



B.28

Parliamentary paper

# Annual Report 2010/11

Office of the Auditor-General  
PO Box 3928, Wellington 6140

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

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

# Annual Report 2010/11

Presented to the House of  
Representatives as required by  
section 37 of the Public  
Audit Act 2001.

September 2011

ISSN 1179-8963 (print)  
ISSN 1179-8971 (online)



# Contents

|  |     |
|--|-----|
| Auditor-General's overview   | 5   |
| Part 1 – Background  | 9   |
| Nature and scope of the Auditor-General's functions  | 10  |
| Main measures and standards for achieving our outcomes   | 11  |
| Strategic risks and risk management  | 15  |
| Part 2 – Our output classes, performance measures, and targets (including Statement of service performance)          | 21  |
| Audit and assurance services   | 22  |
| Supporting accountability to Parliament  | 39  |
| Performance audits and inquiries   | 44  |
| Part 3 – Organisational health and capability  | 61  |
| Part 4 – Financial statements  | 70  |
| Appendices   |     |
| 1 – Summary of reports on performance audits, inquiries, and other studies published in 2010/11                      | 103 |
| 2 – Entities audited under section 19 of the Public Audit Act 2001   | 115 |
| 3 – Public entities not audited by the Auditor-General   | 117 |
| 4 – Senior management  | 119 |
| 5 – Directory of offices   | 121 |
| Figures  |     |
| 1 – Summary of our outcomes, impacts, and outputs  | 11  |
| 2 – Main measures and standards for achieving our outcomes   | 12  |
| 3 – Our strategic risks and risk management  | 15  |
| 4 – Actual performance against impact measures and standards for output class: Audit and assurance services          | 26  |
| 5 – Actual performance against output delivery measures and standards for output class: Audit and assurance services | 30  |
| 6 – Analysis of movements in audit fees  | 34  |
| 7 – Financial performance of output class: Audit and assurance services  | 34  |
| 8 – Supporting accountability to Parliament – main impact measures and standards                                     | 40  |
| 9 – Services to Parliament – output measures and standards   | 41  |
| 10 – The Controller function – output measures and standards   | 43  |
| 11 – Financial performance of output class: Supporting accountability to Parliament                                  | 44  |
| 12 – Performance audits and inquiries – main impact measures and standards   | 45  |
| 13 – Performance audits – output measures and standards  | 46  |
| 14 – Performance audits, other studies, and major inquiries completed in 2010/11                                     | 49  |
| 15 – Progress with completion of our 2010/11 annual plan   | 51  |
| 16 – Number and type of inquiries completed  | 55  |
| 17 – Inquiries – output measures and standards   | 57  |
| 18 – Financial performance of output class: Performance audits and inquiries   | 59  |
| 19 – Our operating model   | 62  |
| 20 – Organisational health and capability – main impact measures and standards                                       | 64  |
| 21 – Staff profile and diversity   | 67  |



## Auditor-General's overview



I started the 2010/11 year conscious of the significant challenges the public sector faced from wider international events. During the year, we have weathered the ongoing challenge of financial and economic turbulence in the wake of the global financial crisis as well as challenges arising from the tragic Canterbury earthquakes. In response to the Canterbury earthquakes, many public servants have made extraordinary contributions to maintain essential public services for their fellow New Zealanders.

At the end of 2010/11, our challenges remain very real. As we adapt to our current environment, we strive to safeguard the long-term sustainability of our public services as well as our society and economy. Adapting while

safeguarding our future services will require us all to continue to focus on delivering value and, in doing so, to be willing to question our assumptions and current ways of doing things.

I am glad to be able to tell Parliament and the public that, looking over the body of my Office's audit work, I have seen a responsive and responsible public sector willing and working to deliver more for less. We have found that most public sector organisations have good financial management systems and controls over the resources they manage, and are asking themselves how they can continue to deliver value in our changing environment.

### **My Office's service achievements**

I am proud of the Office's achievements during the past year. We delivered an ambitious work programme, completing timely and quality annual audits that our clients have told us built on a better understanding of their environments, businesses, and risks. They also told us that we can offer them yet more insight and advice based on learning from our audit work. I am committed to working on this feedback to address the change in, and growing complexity of, the public sector and the higher expectations of the public.

We achieved strong results in our other areas work, carrying out yet more performance audits and other reports than in previous years and completing several major inquiries. Among these reports was *How the Department of Internal*

*Affairs manages spending that could give personal benefit to Ministers.* This is the ninth public report in 10 years by an Auditor-General about spending on parliamentary and ministerial support. So, I am personally heartened that useful improvement work is under way, which I hope will lead to a better system to support appropriate spending by Ministers. The political leaders of any country must be accountable for their actions. However, they should also be supported by financial management processes that help them spend public funds reasonably and appropriately.

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.

I am pleased to say that we have made very good progress during the year with the first two matters identified – Auckland and performance reporting. The Office completed the audits of the initial planning document and the dissolution accounts of the eight outgoing councils, as well as publishing a suite of reports to Parliament on the Auckland local government reform. For all but three local government audit reports, we issued unqualified reports on the appropriateness of their performance reporting – a very pleasing result. I would also like to acknowledge and congratulate all public entities that have achieved significant improvements in their non-financial reporting. It has been hard work, but entities are beginning to reap the benefits of better information for their decision-making and resource prioritisation.

In addition, during this time, I wanted to identify a cross-cutting theme to underpin our audits and other work in 2012/13. After a wide range of discussions with people in the public sector and other interested groups in the later part of the year, we have identified a long list of ideas. We will seek feedback on these ideas in the next couple of months so that we can complete the necessary planning and research before starting work on the cross-cutting theme during 2012.

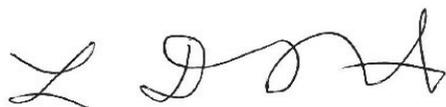
**Our internal management and capability**

Looking at our internal operations, we improved our financial management and professional development. Along with others in the public sector, we challenged ourselves to look for and better understand ways to be more cost-effective. I am satisfied that we moved swiftly to ensure the safety of our staff as well as our ongoing service delivery in the aftermath of the Canterbury earthquakes. The Audit New Zealand office is in the red zone, and we are committed to finding new permanent premises. I thank the staff in Christchurch for their forbearance, as we know our temporary accommodation, like many others, is sub-optimal.

Our Gallup staff engagement scores are showing a slight downward trend, which was unsurprising, given the growing volume and quality of the work we carried out, and the challenging environment. We will continue to explore ways to reverse this trend.

I am committed to making sure that my Office continues to be well positioned to contribute to a more effective and efficient public sector, including looking at the efficiency of our own operations and processes. But, in doing so, we must be careful not to lose effectiveness. I want to maintain and improve on my Office's 2010/11 service, quality, and timeliness results, while investing in building our infrastructure and capability to deal with the opportunities ahead of us.

I sincerely thank the staff of the Office and our wider community of contracted audit service providers for their good work during the year and congratulate them on their achievements. With their support, I look forward to the challenges and opportunities of 2011/12.



Lyn Provost  
Controller and Auditor-General  
23 September 2011



Part 1  
**Background**

## 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, 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 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 the reporting of performance information 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, for 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.

**Figure 1**  
Summary of our outcomes, impacts, and outputs



## Main measures and standards for achieving our outcomes

Our measure for the degree of trust in the public sector is that New Zealand's score in the annual Transparency International Corruption Perceptions Index is maintained or improved during the next three years.

