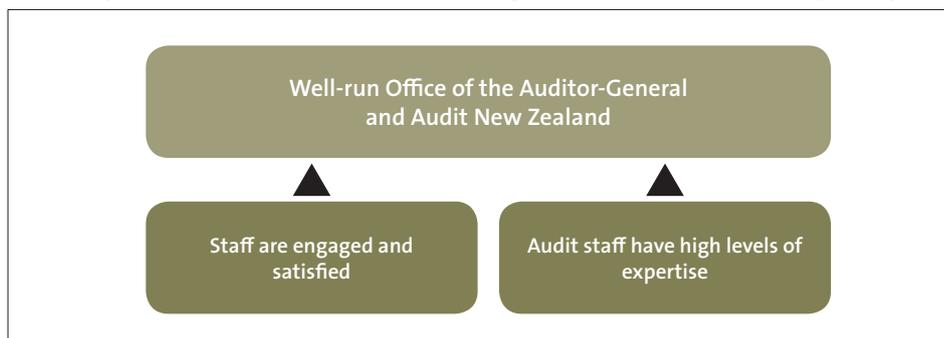
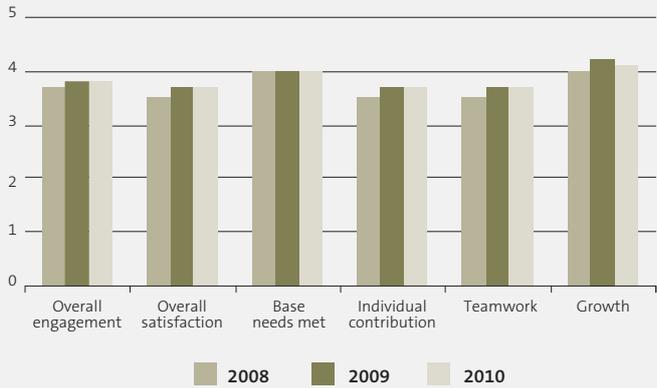
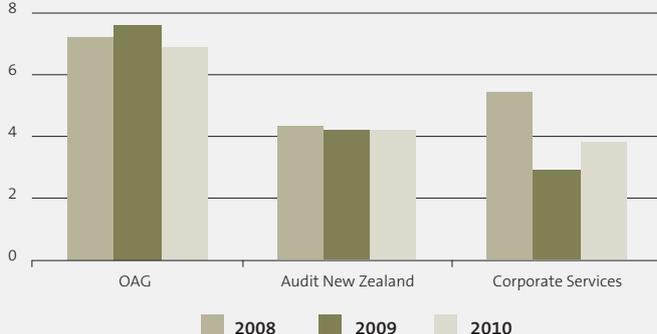
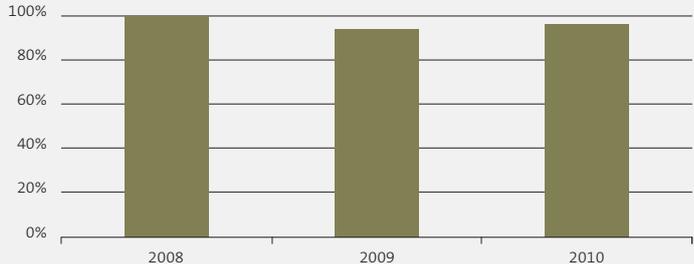


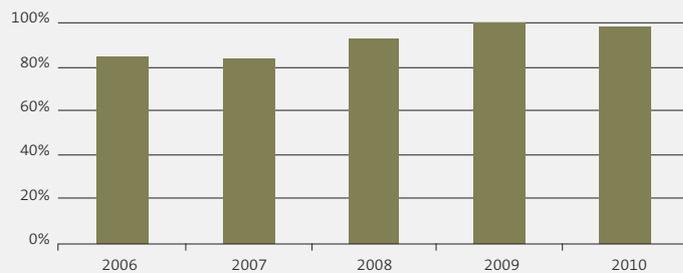
Figure 6
Measures and standards, and previous performance, for organisational health and capability

Measures and standards	Previous performance																												
<p>Staff are engaged and satisfied</p> <p>Improve (or at least maintain) the engagement and satisfaction of our staff measured against the previous two years.</p>	<p>6.1 Gallup survey's staff engagement scores in 2008, 2009, and 2010</p>  <table border="1"> <caption>Data for Figure 6.1: Gallup survey's staff engagement scores</caption> <thead> <tr> <th>Category</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Overall engagement</td> <td>3.6</td> <td>3.7</td> <td>3.7</td> </tr> <tr> <td>Overall satisfaction</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Base needs met</td> <td>3.9</td> <td>3.9</td> <td>3.9</td> </tr> <tr> <td>Individual contribution</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Teamwork</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Growth</td> <td>3.9</td> <td>4.1</td> <td>4.0</td> </tr> </tbody> </table>	Category	2008	2009	2010	Overall engagement	3.6	3.7	3.7	Overall satisfaction	3.4	3.6	3.6	Base needs met	3.9	3.9	3.9	Individual contribution	3.4	3.6	3.6	Teamwork	3.4	3.6	3.6	Growth	3.9	4.1	4.0
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Growth	3.9	4.1	4.0																										
<p>Staff are engaged and satisfied</p> <p>Improve (or at least maintain) the average number of years staff have been employed by the organisation as measured against the previous two years.</p>	<p>6.2 Average number of years staff have been employed by the organisation in 2008, 2009, and 2010</p>  <table border="1"> <caption>Data for Figure 6.2: Average number of years staff have been employed</caption> <thead> <tr> <th>Department</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>OAG</td> <td>7.0</td> <td>7.4</td> <td>6.7</td> </tr> <tr> <td>Audit New Zealand</td> <td>4.2</td> <td>4.1</td> <td>4.1</td> </tr> <tr> <td>Corporate Services</td> <td>5.3</td> <td>2.8</td> <td>3.7</td> </tr> </tbody> </table>	Department	2008	2009	2010	OAG	7.0	7.4	6.7	Audit New Zealand	4.2	4.1	4.1	Corporate Services	5.3	2.8	3.7												
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<p>Audit staff have high levels of expertise</p> <p>At least 95% of staff undertaking accreditation for the New Zealand Institute of Chartered Accountants (NZICA) pass their exams.</p>	<p>6.3 Percentage of staff passing NZICA accreditation exams in 2008, 2009, and 2010</p>  <table border="1"> <caption>Data for Figure 6.3: Percentage of staff passing NZICA accreditation exams</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>95%</td> </tr> <tr> <td>2009</td> <td>90%</td> </tr> <tr> <td>2010</td> <td>92%</td> </tr> </tbody> </table>	Year	Percentage	2008	95%	2009	90%	2010	92%																				
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Audit staff have high levels of expertise

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.

6.4 Percentage of auditors achieving a satisfactory or better grade from quality assurance review for the five years from 2006 to 2010



6.5 Audit staff have high levels of expertise: Listening, understanding, and exercising judgement

Client survey feedback shows that auditors' knowledge about the business and operating context of public entities is improving, and that auditors are investing in work to understand that context. Our public entity clients give us improved (or at least maintained) ratings compared with the previous two years for how well their auditors:

- understand the client's business and the risks that clients face;
- demonstrate the general skills and knowledge required to conduct their audit; and
- provide useful insights into the client's business and promotes improvement in the business.

This was a new measure in 2010/11.

6.6 Audit staff have high levels of expertise: Auditing performance information

Our quality assurance reviews of our audit and assurance work confirms that auditors are carrying out their requirements for performance information in keeping with the Auditor-General's Auditing Standards and our attestation that performance statements fairly reflect the achievements of the entity.