We assessed progress towards our intermediate outcomes by using information that we gather:

- during the course of delivering our services; and

through the results of research commissioned by the State Services Commission (SSC) – specifically, the Integrity and Conduct Survey<sup>1</sup> and the Kiwis Count Survey.<sup>2</sup>

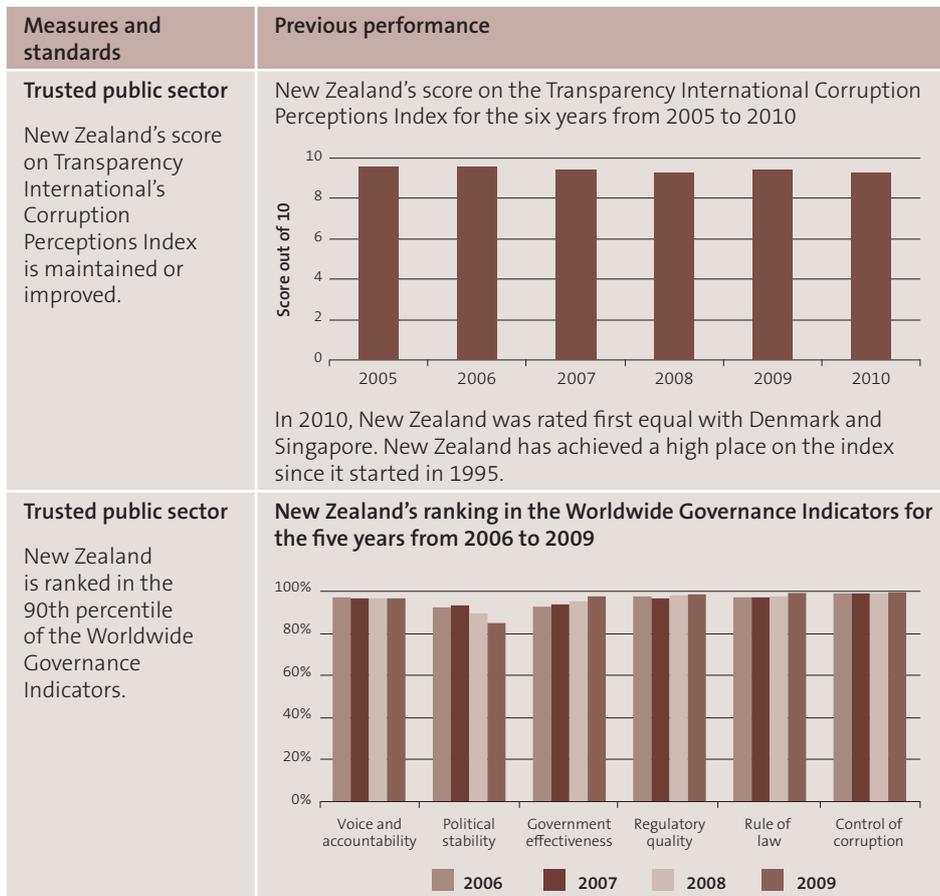
1 **Integrity and Conduct Survey** is an independent survey on how State servants observe standards of integrity and conduct across the State services.

2 **Kiwis Count Survey** is an all-of-government national survey to ask New Zealanders about their perceptions and experiences of public services as a whole. It involves a postal survey of a random sample of 6500 New Zealanders. The survey was carried out in 2007/08 and 2009/10.

Our assessment is that our outcomes were maintained or improved during the last year, with:

- New Zealand’s 2010 Transparency International Corruption Perceptions Index score being 9.3, which ranked New Zealand first equal with Denmark and Singapore; and
- Maintained or improved results being shown in all the indicator areas for our intermediate outcomes as set out below.

**Figure 2**  
Main measures and standards for achieving our outcomes



| <p><b>Trusted public sector</b></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><b>Kiwis Count Survey results in 2008 and 2010: Public servants do a good job</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Agree</th> <th>Neutral</th> <th>Disagree</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>28%</td> <td>48%</td> <td>20%</td> </tr> <tr> <td>2010</td> <td>32%</td> <td>48%</td> <td>18%</td> </tr> </tbody> </table>   | Year  | Agree                      | Neutral   | Disagree | 2008 | 28% | 48%  | 20% | 2010 | 32%  | 48% | 18% |      |     |     |      |     |     |
|--|---|---|----------------------------|---|----------|------|-----|------|-----|------|------|-----|-----|------|-----|-----|------|-----|-----|
| Year   | Agree   | Neutral   | Disagree                   |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2008   | 28%   | 48%   | 20%                        |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2010   | 32%   | 48%   | 18%                        |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| <p><b>Appropriately responsible public sector behaviour</b></p> <p>Public entities' financial statements fairly reflect their actual results and are publicly available on time.</p>   | <p><b>Percentage of unqualified audit opinions and audits completed on time in the five years from 2007 to 2011</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Unqualified audit opinions</th> <th>Audits completed on time</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>95%</td> <td>82%</td> </tr> <tr> <td>2008</td> <td>95%</td> <td>80%</td> </tr> <tr> <td>2009</td> <td>95%</td> <td>78%</td> </tr> <tr> <td>2010</td> <td>95%</td> <td>80%</td> </tr> <tr> <td>2011</td> <td>95%</td> <td>85%</td> </tr> </tbody> </table> | Year  | Unqualified audit opinions | Audits completed on time                          | 2007     | 95%  | 82% | 2008 | 95% | 80%  | 2009 | 95% | 78% | 2010 | 95% | 80% | 2011 | 95% | 85% |
| Year   | Unqualified audit opinions  | Audits completed on time                          |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2007   | 95%   | 82%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2008   | 95%   | 80%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2009   | 95%   | 78%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2010   | 95%   | 80%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2011   | 95%   | 85%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| <p><b>Appropriately responsible public sector behaviour</b></p> <p>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.</p> | <p><b>Integrity and Conduct Survey results for 2008 and 2010: State service agencies that promote their standards of integrity and conduct</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Knew where to get advice</th> <th>Integrity training provided by their organisation</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>48%</td> <td>42%</td> </tr> <tr> <td>2010</td> <td>48%</td> <td>55%</td> </tr> </tbody> </table>  | Year  | Knew where to get advice   | Integrity training provided by their organisation | 2008     | 48%  | 42% | 2010 | 48% | 55%  |      |     |     |      |     |     |      |     |     |
| Year   | Knew where to get advice  | Integrity training provided by their organisation |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2008   | 48%   | 42%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |
| 2010   | 48%   | 55%   |                            |   |          |      |     |      |     |      |      |     |     |      |     |     |      |     |     |

| <p><b>Appropriately responsible public sector behaviour</b></p> <p>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>  | <p><b>Integrity and Conduct Survey results in 2008 and 2010: State servants' observation and reporting of misconduct</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage that observed misconduct</th> <th>Percentage of those who observed misconduct who also reported it</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>30%</td> <td>48%</td> </tr> <tr> <td>2010</td> <td>28%</td> <td>62%</td> </tr> </tbody> </table> | Year   | Percentage that observed misconduct | Percentage of those who observed misconduct who also reported it | 2008     | 30%  | 48% | 2010 | 28% | 62%  |     |     |     |
|---|--|--|-------------------------------------|--|----------|------|-----|------|-----|------|-----|-----|-----|
| Year  | Percentage that observed misconduct  | Percentage of those who observed misconduct who also reported it |                                     |  |          |      |     |      |     |      |     |     |     |
| 2008  | 30%  | 48%  |                                     |  |          |      |     |      |     |      |     |     |     |
| 2010  | 28%  | 62%  |                                     |  |          |      |     |      |     |      |     |     |     |
| <p><b>High-performing public sector</b></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><b>Kiwis Count Survey results in 2008 and 2010: Most recent public service experience was an example of good value for tax dollars spent</b></p> <table border="1"> <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>62%</td> <td>18%</td> <td>20%</td> </tr> </tbody> </table>                     | Year   | Agree                               | Neutral  | Disagree | 2008 | 55% | 20%  | 25% | 2010 | 62% | 18% | 20% |
| Year  | Agree  | Neutral  | Disagree                            |  |          |      |     |      |     |      |     |     |     |
| 2008  | 55%  | 20%  | 25%                                 |  |          |      |     |      |     |      |     |     |     |
| 2010  | 62%  | 18%  | 20%                                 |  |          |      |     |      |     |      |     |     |     |
| <p><b>High-performing public sector</b></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"> <li>• their most recent public service experience; and</li> <li>• public services experienced in the last year compared with non-government agencies.</li> </ul> | <p>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 satisfaction with the public's 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>                                 |  |                                     |  |          |      |     |      |     |      |     |     |     |

\* The 2009/10 survey results for experience of public services compared with non-government services were reported differently to those of the 2007/08 survey. In 2009/10, the results were reported as the mean score from responses collected on a five-point scale (0, 25, 50, 75, and 100).

## 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.

Throughout the 2010/11 year, the Office continued its focus on managing risks, particularly strategic risks. The leadership team discusses these quarterly, including assessing any environmental or internal changes that may affect the Office's position. The Audit and Risk Committee receives a report quarterly and provides additional insight and advice to the Office regarding the strategic risks. The Committee's own report for 2010/11 is on pages 18–19.

**Figure 3**  
Our strategic risks and risk management

| Risk  | Management  |
|---|---|
| <p><b>1. Loss of independence</b> – 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, implementing measures to mitigate conflicts of interest.</p> <p>Senior managers in the Office monitor and regularly assess any factors that may threaten auditor independence. We identified a small number of such factors throughout the year, but are satisfied that the Office has appropriate plans to reduce the effect of these factors to an acceptable level.</p> |

|  |  |
|--|--|
| <p><b>2. Audit failure</b> – 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 adhered to professional auditing standards, including implementing and complying with the revised quality control standards from the New Zealand Institute of Chartered Accountants. These standards were supplemented by the Auditor-General's auditing standards to address public sector matters where general auditing standards were not relevant or appropriate.</p> <p>A range of audit opinion and consistency review processes were used to confirm audit team conclusions where non-standard audit opinions were proposed, or changes to audit standards and work were being introduced.</p> <p>All annual audits of more than 500 hours, or otherwise considered to be high risk, were subject to engagement quality control review before the audit opinion was issued.</p> <p>We monitored adherence to the Auditor-General's auditing standards, which incorporate professional auditing standards, through external quality assurance regimes (such as participating in New Zealand Institute of Chartered Accountants' practice reviews and, from time to time, international peer reviews). Our internal quality control procedures included carrying out quality assurance reviews of all our appointed auditors and our Office products on a risk basis and to ensure reviews of all auditors and products over a three-year period. We also commissioned an independent external review of two performance audits, and stakeholder feedback studies.</p> <p>Before performance audits are presented to Parliament, a process of external report clearance and internal substantiation and review is observed.</p> |
| <p><b>3. Loss of capability</b> – 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> <p>As an Approved Training Organisation for Chartered Accountants, the Office continued to attract high-quality people into our graduate programme. This year, 97% of our employees sitting the NZ Institute of Chartered Accountants final professional exams were successful.</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 risk areas listed 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 were a number of ways this risk was managed in our day-to-day work. The combined leadership team of the Office met on a regular basis to discuss issues and feedback from key stakeholders and public entities on our audit work. Senior staff liaised with public entities and key stakeholders, and we carried 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. We also commissioned each year an independent evaluation of our audit allocation and fee monitoring processes.

Feedback from both the stakeholder and client surveys, as well as from individual stakeholder meetings, indicate that the reputation of the Office remains sound.

## Report of the Audit and Risk Committee for the year to 30 June 2011

### **Members:**

John Hagen MBA, MCom, FCA, Investigating accountant – Chairman

Kerry Prendergast MBA, NZRN, NZRM, CNZM, Director (from 1 March 2011)

Stephen Revill BA, LLB (to 7 December 2010)

Phillippa Smith BA, LLB, MPP, Deputy Controller and Auditor-General

Neil Walter MA, CNZM, Director

The Audit and Risk Committee is an independent committee established by, and reporting directly to, the Auditor-General. The Committee was established in 2003, as the Audit Committee. The reference to risk was included in the name of the Committee in December 2005, to better describe the Committee's role.

The purpose of the Committee is to oversee:

- risk management and internal control;
- audit functions (internal and external) for the Office;
- financial and other external reporting;
- the governance framework and processes; and
- compliance with legislation, policies, and procedures.

The Committee has no management functions.

During the past year, the Committee:

- met on five occasions to fulfil its duties and responsibilities;
- received briefings from the Auditor-General and other senior managers on key business activities of the Office, as a basis for ensuring that risks facing the Office are being appropriately addressed;
- oversaw the Office's continuing review of its risk management framework and the procedures underpinning the framework;
- discussed with the external auditors their findings from their audit work;
- monitored the implementation of recommendations made by the external auditors;
- received and considered final reports from the internal auditors (KPMG), and monitored implementation of recommendations made by the internal auditors;
- oversaw the appointment of a new internal auditor; and

- reviewed the annual plan and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major judgmental areas, and compliance with legislation and relevant standards;

The Committee has reported to the Auditor-General on the above and other matters it has seen fit to do so. There are no outstanding or unresolved concerns that the Committee has brought to the attention of the Auditor-General.

John Hagen  
Chairman  
for the Audit and Risk Committee  
31 August 2011



Part 2

**Our output classes, performance  
measures, and targets (including  
*Statement of service performance*)**

Our output classes and the outputs within those classes are:

- Audit and assurance services
- Supporting accountability to Parliament
  - Services to Parliament
  - Controller function
- Performance audits and inquiries
  - Performance audits
  - Inquiries.

## Audit and assurance services

The main purpose of an annual audit is to provide independent assurance about the fair disclosure of the financial information – 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 opinion.

In carrying out annual audits, auditors consider the legislative mandate, and may raise recommendations for improvements in matters of effectiveness and efficiency, compliance with statutory obligations, 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, long-term plan audits of local authorities, good practice guides, and discussion papers.

A foundation for trust in the public sector is that public entities respond to their statutory public reporting obligations and to findings resulting from audits. Public entities' approach to public reporting and their responses to audit recommendations demonstrate their commitment to effective, efficient, and accountable service delivery.

In 2010/11, annual audits and other assurance services accounted for 88% of our total expenditure. The major portion of this output class relates to annual audits of public entities that are required by statute to be carried out.

There are two main products from an annual audit:

- the audit report; and
- the management report,
- plus, for some public entities:
- there is also a financial review report.

The audit report is addressed to the readers of the financial statements and, where applicable, the performance information. 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 financial performance and position (and, where applicable, service performance information). If the financial statements fairly reflect the public entity's financial performance and position (and, where applicable, the service performance information), the auditor issues an audit report with an unmodified opinion. However, if the auditor identifies a material<sup>3</sup> error or omission in the financial statements or performance information, the auditor issues an audit report with a modified opinion. In addition to the audit opinion, the auditor can also draw readers' attention to other matters, some of which could be highlighted within the financial statements (and, where applicable, the service performance information) and others of which are not.

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 public entities are subject to financial review by a select committee, we also report the results of annual audits to responsible Ministers and select committees. The 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.

## Key processes supporting annual audits

Delivery of annual audits is supported by several key processes, including:

- appointing auditors and monitoring audit fees;
- setting the Auditor-General's auditing standards;
- maintaining auditor independence; and
- quality assurance.

<sup>3</sup> "Material" as defined in the Auditor-General's Statement on International Standard on Auditing (New Zealand) 320: *Materiality in Planning and Performing an Audit*, "means, for the purposes of forming an opinion on a public entity's financial and non-financial information, a statement, omission, fact, or item of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial and non-financial information is completed, has the potential to influence likely users of the financial and non-financial information in making decisions or assessments about the stewardship and allocation of resources, and the performance of the public entity."

## Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors to carry out the annual audits of public entities. These auditors are appointed from a group of about 50 audit service providers. The group includes Audit New Zealand and private sector accounting firms, which range from the four major chartered accounting firms to sole practitioners. Most audits are allocated directly to an auditor, but from time to time an auditor is appointed to carry out an audit after a competitive tender.

Because we mainly use an allocation approach, we monitor audit fees at the point of negotiation between the appointed auditor and the public entity. We also provide a comparative analysis to help resolve any concerns about proposed audit fees. Our objective in monitoring fees is to ensure that fees are based on realistic hours (that is, hours that reflect the nature and extent of work required), an appropriate audit team mix, and charge-out rates that are in line with market rates. We aim for fees that are fair to the public entities and also provide a fair return to the auditors for the work required by them to meet the Auditor-General's auditing standards.

During 2010/11, the Auditor-General appointed or reappointed auditors (except where a change of auditor was made within the same audit service provider) to conduct audits of 14 schools and 300 other public entities and their subsidiaries.

## Setting the Auditor-General's auditing standards

Section 23 of the Public Audit Act 2001 requires the auditing standards of the Auditor-General to be published, by way of a report to the House of Representatives, "at least once every 3 years". The *Auditor-General's Auditing Standards* were most recently published in March 2011. These standards are available on our website ([www.oag.govt.nz](http://www.oag.govt.nz)).

Section 23 also requires that our annual report include a description of any significant changes made to the standards during the year. As part of the March 2011 re-publication, the auditing standards were significantly updated so that they are now aligned to the format and requirements of the New Zealand Equivalents to International Standards on Auditing (ISA (NZ) Auditing Standards). The ISA (NZ) auditing standards were progressively introduced over the last two years in New Zealand and now fully apply to all audits carried out by members of the New Zealand Institute of Chartered Accountants.

In addition to the process to align the Auditor-General's auditing standards with ISA (NZ) Auditing Standards, we developed two new standards covering the work of the Office other than annual audits,<sup>4</sup> because the scope of ISA (NZ) auditing standards now more clearly applies to annual audits only.

4 Including performance audits, inquiries, and other auditing services.

### Maintaining auditor independence

High independence standards are set for both the Auditor-General's employees and appointed auditors from private sector accounting firms. Compliance with these standards is monitored regularly. Any threats to auditor independence that were identified during the year were subject to mitigation actions that the Auditor-General considered appropriate to either eliminate the threats or reduce them to an acceptable level.