This was a new measure in 2010/11.

Equal employment opportunities

The Office's programme for addressing equal employment opportunities is through its recruitment and employment policies. The principles of equal opportunity are embedded in the Office's policies and procedures. In particular, our recruitment programme aims to attract and appoint the best people, who have the appropriate skills, values, and attributes to meet the Office's needs, objectives, and strategic direction. We recruit in a manner that provides equal employment opportunity to Māori, women, ethnic or minority groups, and people with disabilities.

Recruitment and employment decisions and practices (such as feedback from exit interviews) are monitored to confirm application of policies. Managers are made aware of, and given support to fulfil, our good employer obligations through specific programmes and courses and one-on-one coaching.

Our staff profile shows a good level of diversity, which we expect to maintain during the next three years.

Business practices

We have an extensive quality assurance programme for all our outputs and services. This programme indicates an acceptable level of quality. Nevertheless, we continue to work on improving this.

Our internal audit function has, in the past, been contracted to an external firm with an annual internal audit programme agreed with our independent Audit and Risk Committee. We will review this internal audit arrangement for 2011/12 to ensure that it best meets the needs of the Office and the Audit and Risk Committee.

Facilities and equipment

In 2010/11, we made progress on addressing our long-term property needs, and have presented a business case for consideration by the Officers of Parliament Committee. We anticipate meeting our objective of co-locating our OAG and Audit New Zealand Wellington staff by 2013.

We rely on information technology to complete our work. To ensure an effective, efficient, and customer-focused service, our audit staff working in the field use specialist auditing and remote access and communications tools. In the OAG, the audit status database system is used to manage the allocation, tracking, and reporting of audits. We plan to maintain and enhance these systems during the next three years.

Part 3

Forecast statement of service performance for each of the three years 2011/12, 2012/13, and 2013/14

Output class: Audit and assurance services

The main purpose of an annual audit is to provide independent assurance about the fair disclosure of the financial – and, in many instances, non-financial – information within annual reports. An audit involves a range of procedures, tests, and management and governance enquiries to support our audit opinion.

In carrying out annual audits, auditors consider the legislative audit mandate. They may also recommend improvements in matters of effectiveness and efficiency, waste, probity, and financial prudence in management letters to the governors and managers of public entities. We also use our annual audits to gather information and knowledge about public entities to assist us in advising Parliament and other stakeholders, and to help determine the work we do in our performance audits, inquiries, and good practice guides.

In 2009/10, annual audits and other assurance services accounted for 87% of our total expenditure. Most of the output class relates to annual audits for public entities. The annual audits are required by statute.

Types of annual audit reporting

The **audit report** is one of the reports from the annual audit process and is addressed to the readers of the financial statements and (where applicable) the statement of service performance. It provides the auditor's independent opinion (the audit opinion) on whether the financial statements (and, where applicable, the performance information) fairly reflect the public entity's performance and financial position. If the financial statements fairly reflect the public entity's financial performance and position (and, where applicable, performance information), the auditor issues an audit report with an unqualified opinion. However, if the auditor identifies a material error or omission in the financial statements or performance information, the auditor issues an audit report with a qualified opinion.

The **management report** is addressed to the governing body or the senior management of public entities. It sets out any significant issues identified by the auditor during the audit and provides recommendations for improving the public entity's controls, systems, and processes.

If the public entity is subject to financial review by select committees, we report the results of its annual audit to responsible Ministers and select committees. The financial review report includes a grading for public entities, based on our

assessment of their management control environment and financial and service performance (where required), systems, and controls.

Our focus

In the next year, within our annual audit and assurance work, we will be focusing on:

- **Implementing Ministry of Economic Development and External Reporting Board changes** – We will continue to focus on making a positive contribution to the work of the Ministry of Economic Development and the External Reporting Board in setting and implementing accounting and auditing standards. We will also consider the implications of auditor regulation, which is being introduced under changes to the Financial Reporting Act 1993 (the Act). In the public sector, auditor regulation relates only to issuers, which are legal entities that develop, register, and sell securities for the purpose of financing their operations. A number of public entities are issuers under the Act.
- **Performance information** – We are phasing in the Auditor-General's revised auditing standard on reporting performance information during the three financial years ending 30 June 2011 to 30 June 2013. With the Treasury, we are working directly with public entities during the three years to enable auditors to apply the revised auditing standard to audits of performance information for the year ending 30 June 2013.
- **Sharing sector knowledge** – We will continue with our initiative to share knowledge within the organisation. The initiative consolidates and expands on our previous work to help us better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. We expect the initiative to extend our ability to be flexible, agile, and adaptive.

The Vote estimate for the Audit and assurance services output class in 2011/12 is \$71.601 million.

Our impacts and outputs for Audit and assurance services are summarised in Figure 7. Details of our measures and standards for this output class, and our previous performance, are shown in Figure 8.