### Quality assurance

We carry out quality assurance reviews of appointed auditors to ensure that they have complied with the relevant professional standards, as well as the Auditor-General's own published auditing standards. We aim to review the performance of each of our appointed auditors at least once every three years. There are five levels of quality assurance rating, assessed using the reviewers' overall judgement of the quality of the audit work carried out. The five levels are "excellent", "very good", "good", "satisfactory", and "re-review".

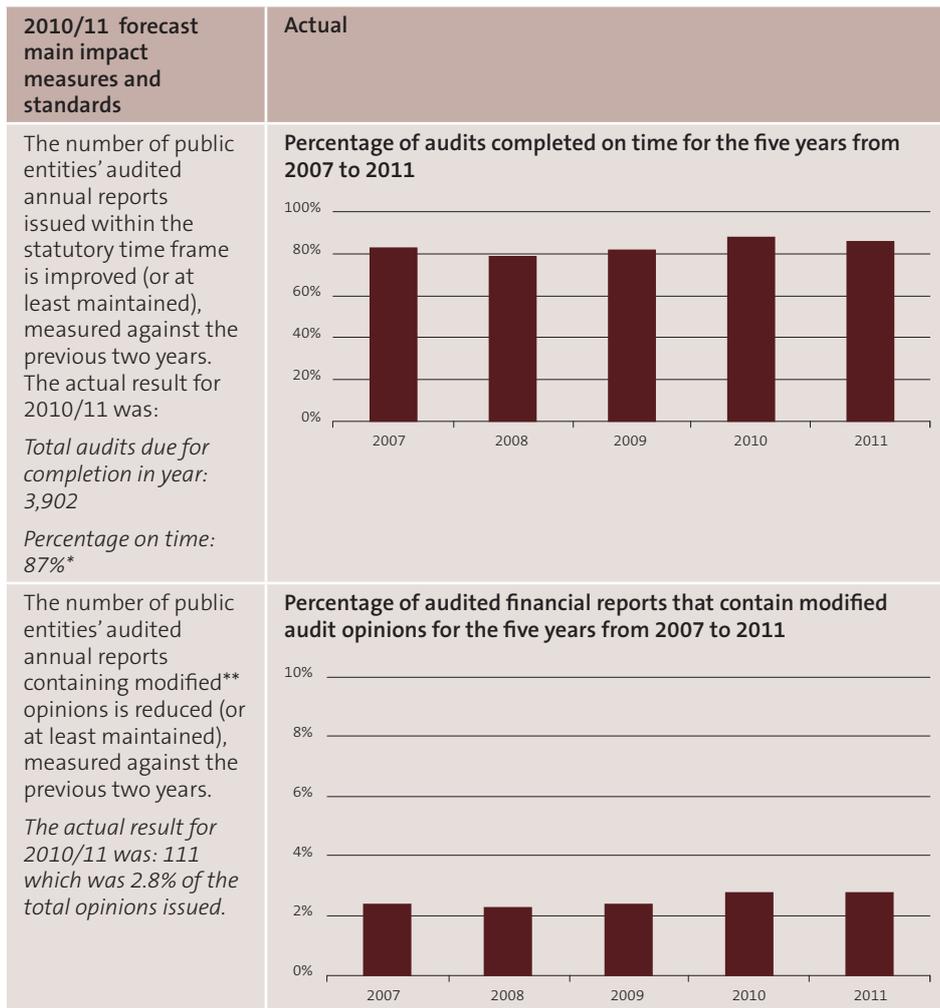
We also carry out reviews of each firm's quality control systems that are designed to provide assurance about the organisational factors that affect audit quality. We aim to complete these reviews at least once every three years in conjunction with our quality assurance reviews of appointed auditors.

### Main impact measures and standards

We report a range of impact measures and standards that are designed to help gauge the impact of our annual audit and other audits and assurance services.

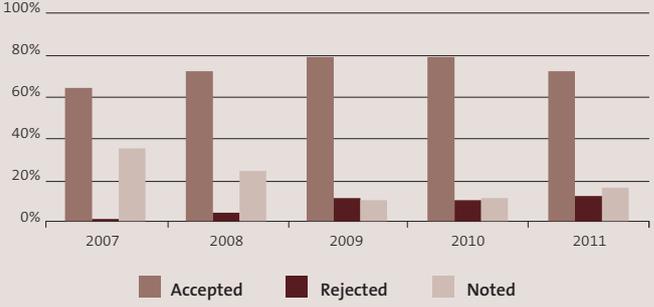
The measures of intended impacts of the appropriation for this output class are as shown in Figure 4.

**Figure 4**  
**Actual performance against impact measures and standards for output class:**  
**Audit and assurance services**



\* We have assumed in this figure that all 202 school audits exempted from the statutory deadline would have been completed on time had it not been for the major earthquake on 22 February 2011.

\*\* According to the International Standard on Auditing (New Zealand) ISA (NZ) 705, a modified opinion includes a qualified opinion (an except-for opinion under the previous Auditing Standard, AS-702: The Audit Report on an Attest Audit), an adverse opinion, or a disclaimer of opinion.

| 2010/11 forecast main impact measures and standards  | Actual  |              |              |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
|--|---|--------------|--------------|--------------|-----------|------|----|---|----|------|----|---|----|------|----|----|----|------|----|---|----|------|----|----|----|
| <p>Public entities' acceptance of audit service providers' management report recommendations is improved (or at least maintained), measured against the previous two years. (Note – In prior years this has been assessed against only Audit New Zealand's management report recommendations.)</p> <p><i>The actual result for 2010/11 was:</i><br/> <i>72% accepted; 12% rejected; 16% noted, under consideration or not responded to</i></p> | <p><b>Percentage of management report recommendations accepted by public entities for the five years from 2007 to 2011</b></p>  <table border="1"> <caption>Data for Percentage of management report recommendations accepted by public entities for the five years from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Accepted (%)</th> <th>Rejected (%)</th> <th>Noted (%)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>62</td> <td>2</td> <td>36</td> </tr> <tr> <td>2008</td> <td>70</td> <td>2</td> <td>28</td> </tr> <tr> <td>2009</td> <td>78</td> <td>10</td> <td>12</td> </tr> <tr> <td>2010</td> <td>78</td> <td>8</td> <td>14</td> </tr> <tr> <td>2011</td> <td>72</td> <td>12</td> <td>16</td> </tr> </tbody> </table> | Year         | Accepted (%) | Rejected (%) | Noted (%) | 2007 | 62 | 2 | 36 | 2008 | 70 | 2 | 28 | 2009 | 78 | 10 | 12 | 2010 | 78 | 8 | 14 | 2011 | 72 | 12 | 16 |
| Year   | Accepted (%)  | Rejected (%) | Noted (%)    |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
| 2007   | 62  | 2            | 36           |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
| 2008   | 70  | 2            | 28           |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
| 2009   | 78  | 10           | 12           |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
| 2010   | 78  | 8            | 14           |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |
| 2011   | 72  | 12           | 16           |              |           |      |    |   |    |      |    |   |    |      |    |    |    |      |    |   |    |      |    |    |    |

| 2010/11 forecast main impact measures and standards  | Actual  |      |                   |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
|--|---|------|-------------------|------|-------------------|------|------|-----|-----|----|----|------|-----|-----|----|----|------|-----|-----|----|----|------|-----------|------|-------------------|------|------|-----|-----|----|----|------|-----|-----|----|----|------|-----|-----|----|----|------|-----------|------|-------------------|------|------|----|-----|-----|-----|------|----|-----|-----|-----|
| <p>Central government entities' management control environment, financial information, and service performance* information systems and controls are improved (or at least maintained), measured against the previous two years.**</p> <p><i>The actual result for:</i></p> <p><i>2009/10 grades for management control environment:</i></p> <p>Very good 50%</p> <p>Good 42%</p> <p>Needs improvement 7%</p> <p>Poor 1%</p> <p><i>2009/10 Grades for financial information systems and controls:</i></p> <p>Very good 44%</p> <p>Good 50%</p> <p>Needs improvement 5%</p> <p>Poor 1%</p> <p><i>2009/10 Grades for service performance information and associated systems and controls:</i></p> <p>Very good 1%</p> <p>Good 31%</p> <p>Needs improvement 58%</p> <p>Poor 10%</p> | <p><b>Grades for management control environment (MCE) for 2008, 2009, and 2010</b></p> <table border="1"> <caption>MCE Grades Data</caption> <thead> <tr> <th>Year</th> <th>Very good</th> <th>Good</th> <th>Needs improvement</th> <th>Poor</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>42%</td> <td>42%</td> <td>7%</td> <td>1%</td> </tr> <tr> <td>2009</td> <td>50%</td> <td>42%</td> <td>7%</td> <td>1%</td> </tr> <tr> <td>2010</td> <td>50%</td> <td>42%</td> <td>7%</td> <td>1%</td> </tr> </tbody> </table> <p><b>Grades for financial information systems and controls (FISC) for 2008, 2009, and 2010</b></p> <table border="1"> <caption>FISC Grades Data</caption> <thead> <tr> <th>Year</th> <th>Very good</th> <th>Good</th> <th>Needs improvement</th> <th>Poor</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>31%</td> <td>50%</td> <td>5%</td> <td>1%</td> </tr> <tr> <td>2009</td> <td>44%</td> <td>50%</td> <td>5%</td> <td>1%</td> </tr> <tr> <td>2010</td> <td>44%</td> <td>50%</td> <td>5%</td> <td>1%</td> </tr> </tbody> </table> <p><b>Grades for service performance information and associated systems and controls (SPIASC) for 2009, and 2010</b></p> <table border="1"> <caption>SPIASC Grades Data</caption> <thead> <tr> <th>Year</th> <th>Very good</th> <th>Good</th> <th>Needs improvement</th> <th>Poor</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>1%</td> <td>31%</td> <td>58%</td> <td>10%</td> </tr> <tr> <td>2010</td> <td>1%</td> <td>31%</td> <td>58%</td> <td>10%</td> </tr> </tbody> </table> <p>SPIASC was first graded in 2008/09. The 2008/09 results did not include district health boards (DHBs), which were all graded “needs improvement/poor”, but the 2009/10 results did include DHBs that were graded either “needs improvement” or “poor”.</p> | Year | Very good         | Good | Needs improvement | Poor | 2008 | 42% | 42% | 7% | 1% | 2009 | 50% | 42% | 7% | 1% | 2010 | 50% | 42% | 7% | 1% | Year | Very good | Good | Needs improvement | Poor | 2008 | 31% | 50% | 5% | 1% | 2009 | 44% | 50% | 5% | 1% | 2010 | 44% | 50% | 5% | 1% | Year | Very good | Good | Needs improvement | Poor | 2009 | 1% | 31% | 58% | 10% | 2010 | 1% | 31% | 58% | 10% |
| Year   | Very good   | Good | Needs improvement | Poor |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2008   | 42%   | 42%  | 7%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2009   | 50%   | 42%  | 7%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2010   | 50%   | 42%  | 7%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| Year   | Very good   | Good | Needs improvement | Poor |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2008   | 31%   | 50%  | 5%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2009   | 44%   | 50%  | 5%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2010   | 44%   | 50%  | 5%                | 1%   |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| Year   | Very good   | Good | Needs improvement | Poor |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2009   | 1%  | 31%  | 58%               | 10%  |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |
| 2010   | 1%  | 31%  | 58%               | 10%  |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |     |     |    |    |      |     |     |    |    |      |     |     |    |    |      |           |      |                   |      |      |    |     |     |     |      |    |     |     |     |

\* Service performance information and associated systems and controls was graded for the first time under our new framework as part of the 2008/09 audits or with audit work carried out in 2009/10.

\*\* Graphs show the year-end period for which the audit is carried out. 2010/11 year audits and associated grades are completed during 2011/12.

## Overall comments on the impact of our annual audits and other audits and assurance services

We are generally pleased with the trends in our impact measures and standards as follows:

- a high percentage of audited financial statements being completed within statutory deadlines despite the disruption caused by the recent earthquakes, to both public entities and auditors alike;
- a low percentage of modified audit opinions being maintained despite a small increase compared with the previous two years;
- a high percentage of acceptance by public entities of our recommendations for improvement being maintained despite a small reduction compared with the previous two years; and
- a high percentage of “good” and “very good” grades assigned to public entities’ systems and controls being maintained for MCF and FISC and an improving percentage for SPIASC.

## Performance against output delivery measures and standards

We also report a range of output measures and standards (see figure 5) that are designed to assess our own performance in carrying out annual audits and other audits and assurance services.

**Figure 5**  
**Actual performance against output delivery measures and standards for output class: Audit and assurance services**

| 2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)   | Actual  |      |            |      |     |      |     |      |     |      |     |      |     |
|--|---|------|------------|------|-----|------|-----|------|-----|------|-----|------|-----|
| <p>Less than 30% of the outstanding audit reports at 30 June 2011 are because of inaction on our part.</p> <p><i>We achieved our forecast standard with an actual result of:</i></p> <p><i>Total arrears at 30 June 2011: 319 (compared with 313 at 30 June 2010)</i></p> <p><i>Arrears due to inaction on our part: 20%</i></p> | <p><b>Percentage of outstanding audit reports at 30 June because of our inaction for the five years from 2007 to 2011</b></p> <table border="1"> <caption>Percentage of outstanding audit reports at 30 June because of our inaction for the five years from 2007 to 2011</caption> <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>46%</td> </tr> <tr> <td>2010</td> <td>44%</td> </tr> <tr> <td>2011</td> <td>18%</td> </tr> </tbody> </table> | Year | Percentage | 2007 | 48% | 2008 | 52% | 2009 | 46% | 2010 | 44% | 2011 | 18% |
| Year   | Percentage  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2007   | 48%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2008   | 52%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2009   | 46%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2010   | 44%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2011   | 18%   |      |            |      |     |      |     |      |     |      |     |      |     |
| <p>All management reports are issued within six weeks of issuing the audit report.</p> <p><i>We did not achieve our forecast standard with an actual result of 94% issued within six weeks.</i></p>  | <p><b>Percentage of management reports issued within six weeks for the five years from 2007 to 2011</b></p> <table border="1"> <caption>Percentage of management reports issued within six weeks for the five years from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>92%</td> </tr> <tr> <td>2008</td> <td>90%</td> </tr> <tr> <td>2009</td> <td>91%</td> </tr> <tr> <td>2010</td> <td>93%</td> </tr> <tr> <td>2011</td> <td>92%</td> </tr> </tbody> </table>                                     | Year | Percentage | 2007 | 92% | 2008 | 90% | 2009 | 91% | 2010 | 93% | 2011 | 92% |
| Year   | Percentage  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2007   | 92%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2008   | 90%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2009   | 91%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2010   | 93%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2011   | 92%   |      |            |      |     |      |     |      |     |      |     |      |     |
| <p>No outstanding LTP (previously referred to as LTCCP) 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>All LTP management reports are issued within six weeks of issuing the LTP opinion.</p> <p><i>Not applicable.</i></p>                    | <p>Long-term plan audits are carried out on a three-yearly basis. The last LTP audits were carried out in 2008/09. The next opinions will be issued in 2011/12.</p> <p>In 2008/09 there were no outstanding audit opinions at 30 June as a result of inaction on our part.</p> <p>85% of the management reports were issued within six weeks.</p>   |      |            |      |     |      |     |      |     |      |     |      |     |

\* We have excluded from this figure all uncompleted school audits at 30 June 2011 that were exempted from the statutory deadline following the major earthquake on 22 February 2011.

| <p>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 entities' relationships with their audit service provider)</p> <p><i>We achieved our forecast standard with an actual result of 90%.</i></p>          | <p><b>Percentage of clients satisfied with the quality of audit work for the five years from 2007 to 2011</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>65%</td> </tr> <tr> <td>2008</td> <td>70%</td> </tr> <tr> <td>2009</td> <td>75%</td> </tr> <tr> <td>2010</td> <td>78%</td> </tr> <tr> <td>2011</td> <td>85%</td> </tr> </tbody> </table>                                     | Year | Percentage | 2007 | 65% | 2008 | 70% | 2009 | 75%  | 2010 | 78% | 2011 | 85% |
|--|--|------|------------|------|-----|------|-----|------|------|------|-----|------|-----|
| Year   | Percentage   |      |            |      |     |      |     |      |      |      |     |      |     |
| 2007   | 65%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2008   | 70%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2009   | 75%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2010   | 78%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2011   | 85%  |      |            |      |     |      |     |      |      |      |     |      |     |
| <p>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.</p> <p><i>We achieved our forecast standard with an actual result of 100%.</i></p>   | <p><b>Percentage of auditors achieving a grade of satisfactory or better from quality assurance reviews for the five years from 2007 to 2011</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>80%</td> </tr> <tr> <td>2008</td> <td>90%</td> </tr> <tr> <td>2009</td> <td>100%</td> </tr> <tr> <td>2010</td> <td>95%</td> </tr> <tr> <td>2011</td> <td>95%</td> </tr> </tbody> </table> | Year | Percentage | 2007 | 80% | 2008 | 90% | 2009 | 100% | 2010 | 95% | 2011 | 95% |
| Year   | Percentage   |      |            |      |     |      |     |      |      |      |     |      |     |
| 2007   | 80%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2008   | 90%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2009   | 100%   |      |            |      |     |      |     |      |      |      |     |      |     |
| 2010   | 95%  |      |            |      |     |      |     |      |      |      |     |      |     |
| 2011   | 95%  |      |            |      |     |      |     |      |      |      |     |      |     |
| <p>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.</p> <p><i>The review was carried out in 2010/11 and we achieved our forecast standard with the confirmation being provided.</i></p> | <p>An annual review was carried out each year and the confirmation provided. Sir David Gascoigne's report is on pages 35–38.</p>   |      |            |      |     |      |     |      |      |      |     |      |     |
| <p>The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.</p> <p><i>Not applicable.</i></p>  | <p>2008, 2010, and 2011 – No significant proposal was made for an appropriation increase in audit fees and expenses.</p> <p>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>   |      |            |      |     |      |     |      |      |      |     |      |     |