Figure 7
Summary of impacts and outputs for Audit and assurance services

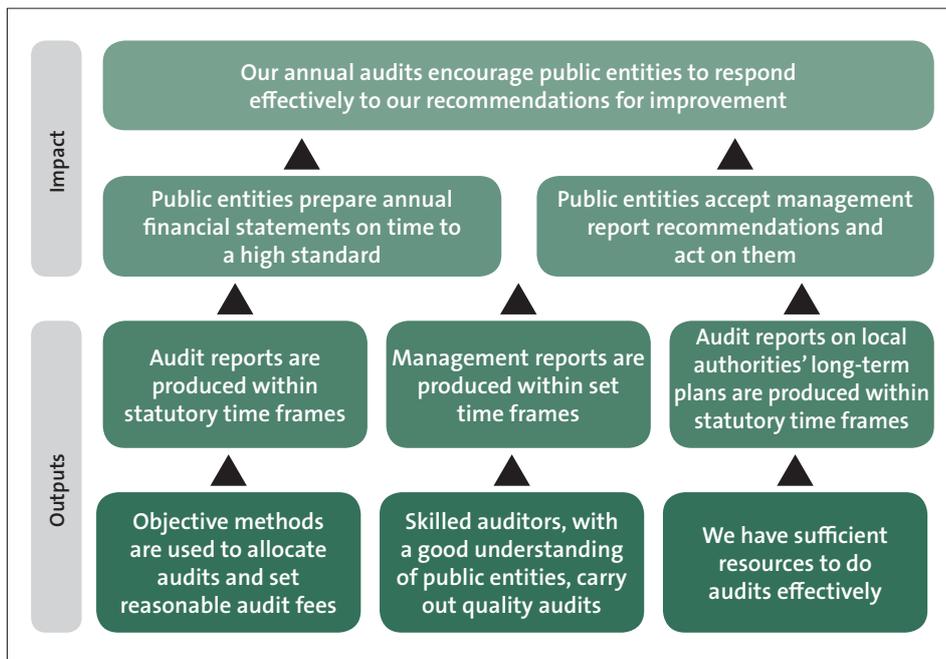
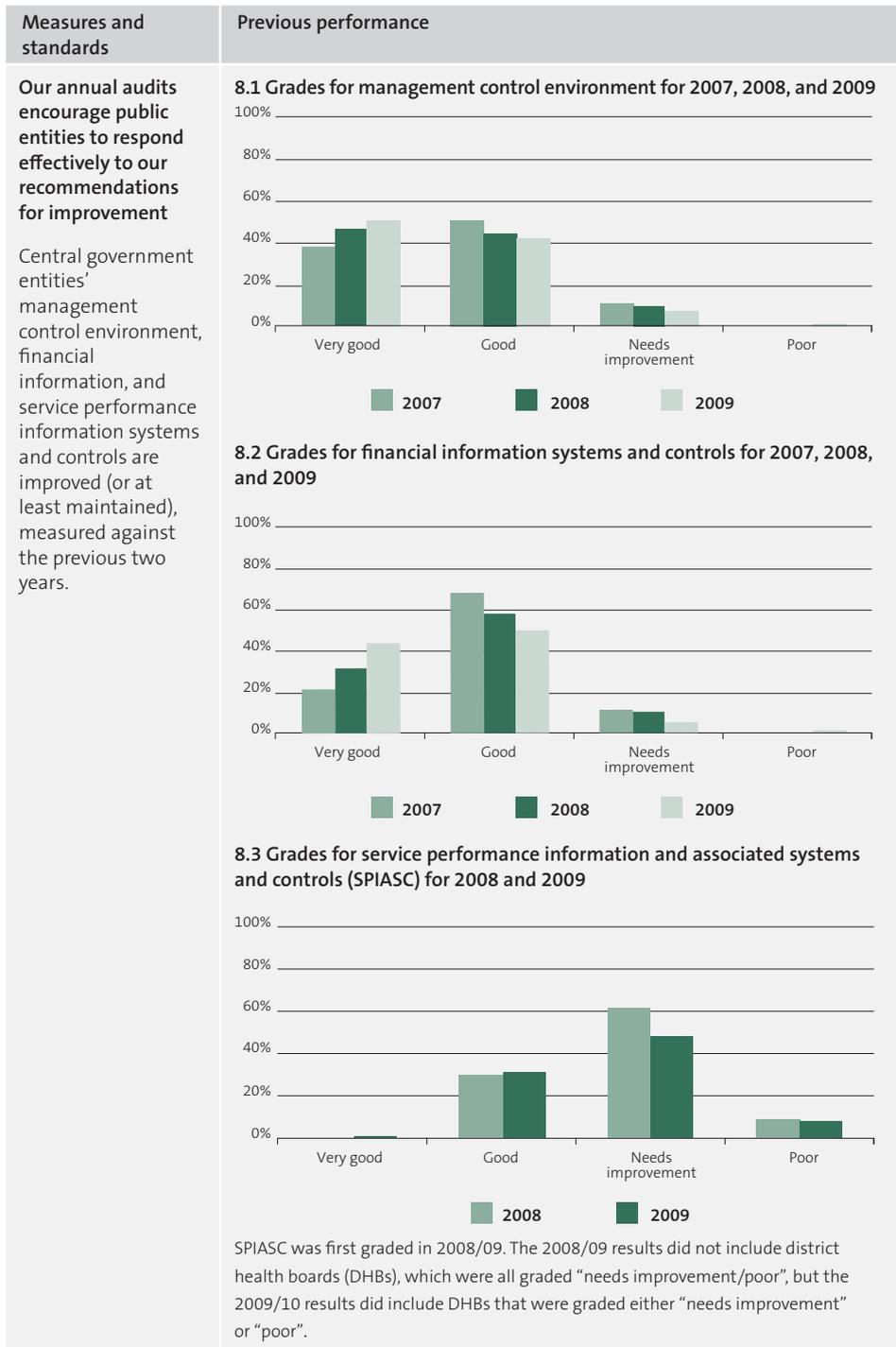
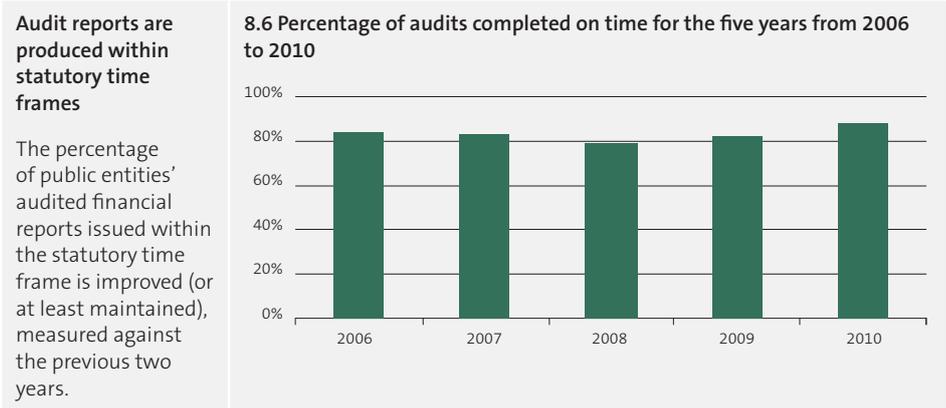
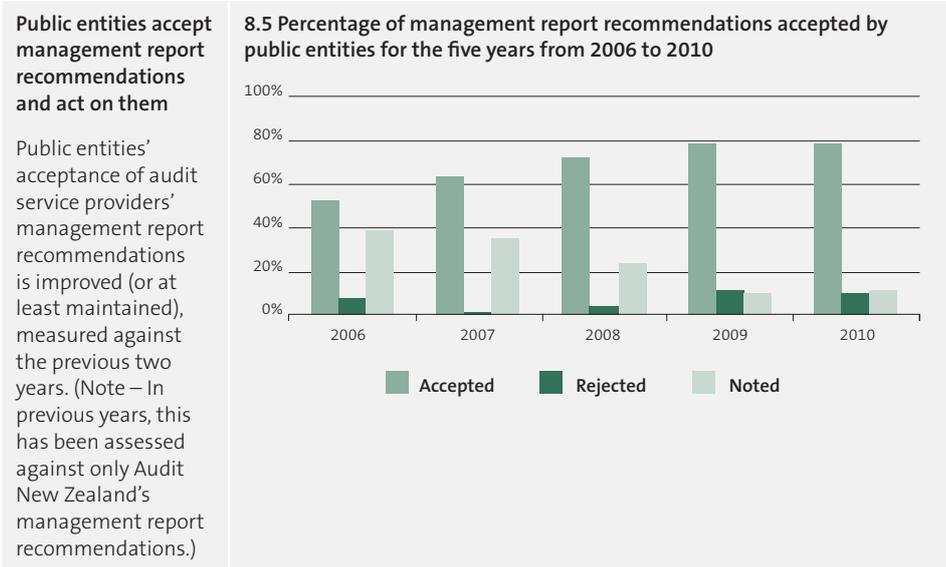
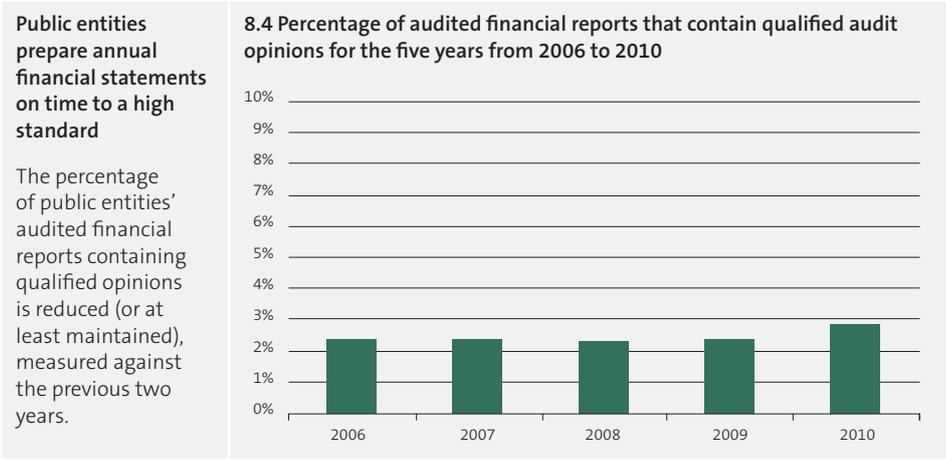