## Overall comments on our performance in carrying out annual audits and other audits and assurance services

We are generally pleased with the trends in our output measures and standards as follows:

- There was a minor increase in the number of audits in arrears at 30 June, which wasn't unexpected given the disruption caused by the recent earthquakes, while the school audit arrears figures have been adjusted to exclude uncompleted audits for exempt schools. The earthquakes have affected the ability of our audit service providers to complete other audits and the figures have not been adjusted to reflect this disruption.
- There was a significant decline in the percentage of audit arrears being due to inaction on our part, which reflects an increased focus by auditors in this area.
- There was a slight reduction in the timeliness of issuing management reports to public entities following the completion of our audits, against an ambitious target of 100%.
- There was an increase in an already high level of client satisfaction as expressed by a sample of public entities.
- There was maintenance of a high percentage of appointed auditors receiving a quality assurance grade of "satisfactory" or better.
- There was confirmation from an independent review that our processes for audit appointments and audit fee monitoring have been carried out with due probity and objectivity.

During the year, we focused on the following developments:

- The Ministry of Economic Development and External Reporting Board (XRB) changes, with the XRB taking over responsibility for setting financial reporting standards from the New Zealand Institute of Chartered Accountants as from 1 July 2011. The XRB has indicated that, in future, financial reporting standards will be developed using a multi-standards approach. We support this change in standard-setting responsibility and change in approach because we consider that these changes are likely to better meet the needs of users of public entity reports.
- Strengthening of auditor regulation as, in future, all auditors of issuers will be subject to regulation by the Financial Markets Authority (FMA). However, to protect the independence of the Auditor-General, audits of issuers carried out under the Public Audit Act 2001 are not subject to the new regulations. Nevertheless, the Auditor-General intends to implement processes which are equivalent to the new regulations, including inviting the FMA to carry out quality reviews of issuer audits carried out on behalf of the Auditor-General.

- Continuing to phase in the Auditor-General's revised auditing standard on reporting performance information. The 2010 audits of local authorities were carried out in accordance with the new standard, and the 2011 audits of major government departments and Crown entities are being carried out in accordance with the new standard. The new standard requires the auditor to increase focus on the appropriateness of the information presented by each public entity rather than focus primarily on verification of the information presented. The Auditor-General considers that such an approach is likely to increase the relevance and understandability of the information presented by public entities, and there is evidence that this is already occurring.

## Independent review of audit allocation and fee setting and monitoring

- Our independent reviewer has again assessed our audit allocation and fee-setting and monitoring systems (the full report is included at pages 35–38). The reviewer concluded that the processes for allocating audits in the public sector and for setting fees in the financial year to 30 June 2011 have been carried out with due probity and objectivity.
- During 2010/11, we started a comprehensive review of the allocation of audits among the Auditor-General's audit service providers, including Audit New Zealand. We expect that this will result in some audits being reallocated between audit service providers. If a change is proposed, we will consult with those public entities affected.

### Audit fees

- There continues to be some pressure on audit fees. During 2010/11, fees have again been affected by entity-specific issues, in addition to some pressure on average charge-out rates as a result of auditors using a more senior team mix coupled with the return of some salary-driven pressure as the market for accountants and auditors begins to free up again.
- Figure 6 summarises the movements in audit fees from 2008/9 to 2010/11 based on those audit fees that had been agreed at the time when the analysis was prepared. It shows the fee movement by sector and how much is due to movements in audit hours and how much is due to the average hourly cost of carrying out audits.

**Figure 6**  
Analysis of movements in audit fees

|                    | 2009/10 to 2010/11 |                       |              |                        | 2008/09 to 2009/10 |                       |              |                        |
|--------------------|--------------------|-----------------------|--------------|------------------------|--------------------|-----------------------|--------------|------------------------|
|                    | Number of entities | Increase in total fee | Due to hours | Due to charge-out rate | Number of entities | Increase in total fee | Due to hours | Due to charge-out rate |
| Central government | 350                | 4.2%                  | 2.7%         | 1.5%                   | 310                | 4.6%                  | 4.3%         | 0.3%                   |
| Local government   | 370                | 3.2%                  | 1.6%         | 1.6%                   | 271                | 6.1%                  | 6.3%         | (0.2%)                 |
| Schools            | 2438               | 4.2%                  | 1.0%         | 3.2%                   | 2446               | 7.6%                  | 4.8%         | 2.8%                   |
| Total*             | 3158               | 3.9%                  | 2.0%         | 1.9%                   | 3027               | 5.8%                  | 5.1%         | 0.7%                   |

\* During the year, the Auckland "supercity" restructure resulted in the disestablishment of eight local authorities and a number of council-controlled organisations, and the establishment of Auckland Council and a number of new council-controlled organisations. Audits for a 16-month period were required for the disestablishing entities, and the first-year audits for the new entities are expected to be significantly more complex than normal. The fee movements in Figure 6 include the abnormal fees that result from those changes. If the entities affected by the changes were removed from the table for the 2010/11 year, the total fee movement for local government would be 4.4% (3.4% due to hours and 1.0% due to rates), and total fee movement would be 4.3% (2.6% due to hours and 1.7% due to rates).

**Figure 7**  
Financial performance of output class: Audit and assurance services

|                          | 2010/11 Actual \$000 | 2010/11 Supp. Estimates \$000 | 2009/10 Actual \$000 | 2008/09 Actual \$000 |
|--------------------------|----------------------|-------------------------------|----------------------|----------------------|
| <b>Income</b>            |                      |                               |                      |                      |
| Crown                    | 150                  | 150                           | 150                  | 150                  |
| Other                    | 65,194               | 64,797                        | 63,939               | 60,483               |
| <b>Expenditure</b>       | (65,043)             | (64,947)                      | (62,736)             | (60,602)             |
| <b>Surplus/(Deficit)</b> | <b>301</b>           | <b>0</b>                      | <b>1,353</b>         | <b>31</b>            |

From SIR DAVID GASCOIGNE

PO Box 2793  
Wellington  
New Zealand

Tel: +64 4 498 5120  
Mobile: +64 274 405 405  
e-mail: david.gascoigne@xtra.co.nz

3 August 2011

Mrs Lyn Provost  
Controller and Auditor-General  
PO Box 3928  
WELLINGTON

Dear Mrs Provost,

**ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES**

1. You have retained me as an independent reviewer of the basis upon which auditors are appointed to act on your behalf, and the basis upon which appropriate levels of audit fees are determined.
2. This is my report on those processes for the financial year ended 30 June 2011. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented. No limitation has been placed upon the manner in which I carry out my assignment. I have been free to inspect both paper and computer based files, documents and correspondence as I wished.
4. There are three distinct types of allocation process:
  - (a) an allocation made by the Auditor-General of an auditor for a given entity, in accordance with "the audit allocation model";
  - (b) an appointment of an auditor for a given entity, following a contestable tender; and
  - (c) a re-appointment for a further term of an appointed auditor's contract to audit a particular entity.
5. **Allocations:** In the past financial year, the Auditor-General appointed auditors for 61 new entities. That number includes 8 schools. (Apart from schools, these new entities include, for example, newly established Crown entities, new subsidiaries of existing entities, new entities resulting from mergers.) The "audit allocation model" under which those appointments were made has been the principal method of allocation since 2003. There is an established set of criteria for those appointments. There has been no evident dissatisfaction expressed by those entities either with the method or with the terms of any of the appointments effected during the year. The audit allocation model is currently undergoing a process of review and refinement (see paragraphs 22 to 24 below).

6. **Contestable Tenders:** No appointments were made by means of this process during the past year. The process still remains available, in particular circumstances, but the increasing sophistication and practicality of the allocation model mean that the use of contestable tenders is likely to occur only occasionally. A contestable tender process for the appointment of an auditor would most likely be used only for a large entity with a commercial focus.
7. **Re-appointments: generally:** Leaving aside the position as to auditors for schools (see the following paragraph 8), existing auditors were re-appointed during the financial year to audit 244 public entities and their subsidiaries for a further term. In addition, in 3 instances a change was effected, with a different auditor being appointed in place of an existing one. The circumstances leading to these latter appointments involved auditor independence and auditor/entity relationship issues. Again, in the case of all 247 appointments covered by this paragraph 7, a careful process has been followed. There have been no unresolved issues arising from the method or the terms of appointment.
8. **Reappointments: schools:** Every three years a major exercise takes place involving the appointment or re-appointment of auditors for approximately 2500 schools. That exercise was last carried out in 2009. It will be undertaken again in 2012, in respect of the three year period beginning on 1 January 2012.
9. Thus, for the OAG's financial year ended 30 June 2011, the main activity in relation to the appointment of auditors for schools has been where a new school has been established, or a private school has become integrated. In that regard, appointments of auditors have been made for 8 new or integrated schools (see paragraph 5).
10. In addition, the auditors of 3 schools were changed after the first year of the new contract period. And the auditors for 3 other schools, who had been appointed for just the 2010 year, were reappointed for the remainder of the schools' contract period.
11. Again, there was no evident dissatisfaction with the processes described in the two preceding paragraphs.
12. **Issues to fees:** During the course of the past year, a number of entities raised questions or made complaints about the level of increase in audit fees or, occasionally, about auditor performance. Some of these have been informal in nature (and have been readily and promptly resolved). Others have been more formal in nature (with well articulated letters expressing the grounds for an entity's concern).
13. The basis for these claims is, generally, that in difficult financial times, when an entity's revenue may be static or falling, it is neither appropriate nor fair that an audit fee should be allowed to move upwards.
14. The OAG has a detailed data-base which is becoming increasingly sophisticated and precise. It provides an analysis of audit fees for all public entities. The contributing components (hours and rates, levels of experience) of the fees for all types and sizes of entities, year by year, individually and sector by sector, may be compared and contrasted. In particular, the movement in hourly rates and in time expended on an audit, or a range of audits, can be accurately identified.
15. The OAG uses this material, constructively, to help respond to enquiries or complaints received. The response is usually given by the OAG direct to the entity, though sometimes the auditor responds, using the data supplied by the OAG. In either case, the data which is relevant to a particular entity is recorded in an explanatory letter, along with a description of the various factors lying behind the cost increases.

3

16. In a small number of cases, it is apparent that the actions of the entity itself have contributed to the increase in fees. For example, in some cases the materials that will require audit are poorly presented, incomplete, contradictory or have several iterations. Those factors tend to result in an increase in the auditor's time, with a consequent increase in fees.
17. In the great majority of cases, the detailed explanation given to entities by the OAG (or, in some cases, by an auditor using data supplied by the OAG) has led to a resolution, or to a withdrawal of the complaint, or to no further action being taken by the entity. In the year under review I inspected the records in respect of 19 entities which had expressed concern about fee increases or auditor performance. In all but 6 of those cases a resolution had been achieved. And in those 6 cases the issues seem to me to be proceeding satisfactorily towards a conclusion. In other words, as at 30 June 2011, there were no instances of significant and continuing contention.
18. My review of the materials for the financial year to 30 June 2011 has shown that where, occasionally, there is some dissatisfaction expressed by entities or auditors, it tends to centre upon two particular issues.
19. The first is related to auditor performance or auditor/entity relationship. This arises very infrequently, but when it does, it has consistently been resolved. The resolution occasionally entails a well-considered change in the appointed auditor. I have seen nothing untoward in this regard.
20. The second relates to the level of fee increases. Viewed broadly, the role of the Auditor-General, acting through the OAG, is to ensure that audit fees are fair and reasonable. The OAG provides detailed information, when needed, with a view to assisting the entity and the auditor to come to an accord about this. As a former Auditor-General has said, it is important that an audit fee is struck, in each case, that gives the entity, the Auditor-General and Parliament "confidence that an audit may be conducted to the standards required of public sector entities and provides a fair return (but no more than that) to the auditor to do the job that all expect." Overall, my view is that that objective has been substantially achieved during the past year.
21. **Other issues carried forward:** In my report last year, I mentioned that a significant amount of preparatory work was being done by the OAG, under your guidance, on two issues. The first has had no direct effect on the allocation of audits or the fixing of fee levels in the past year. But the work is important and it will influence audit allocation decisions in the future. The second has had practical effect in the year ended 30 June 2011. I will deal briefly with those two issues in the following paragraphs 22 to 26.
22. **Review of the allocation model:** Since your appointment as Auditor-General, you have initiated and have been overseeing a review of the audit allocation model. The review proceeds on the basis that the current model is essentially fit for purpose. But it is capable of improvement, to make it more efficient and more responsive to changing circumstances.
23. I have read the evolving papers about the review. There is a clear articulation of the essential principles of allocation, and how they are to be kept in balance. And there is a clear recognition that any change in the model, when put into practice, must be sensitively and carefully managed. The need for consultation and flexibility is well recognised.
24. The work on the review of the model still has some little distance to go. Nonetheless, I consider that the work that has been done so far seems to be well-considered and practical.

25. **The Auckland transitions:** I have reviewed the work that was done by the OAG under your supervision to prepare for – and then implement – the changes required in audit arrangements resulting from the amalgamation of Councils and Council Controlled Organisations that took effect in Auckland as at 31 October 2010.
26. Multiple changes were required in those organisations, eventually affecting many of their processes (for example, rating systems, payrolls). The extensive range of knowledge and experience of the OAG was put to good effect. Its planning was timely and comprehensive. Its relationship with the new Auckland Council and the entities under its control was a productive one. The result is that, overall, the transitions as they relate to public audits have, in my view, been implemented on a rational and effective basis.
27. **A further issue:** The OAG has, under your guidance, been developing a new publication, provisionally entitled “Auditor appointments and audit fees in the public sector”. This is a work in progress, and I will not comment upon it now – except to say that it seems a useful step to take. It is aimed at clarifying the processes involved, and should help the entities and auditors concerned be better equipped to participate effectively.
28. **Conclusions:** I now state my overall conclusions. These follow from what I have said in the preceding paragraphs of this letter. My conclusions are:
- (a) On the basis of the written material I have seen and the explanations I have been given by OAG personnel, I consider that the processes adopted by the Auditor-General and by the OAG in relation to the allocation and appointment of auditors for audits falling within the Auditor-General’s mandate, during the financial year to 30 June 2011, have been appropriate for their purpose, and have been applied in a way which is fair and responsible, having regard to the respective interests of the parties concerned;
  - (b) That observation applies both to the way in which auditors have been appointed or re-appointed, and to the way in which questions as to the appropriateness of a proposed audit fee have been dealt with;
  - (c) In cases where issues have been raised by entities as to fee levels or as to auditor performance, those issues have been, or are being, dealt with fairly and professionally.
29. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated and fees have been set, in the financial year to 30 June 2011, have been carried out with due probity and objectivity.

Yours sincerely



Sir David Gascoigne, KNZM, CBE

## Supporting accountability to Parliament

This output class includes two outputs:

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

### Services to Parliament

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:
  - reporting 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;
    - working with Auditors-General in other countries to encourage, promote, and advance capability and co-operation in the field of public audit;
    - supporting good governance in the Pacific through our role as Secretariat of the Pacific Association of Supreme Audit Institutions (PASAI), and the Auditor-General's representation of the PASAI region on the governing board of the International Organisation of Supreme Audit Institutions (INTOSAI);
    - 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 Government of Australia);
    - being a member of various INTOSAI committees and working groups, including the Professional Standards Steering Committee (whose meeting we hosted in Wellington in June 2011), and chairing two working groups tasked with developing guidance for supreme audit institutions; and

- hosting international delegations, often at the request of Parliament or the Ministry of Foreign Affairs and Trade, and providing opportunities to exchange information and build networks internationally.

### The Controller function

The Controller function of the Controller and Auditor-General provides independent assurance to Parliament that the 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.