Figure 8
Impact and output measures and standards, and previous performance, for Audit and assurance services





<p>Audit reports are produced within statutory time frames</p> <p>Less than 30% of the outstanding audit reports at 30 June 2010 are because of inaction on our part.</p>	<p>8.7 Percentage of outstanding audit reports at 30 June because of our inaction for the four years from 2007 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>48%</td> </tr> <tr> <td>2008</td> <td>52%</td> </tr> <tr> <td>2009</td> <td>48%</td> </tr> <tr> <td>2010</td> <td>45%</td> </tr> </tbody> </table>	Year	Percentage	2007	48%	2008	52%	2009	48%	2010	45%		
Year	Percentage												
2007	48%												
2008	52%												
2009	48%												
2010	45%												
<p>Management reports are produced within set time frames</p> <p>All management reports are issued within six weeks of issuing the audit report.</p>	<p>8.8 Percentage of management reports issued within six weeks for the five years from 2006 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>92%</td> </tr> <tr> <td>2007</td> <td>92%</td> </tr> <tr> <td>2008</td> <td>90%</td> </tr> <tr> <td>2009</td> <td>90%</td> </tr> <tr> <td>2010</td> <td>92%</td> </tr> </tbody> </table>	Year	Percentage	2006	92%	2007	92%	2008	90%	2009	90%	2010	92%
Year	Percentage												
2006	92%												
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<p>Audit reports on local authorities' long-term plans are produced within statutory time frames</p> <p>No outstanding long-term plan (LTP) audit opinions at 30 June of the year in which LTPs are to be adopted by local authorities are because of inaction on our part.</p>	<p>8.9 Long-term plan audits are carried out on a three-yearly basis. In 2009, there were no outstanding audit opinions at 30 June as a result of inaction on our part.</p>												
<p>Audit reports on local authorities' long-term plans are produced within statutory time frames</p> <p>All LTP management reports are issued within six weeks of issuing the LTP audit opinion.</p>	<p>8.10 Long-term plan audits are carried out on a three-yearly basis. In 2009, 85% of management reports were issued within six weeks of issuing the audit opinion.</p>												

Objective methods are used to allocate audits and set reasonable audit fees

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.

8.11 Results from years 2005/06 to 2009/10 – An annual review was carried out and confirmation provided.

Skilled auditors, with a good understanding of public entities, carry out quality audits

Client satisfaction survey results show that, overall, 75% of respondents are satisfied with the quality of audit work (including the expertise of staff and the quality of the public entity's relationship with their audit service provider).

8.12 Percentage of clients satisfied with the quality of audit work for the five years from 2006 to 2010

Year	Percentage of clients satisfied
2006	72%
2007	65%
2008	72%
2009	78%
2010	80%

Skilled auditors, with a good understanding of public entities, carry out quality audits

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 grade of satisfactory or better.

8.13 Percentage of auditors achieving a grade of satisfactory or better from quality assurance reviews for the five years from 2006 to 2010

Year	Percentage of auditors achieving a grade of satisfactory or better
2006	82%
2007	81%
2008	91%
2009	98%
2010	96%

<p>We have sufficient resources to do audits effectively</p> <p>The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.</p>	<p>8.14 Results: 2009 – A request for an increase in appropriation of \$50,000 for audits of smaller entities was not accepted by the Officers of Parliament Committee.</p> <p>2008 and 2010 – No significant proposal made for an appropriation increase in audit fees and expenses.</p>
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Output class: Supporting accountability to Parliament

Parliamentary services

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 Offices of Parliament, State-owned enterprises, and some 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.

We also provide advice and assistance through:

- reports to Parliament and other constituencies on matters arising from our annual audits (including at least two reports to Parliament on the results of our audits in central and local government);
- 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; and
- working with Auditors-General in other countries to encourage, promote, and advance capability and co-operation in the field of public audit. This includes our role as Secretariat of the Pacific Association of Supreme Audit Institutions, being a member of various committees of the International Organisation of Supreme Audit Institutions, and being executing agent for the Pacific Regional Audit Initiative (funded by the Asian Development Bank, with co-financing from the Japan Special Fund and the Governments of New Zealand and Australia).

The Controller function

The Controller function of the Controller and Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of government 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 OAG and appointed auditors carry out standard procedures to give effect to the Controller function in keeping with the Auditor-General's auditing standards and a Memorandum of Understanding with the Treasury. This involves reviewing 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.

Our focus

In Supporting accountability to Parliament, in 2011/12, we are focusing on:

- **Performance information** – We are providing advice to parliamentary select committees on how to use performance information from Government departments and Crown entities to assess and enquire into effectiveness and efficiency, particularly in a cost-constrained environment. We are also liaising with Government departments and Crown entities to help them improve their performance information and using it to consider effectiveness and efficiency.
- **Sharing sector knowledge** – We are focusing on how to better use and present information about sectors within the public sector to Parliament, select committees, and public entities.

The Vote estimate for the Supporting accountability to Parliament output class in 2011/12 is \$2.860 million.

Our impacts and outputs for Supporting accountability to Parliament are summarised in Figure 9. Details of our measures and standards, and our previous performance, for this output class are shown in Figure 10.

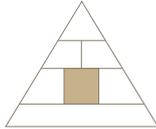


Figure 9
Summary of impacts and outputs for Supporting accountability to Parliament

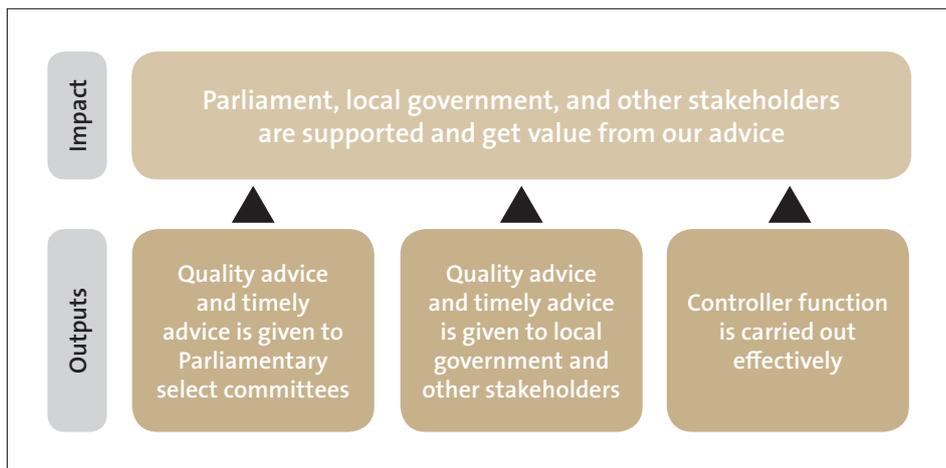
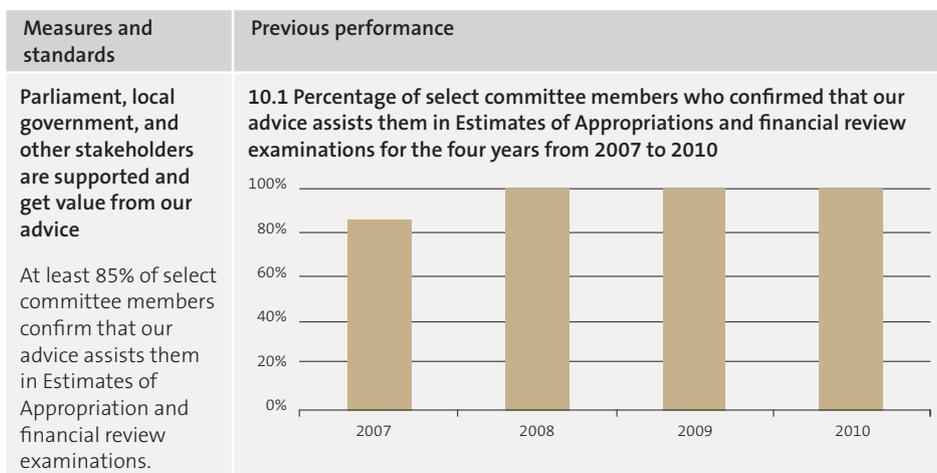
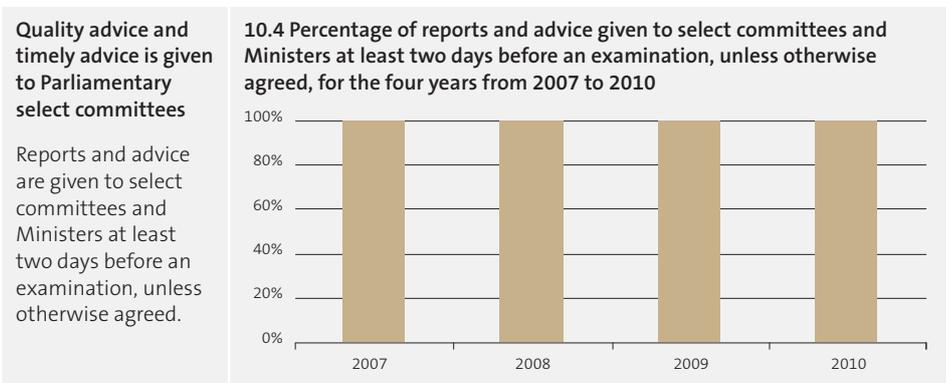
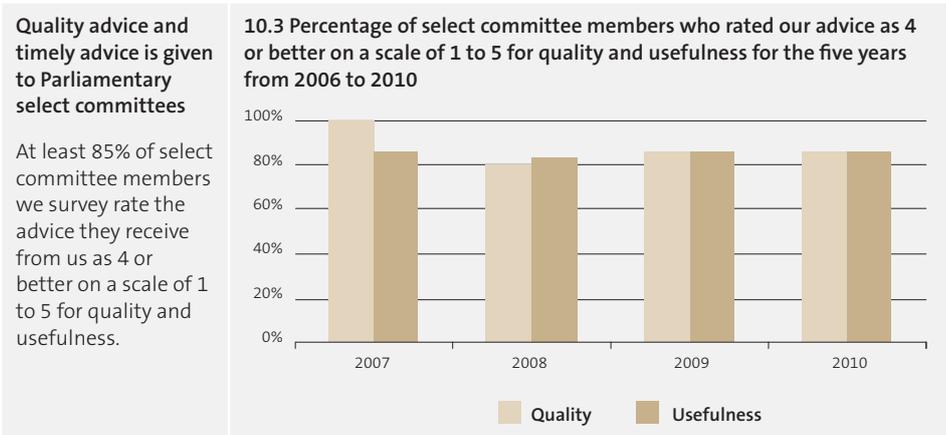
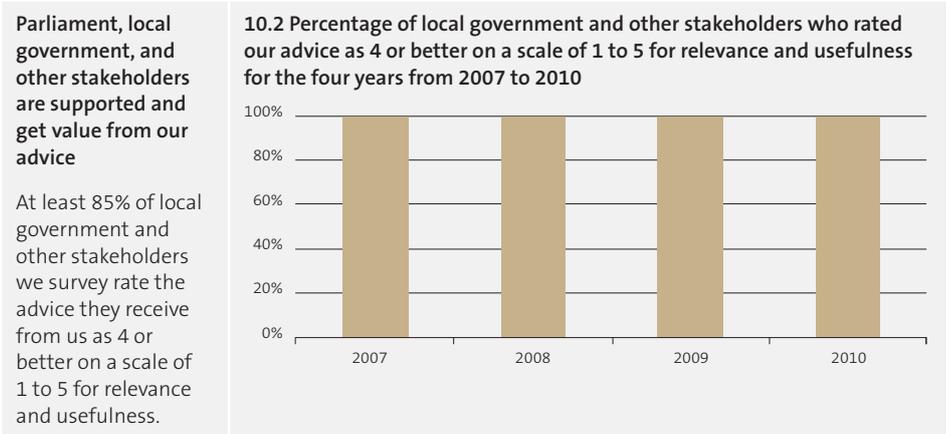


Figure 10
Impact and output measures and standards, and previous performance, for Supporting accountability to Parliament





<p>Quality advice and timely advice is given to Parliamentary select committees</p> <p>An internal review of a sample of financial review, Estimates of Appropriations, and Ministerial reports confirms that they meet relevant standards and procedures, including that reports are consistent in their framework and approach and are peer reviewed in draft.</p>	<p>10.5 Results: 2009 and 2010 – There was no internal review in these years. 2008 – Confirmed internal review of a sample of reports. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>
<p>Controller function is carried out effectively</p> <p>Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards for the Controller function have been applied effectively.</p>	<p>10.6 Results: 2008/09 – An internal review was carried out in May 2009, which confirmed that the central work carried out was consistent with the Memorandum of Understanding and that the monthly processes operated effectively. There was considerable improvement in the appropriation audit approach and documentation to demonstrate compliance with the Auditor-General’s auditing standard AG-2. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>
<p>Controller function is carried out effectively</p> <p>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.</p>	<p>10.7 Results: 2006-10 – All monthly procedures have been followed and agreed time frames achieved.</p>

Output class: Performance audits and inquiries

The Public Audit Act 2001 provides the Auditor-General discretion to carry out performance audits to look at:

- the extent to which activities are carried out effectively and efficiently;
- compliance with statutory obligations;
- any acts or omissions to determine whether waste has resulted or may result; and/or
- any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or its members, office holders, or employees.

Each year, we usually publish 19 to 21 reports on performance audits, inquiries, and good practice guides. We also publish reports on the results of annual audits for the central and local government sectors.

The Act also gives the Auditor-General the ability to inquire into a public entity's use of its resources.

Our inquiry work is largely reactive to issues of public concern. Each year, we usually receive:

- 200 to 300 external requests for inquiries; and
- 50 to 100 enquiries under the Local Authorities (Members' Interests) Act 1968.

The Auditor-General must also respond to requests for approvals about pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act.

Our performance audit and inquiry work allows the Auditor-General to consider and provide advice about the above matters in greater depth than is appropriate within the statutory scope of an annual audit.

Our focus

Within our performance audit and inquiry work, we will be focusing on:

- Choosing a cross-cutting theme for 2012/13: We will carry out consultation and work programme development in 2011/12 to choose the theme for our audit effort in 2012/13. Our aim is for this work to make a lasting difference to the New Zealand public sector.
- Performance information: We will continue to prepare and publish better practice examples during 2010–13 and will look to prepare a performance audit report that demonstrates the uses and usefulness of external performance information.

The Vote estimate for the Performance audits and inquiries output class in 2011/12 is \$6.587 million.

Our impacts and outputs for Performance audits and inquiries are summarised in Figure 11. Details of our measures and standards, and our previous performance, for this output class are shown in Figure 12.

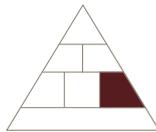


Figure 11
Summary of impacts and outputs for Performance audits and inquiries

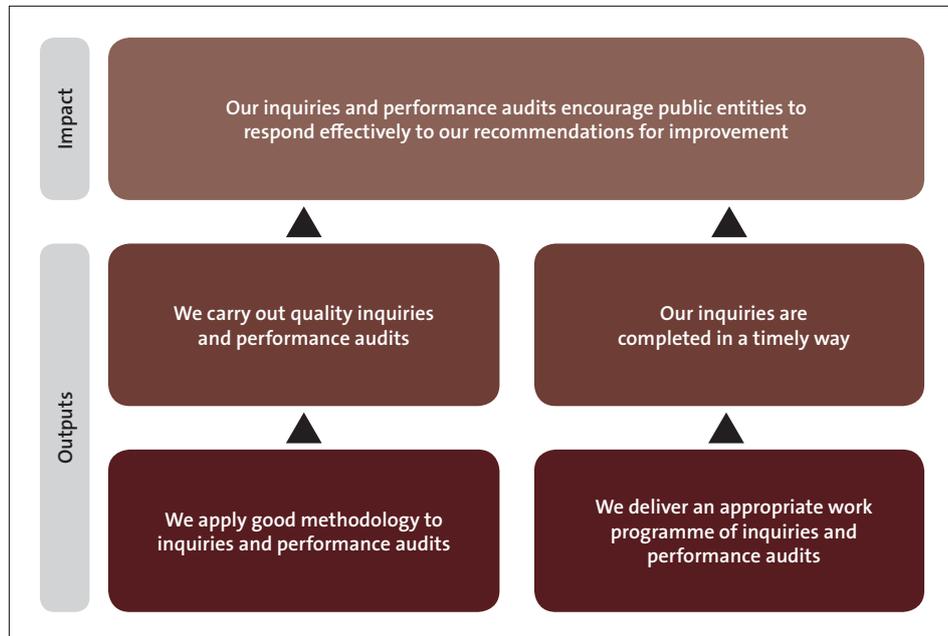


Figure 12
Impact and output measures and standards, and previous performance, for
Performance audits and inquiries

Measures and standards	Previous performance
<p>Our inquiries and performance audits encourage public entities to respond effectively to our recommendations for improvement</p> <p>Public entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of performance audit reports published in the previous year. The results are presented to the Officers of Parliament Committee in our annual follow-up report.</p>	<p>12.1 Results: A selection of our performance audit reports was reviewed each year from 2006 to 2010, and the results were presented to the Officers of Parliament Committee. The reviews concluded that our recommendations had been accepted by the relevant public entities and either had been implemented or were being implemented.</p>
<p>Our inquiries and performance audits encourage public entities to respond effectively to our recommendations for improvement</p> <p>Public entities take action in response to concerns identified in inquiry reports, as assessed by follow-up on a sample of sensitive and major inquiries carried out in the previous year.</p>	<p>12.2 Results: 2010 – We followed up on four of our 13 inquiries within these categories from the previous year that contained recommendations or suggestions for action. There was a high acceptance of our views and comments, which were contributing to significant change.</p> <p>2009 – We followed up on four of the 11 inquiries within these categories from the previous year that contained recommendations or suggestions for action. In all instances, we were satisfied with the action taken.</p> <p>2008 – We followed up on the one sensitive inquiry that was carried out in 2006/07 (there were no major inquiries). The entity has taken positive steps to address the comments we made.</p>

We carry out quality inquiries and performance audits

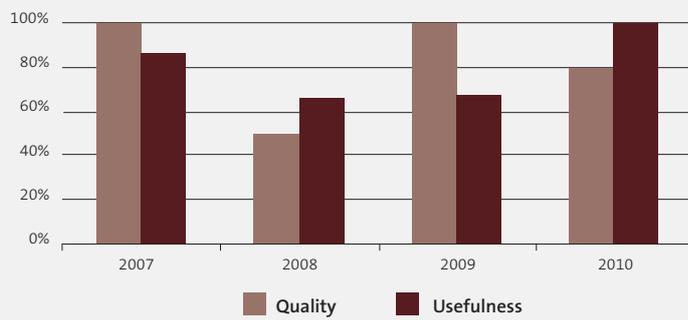
An independent review of two performance audits each year confirms the quality of the reports in terms of the presentation of administrative and management context, report structure, presentation, and format (including use of graphics and statistics), and the reasonableness of the methodology used and the resulting conclusions and recommendations.

12.3 Results: 2007 to 2010 – Independent reviews of two performance audits confirmed the quality of reports and provided feedback on areas for us to improve.

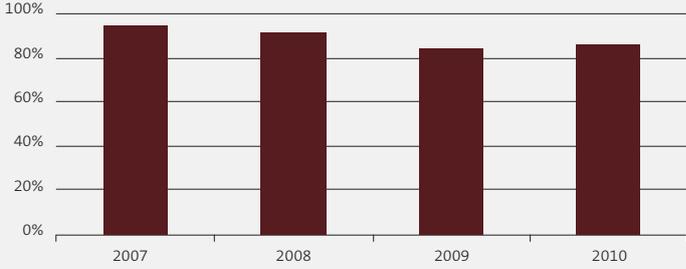
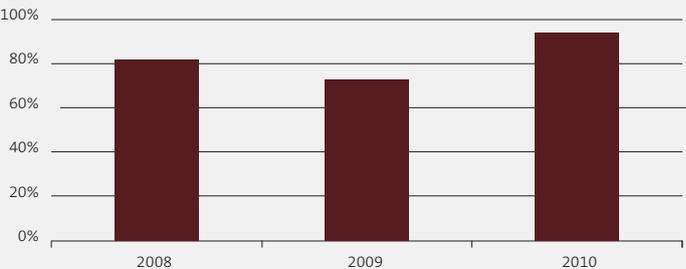
We carry out quality inquiries and performance audits

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

12.4 Percentage of select committee, local government, and other stakeholders who are satisfied with the quality and usefulness of our performance audit reports for the four years from 2007 to 2010



<p>We carry out quality inquiries and performance audits</p> <p>Responses to requests for inquiries and our administering of the Local Authorities (Members' Interests) Act 1968 requests are in keeping with relevant policies, procedures, and standards, as confirmed by internal quality assurance review.</p>	<p>12.5 A review was completed in 2010/11 and confirmed that responses to requests were made in keeping with relevant policies, procedures, and standards.</p> <p>No review of our inquiries was undertaken in 2008/09 or 2009/10.</p> <p>A review was completed in 2007/08 and confirmed that responses to requests were made in keeping with relevant policies, procedures, and standards.</p> <p>(The nature, extent, and frequency of the quality assurance review are determined based on risk. The review is carried out during a three-year period.)</p>
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<p>Our inquiries are completed in a timely way</p> <p>80% of our findings on inquiries are reported to the relevant parties within:</p> <ul style="list-style-type: none"> • three months for routine inquiries; • six months for sensitive inquiries (new measure in 2008); and • 12 months for major inquiries (new measure in 2008). 	<p>12.6 Percentage of findings on routine inquiries reported to relevant parties within three months for the four years from 2007 to 2010</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>90%</td> </tr> <tr> <td>2008</td> <td>88%</td> </tr> <tr> <td>2009</td> <td>82%</td> </tr> <tr> <td>2010</td> <td>83%</td> </tr> </tbody> </table> <p>12.7 Percentage of findings on sensitive inquiries reported to the relevant parties within six months for the three years from 2008 to 2010</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>80%</td> </tr> <tr> <td>2009</td> <td>70%</td> </tr> <tr> <td>2010</td> <td>90%</td> </tr> </tbody> </table> <p>Results for major inquiries: 2008 – No major inquiries were carried out. 2009 – Two major inquiries; both reported within 13 months. 2010 – Five major inquiries; four reported within 12 months.</p>	Year	Percentage	2007	90%	2008	88%	2009	82%	2010	83%	Year	Percentage	2008	80%	2009	70%	2010	90%
Year	Percentage																		
2007	90%																		
2008	88%																		
2009	82%																		
2010	83%																		
Year	Percentage																		
2008	80%																		
2009	70%																		
2010	90%																		

<p>Our inquiries are completed in a timely way</p> <p>For enquiries under the Local Authorities (Members' Interests) Act 1968, we complete 80% of enquiries within 30 working days.</p>	<p>12.8 Percentage of enquiries under the Local Authorities (Members' Interests) Act 1968 completed within 30 working days for the five years from 2006 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>80%</td> </tr> <tr> <td>2007</td> <td>80%</td> </tr> <tr> <td>2008</td> <td>90%</td> </tr> <tr> <td>2009</td> <td>80%</td> </tr> <tr> <td>2010</td> <td>80%</td> </tr> </tbody> </table>	Year	Percentage	2006	80%	2007	80%	2008	90%	2009	80%	2010	80%
Year	Percentage												
2006	80%												
2007	80%												
2008	90%												
2009	80%												
2010	80%												
<p>We apply good methodology to inquiries and performance audits</p> <p>Our performance audit methodology reflects good practice for carrying out such audits, as assessed every second year by the Australian National Audit Office.</p>	<p>12.9 Results: 2008/09 – The Australian National Audit Office reviewed two performance audits and confirmed areas in which the quality of our reports is strong and areas for us to improve.</p> <p>2006/07 – The Australian National Audit Office reviewed two performance audits and endorsed the quality of the reports.</p>												
<p>We apply good methodology to inquiries and performance audits</p> <p>Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology.</p>	<p>12.10 There was no internal review in 2008/09 or 2009/10.</p> <p>Internal review in 2007/08 confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.</p> <p>(The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>												

We deliver an appropriate work programme of inquiries and performance audits

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

12.11 Results 2006-10: Feedback received from select committees and other stakeholders mainly supported our proposals and approach.

Part 4

Forecast financial statements for 2011/12

The Controller and Auditor-General's forecast financial statements have been prepared in accordance with sections 38, 41(1), and 45G of the Public Finance Act 1989 and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Controller and 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 Controller and Auditor-General reasonably expects to occur, associated with the actions she 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 47-62 have been compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Controller and Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Controller and 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 audits of local authorities' long-term plans will be carried out in 2011/12, which affects both our revenue and our expense expectations.
- 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 Controller and Auditor-General will continue to use audit expertise from Audit New Zealand and private sector accounting firms.

These assumptions are adopted as at 30 March 2011.

Statement of accounting policies

Reporting entity

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

The Controller and Auditor-General's activities include work carried out by the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office"), and contracted audit service providers. The Office has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Measurement base

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

Statement of compliance

This Statement of Intent complies with Financial Reporting Standard No. 42: *Prospective Financial Statements*.

The forecast financial statements for 2011/12 comply with the applicable financial reporting standards, which include NZ IFRS and other applicable financial reporting standards, as for a public benefit entity.

Changes in accounting policies

There have been no changes from the accounting policies adopted in the last audited financial statements.

Accounting policies

Income

Income is measured at the fair value of the consideration received. Income 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.

Crown funding is recognised in the period to which it relates.

Fee revenue generated by the Office for audit and assurance services is recognised as the work progresses and time is allocated within work in progress to public entities.

Income of audit service providers

Fee revenue generated by contracted audit service providers for audits of public entities 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.

Expenditure

Expenses of audit service providers

Fees for audits of public entities carried out by 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.

Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year.

Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. All leases entered into by the Office are operating leases.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the surplus or deficit.

Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the surplus or deficit.

Cash and cash equivalents

Cash includes cash on hand and highly liquid short-term deposits with banks.

Work in progress

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Office will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Plant and equipment

Plant and equipment consists of furniture and fittings, office equipment, information technology hardware, and motor vehicles. Plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

Additions

Individual assets, or group of assets, are capitalised if their cost is greater than \$1,000.

The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

In most instances, an item of plant and equipment is recognised at its cost. If an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment, at rates that will write down the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

- Furniture and fittings 4 years (25%)
- Office equipment 2.5 to 5 years (20% to 40%)
- Information technology hardware 2.5 to 5 years (20% to 40%)
- Motor vehicles 3 to 5 years (20% to 33%).

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

Intangible assets

Software acquisition and development

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs that are directly associated with the development of software for internal use by the Office are recognised as an intangible asset. Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date when the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful life and associated amortisation rate of computer software is estimated at between 2.5 and 5 years (20% to 40%).

Impairment of non-financial assets

Plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through either continued use or disposal. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An intangible asset that is not yet available for use at balance date is tested for impairment annually.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the surplus or deficit. Any reversal of an impairment loss is also recognised in the surplus or deficit.

Creditors and other payables

Creditors and other payables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest method.

Income in advance

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

Employee entitlements*Short-term employee entitlements*

Employee entitlements that the Office expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

The Office recognises a liability for sick leave to the extent that future absences are expected to be greater than the sick leave entitlements earned in the future.

The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that the Office anticipates that these unused entitlements will be used by staff to cover those future absences.

The Office recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 5.75% and a salary inflation factor of 2.75% are used in the calculation of present value.

Superannuation schemes

Obligations for contributions to the Auditor-General's Retirement Savings Plan, Kiwisaver, and the Government Superannuation Fund are accounted for as defined contribution plans, and are recognised as an expense in the surplus or deficit as incurred.

Taxpayers' funds

Taxpayers' funds is the Crown's investment in the Office, and is measured as the difference between total assets and total liabilities.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of commitments at the value of that penalty or exit cost.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of Goods and Services Tax (GST), except for receivables and payables in the Statement of financial position, which are stated on a GST-inclusive basis.

If GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of financial position. The net GST paid to or received from the IRD, including the GST for investing and financing activities, is classified as an operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

The Office 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.

Output cost allocation

The Office has determined the cost of outputs using allocations as outlined below.

Direct costs are those costs 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 output class: 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.

There have been no changes in cost allocation policies since the date of the last audited financial statements.

Judgements and estimations

The preparation of these financial statements requires judgements, estimations, and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The assessment of work in progress value is the most significant area where such judgements, estimations, and assumptions are made.

Forecast comprehensive income statement for the year ending 30 June 2012

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 62.

	2010/11		2011/12
	Budgeted* \$000	Estimated actual \$000	Forecast \$000
Income			
Crown funding	9,948	10,000	10,000
Audit fees – Departments	8,145	10,003	10,388
Audit fees – Other	27,455	28,060	33,027
Income of contracted audit service providers	26,143	26,734	28,436
Total income	71,691	74,797	81,851
Expenditure			
Personnel costs	33,467	34,285	37,568
Operating costs	10,624	12,095	14,507
Depreciation and amortisation	1,117	914	1,071
Fees paid to contracted auditors for audits of public entities	26,143	26,734	28,436
Capital charge	302	269	269
Total expenditure	71,653	74,297	81,851
Total comprehensive income for the year	38	500	0

* Budgeted figures reflect the Main Estimates of Appropriations for 2010/11.

Forecast statement of movements in taxpayers' funds (equity)

for the year ending 30 June 2012

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Taxpayers' funds brought forward at 1 July	3,521	3,521	4,021
Surplus for the year	38	500	-
Provision for repayment of surplus to the Crown	(38)	(500)	-
Capital contribution	500	500	2,200
Taxpayers' funds at 30 June	4,021	4,021	6,221

Forecast statement of financial position

as at 30 June 2012

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

	Budgeted as at 30 June 2011 \$000	Estimated actual as at 30 June 2011 \$000	Forecast as at 30 June 2012 \$000
Taxpayers' funds			
General funds	4,021	4,021	6,221
Total taxpayers' funds	4,021	4,021	6,221
Represented by:			
Current assets			
Cash and cash equivalents	3,271	3,348	4,379
Prepayments	205	180	185
Work in progress	2,201	2,200	2,200
Debtors and other receivables	4,514	5,440	5,601
Total current assets	10,191	11,168	12,365
Non-current assets			
Plant and equipment	1,604	1,412	1,646
Intangible assets	1,014	855	1,280
Total non-current assets	2,618	2,267	2,926
Total assets	12,809	13,435	15,291
Current liabilities			
Creditors and other payables	4,165	4,666	4,783
Repayment of surplus	38	500	0
Employee entitlements	4,055	3,678	3,707
Total current liabilities	8,258	8,844	8,490
Non-current liabilities			
Employee entitlements	530	570	580
Total non-current liabilities	530	570	580
Total liabilities	8,788	9,414	9,070
Net assets	4,021	4,021	6,221

Forecast statement of cash flows for the year ending 30 June 2012

This statement summarises the cash movements in and out during the year. It takes no account of money owed to or owing by the Office, and therefore differs from the Forecast comprehensive income statement.

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Cash flows from operating activities			
Receipts from the Crown	9,948	10,000	10,000
Receipts from Departments	8,145	8,156	8,104
Receipts from other public entities	27,778	29,906	34,911
Payments to suppliers	(7,031)	(8,391)	(10,043)
Payments to employees	(33,367)	(34,178)	(37,459)
Capital charge paid	(302)	(269)	(269)
Net GST paid	(3,750)	(3,714)	(4,205)
Net cash flow from operating activities	1,421	1,510	1,039
Cash flows from investing activities			
Receipts from sale of plant and equipment	155	188	92
Purchase of plant and equipment	(1202)	(917)	(950)
Purchase of intangible assets	(350)	(128)	(850)
Net cash flow from (used in) investing activities	(1,397)	(857)	(1,708)
Cash flows from financing activities			
Capital contribution	500	500	2,200
Repayment of surplus to the Crown	(18)	(2,014)	-
Net cash flow from (used in) financing activities	482	(1,514)	2,200
Total net increase/(decrease) in cash held	506	(861)	1,531
Cash at the beginning of the year	2,765	4,209	2,848
Cash at the end of the year	3,271	3,348	4,379

* The Forecast statement of cash flows does not include the contracted audit service provider audit fees because these do not involve any cash transactions within the Office.

Reconciliation of surplus in the Forecast comprehensive income statement to the forecast net cash flow from operating activities

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for the year ending 30 June 2012

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Forecast comprehensive income statement on page 54 to arrive at the net cash flow from operating activities disclosed in the Forecast statement of cash flows on page 57.

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Surplus	38	500	0
Non-cash items			
Depreciation and amortisation	1,117	914	1,071
Total non-cash items	1,117	914	1,071
Working capital movements			
(Increase)/decrease in receivables and prepayments	269	46	(166)
(Increase)/decrease in work in progress	92	(75)	0
Increase/(decrease) in payables	(122)	232	95
Increase/(decrease) in current employee entitlements	55	(113)	29
Total net working capital movements	294	90	(42)
Investing activity items			
Loss/(profit) on disposal of assets	(38)	0	0
Total investing activity items	(38)	0	0
Movements in non-current liabilities			
Increase/(decrease) in employee entitlements	10	6	10
Net cash flow from operating activities	1,421	1,510	1,039

Statement of forecast capital expenditure for the year ending 30 June 2012

This statement discloses the forecast capital expenditure for the 2011/12 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 2007	Actual June 2008	Actual June 2009	Actual June 2010	Budget June 2011	Estimated actual June 2011	Forecast June 2012
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Plant and equipment							
Furniture and fittings	77	125	63	42	80	20	210
Office equipment	17	7	20	16	20	33	10
Motor vehicles	429	382	184	361	509	434	380
Computer hardware	445	114	318	258	593	430	350
Intangible assets							
Computer software	254	151	927	245	350	128	850
Total	1,222	779	1,512	922	1,552	1,045	1,800

Forecast details of non-current assets by category as at 30 June 2012

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	As at 30 June 2011		Forecast position as at 30 June 2012		
	Budgeted net book value \$000	Estimated actual net book value \$000	Cost \$000	Accumulated depreciation \$000	Net book value \$000
Plant and equipment					
Furniture and fittings	152	93	2,470	2,205	265
Office equipment	341	30	280	278	2
Motor vehicles	705	798	1,212	364	848
Computer hardware	406	491	2,923	2,392	531
Intangible assets					
Computer software	1,014	855	4,232	2,952	1,280
Total	2,618	2,267	11,117	8,191	2,926

Forecast appropriation statement for the year ending 30 June 2012

This statement breaks down the expenditure reported in the Forecast comprehensive income statement (on page 54) and the Forecast output class operating statements (on page 62) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2011/12 in the Estimates of Appropriations (parliamentary paper B.5, Vol. 1).

	\$000
Appropriations for output expenses	
Legislative auditor (multi-class output appropriation):	
Supporting accountability to Parliament	2,860
Performance audits and inquiries	6,587
Total legislative auditor	9,447
Audit and assurance services (revenue-dependent appropriation)	71,451
Audit and assurance services – Crown-funded small entity audits	150
Total appropriations for output expenses	81,048
Other expenses to be incurred by the Office	
Remuneration of the Auditor-General and Deputy Auditor-General	803
Total other expenses	803
Total	81,851

Forecast output class operating statements for the year ending 30 June 2012

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	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Surplus \$000
Output expenses						
Audit and assurance services (revenue-dependent appropriation)						
Scope: This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the financial statements of the Government, public entities' financial statements and other information that must be audited. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.						
	-	9,988	61,463	71,451	71,451	0
Audit and assurance services						
Scope: This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute for smaller entities such as cemetery trusts and reserve boards.						
	150	-	-	150	150	-
Statutory auditor function (multi-class output appropriation)						
Basis – these output expenses use the same resources and contribute to the same outcome.						
Performance audits and inquiries						
Scope: This output class is limited to undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.						
	6,587	-	-	6,587	6,587	-
Supporting accountability to Parliament						
Scope: This output class is limited to reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the Executive to account for its use of public resources.						
	2,460	400	-	2,860	2,860	-
Total output expenses	9,197	10,388	61,463	81,048	81,048	0
Other expenses to be incurred by the Office						
Remuneration of the Auditor-General and Deputy Auditor-General						
	803	0	0	803	803	0
Total operating expenses	10,000	10,388	61,463	81,851	81,851	0

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

- Progress in delivering publicly funded scheduled services to patients
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities
- Statement of Intent 2011–14
- Review of the Northland Events Centre
- Public entities' progress in implementing the Auditor-General's recommendations
- Ministry of Social Development: Managing the recovery of debt
- Local government: Results of the 2009/10 audits
- The Auditor-General's Auditing Standards
- Central government: Results of the 2009/10 audits (Volume 2)
- Provision of billboard for Len Brown's mayoral campaign
- District health boards: Learning from 2010–13 Statements of Intent
- Central government: Case studies in reporting forecast performance information
- Matters arising from Auckland Council's planning document
- Central government: Results of the 2009/10 audits (Volume 1)
- How the Department of Internal Affairs manages spending that could give personal benefit to Ministers
- Sport and Recreation New Zealand: Improving how it measures its performance
- Department of Internal Affairs: Administration of two grant schemes

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