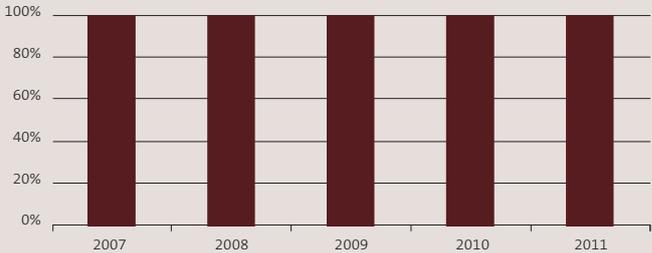
The OAG and appointed auditors carry out standard procedures to give effect to the Controller function in keeping with the Auditor-General’s auditing standards and a Memorandum of Understanding with the Treasury. This involves reviewing monthly reports provided by the Treasury, and advising the Treasury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

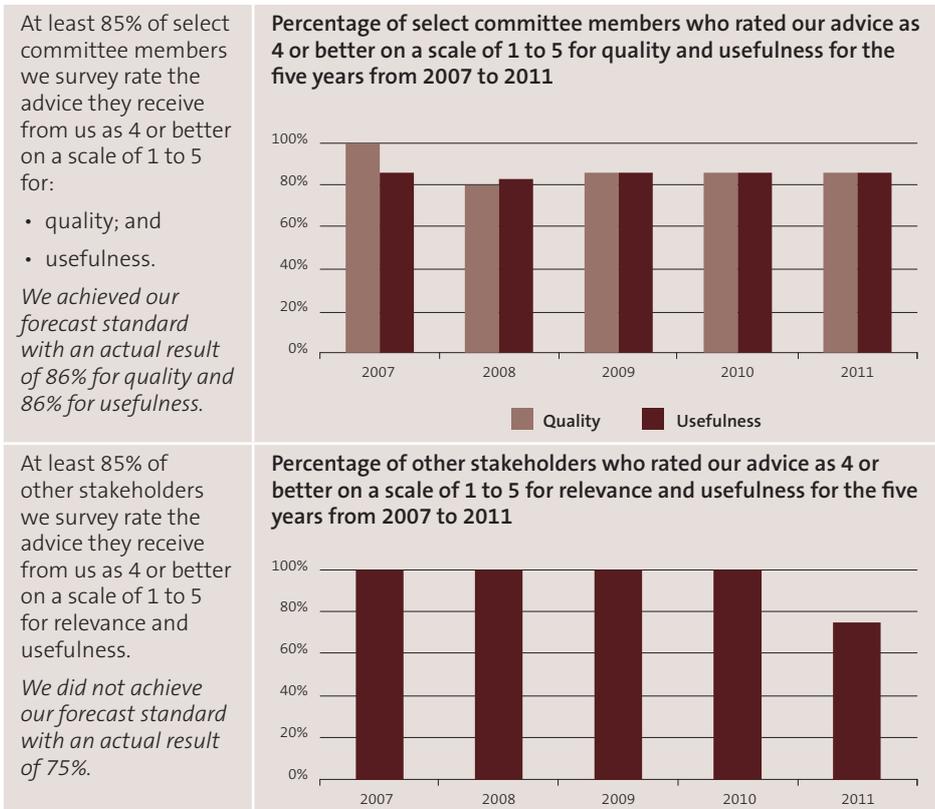
Each year, we report to Parliament on the significant issues arising from the operation of the Controller function.

**Figure 8**  
Supporting accountability to Parliament – main impact measures and standards

| 2010–13 main impact measures and standards   | Actual   |      |            |      |     |      |     |      |     |      |     |      |     |
|--|--|------|------------|------|-----|------|-----|------|-----|------|-----|------|-----|
| <p>Select committees confirm that the Office’s advice assists them in Estimates of Appropriation and financial review examinations.</p> <p><i>The actual result for 2010/11 was 86%.</i></p>                 | <p><b>Percentage of select committee members who confirmed that our advice assisted them in Estimates of Appropriations and financial review examinations for the five years from 2007 to 2011</b></p> <table border="1"> <caption>Data for Figure 8: Percentage of select committee members who confirmed that our advice assisted them in Estimates of Appropriations and financial review examinations for the five years from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>83%</td> </tr> <tr> <td>2008</td> <td>95%</td> </tr> <tr> <td>2009</td> <td>95%</td> </tr> <tr> <td>2010</td> <td>95%</td> </tr> <tr> <td>2011</td> <td>83%</td> </tr> </tbody> </table> | Year | Percentage | 2007 | 83% | 2008 | 95% | 2009 | 95% | 2010 | 95% | 2011 | 83% |
| Year   | Percentage   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2007   | 83%  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2008   | 95%  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2009   | 95%  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2010   | 95%  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2011   | 83%  |      |            |      |     |      |     |      |     |      |     |      |     |
| <p>Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.</p> | <p>The operation of the monthly Controller process and the appropriation audit were carried out to ensure that this measure as achieved each year for the five years from 2007 to 2011.</p>  |      |            |      |     |      |     |      |     |      |     |      |     |

**Figure 9**  
**Services to Parliament – output measures and standards**

| 2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)  | Actual  |      |            |      |      |      |      |      |      |      |      |      |      |
|---|---|------|------------|------|------|------|------|------|------|------|------|------|------|
| <p>Reports and advice are given to select committees and Ministers at least two days before an examination, unless otherwise agreed.</p> <p><i>We achieved our forecast standard with an actual result of 100%.</i></p>   | <p><b>Percentage of reports and advice given to select committees and Ministers at least two days before an examination, unless otherwise agreed, for the five years from 2007 to 2011</b></p>  <table border="1"> <caption>Data for Figure 9: Percentage of reports and advice given to select committees and Ministers at least two days before an examination, unless otherwise agreed, for the five years from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>100%</td> </tr> <tr> <td>2008</td> <td>100%</td> </tr> <tr> <td>2009</td> <td>100%</td> </tr> <tr> <td>2010</td> <td>100%</td> </tr> <tr> <td>2011</td> <td>100%</td> </tr> </tbody> </table> | Year | Percentage | 2007 | 100% | 2008 | 100% | 2009 | 100% | 2010 | 100% | 2011 | 100% |
| Year  | Percentage  |      |            |      |      |      |      |      |      |      |      |      |      |
| 2007  | 100%  |      |            |      |      |      |      |      |      |      |      |      |      |
| 2008  | 100%  |      |            |      |      |      |      |      |      |      |      |      |      |
| 2009  | 100%  |      |            |      |      |      |      |      |      |      |      |      |      |
| 2010  | 100%  |      |            |      |      |      |      |      |      |      |      |      |      |
| 2011  | 100%  |      |            |      |      |      |      |      |      |      |      |      |      |
| <p>An internal review of a sample of financial review, Estimates, 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. (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><i>Not applicable.</i></p> | <p>A review undertaken in June 2011 confirmed that the appropriate systems are in place and they operate effectively</p> <p>2009 and 2010 – there was no internal review in these years.</p> <p>2008 – confirmed internal review of a sample of reports.</p>  |      |            |      |      |      |      |      |      |      |      |      |      |



We reported on the results of our 2009/10 annual audits to Parliament, presenting our central government results in two volumes in December 2010 and March 2011. For local government, we reported on the results of our annual audits in April 2011 and on the results of our Long-Term Council Community Plan audits in August 2010.

Our results for this output class show that our work continues to play an important part in supporting accountability to Parliament. This is pleasing, given the continuing high demand for advice to select committees. Our stakeholder feedback report notes that the feedback received and the ratings show that the Office is continuing to perform at a high level, with stakeholders valuing the professional and impartial advice and guidance that they receive from the Office.

Select committee members continued to rate the quality and usefulness of our advice at 86% – similar to the ratings we have had for the previous three years. The same percentage of select committee members surveyed also agree that the Office’s advice assists in their Estimates of Appropriation and financial review examinations. However, this is a decrease from 100% in the previous three years. We also saw a decline in the rating of other stakeholders for the relevance and

usefulness of our advice. The small number of stakeholders we survey does lead to significant shifts in percentage terms from year to year. For each of these two instances, all but one stakeholder rated us 4 or better on a scale of one to five.

The feedback from our stakeholder interviews shows that the Office is continuing to perform at a high level. We received useful improvement suggestions from our stakeholders, the main themes of which were to continue to offer more insight and advice from what we learn through our annual and discretionary work to drive performance improvement in the public sector.

This feedback aligns well with our strategic initiative over the next three years to focus on good analysis and reporting of sector information. We will be carrying out work to better identify, categorise, and manage the flow of information from annual audits into our services to Parliament and carrying out performance audits and inquiries. We want to communicate to Parliament and our other stakeholders what we learn from our annual and discretionary work, so they can get the best from what we know and respond to issues and concerns as they see them.

We will also take account of our stakeholder feedback in the review we are doing in the first half of 2011/12. We are reviewing our various advisory products to select committees to ensure that they remain relevant and useful, and achieve their purpose of supporting accountability to Parliament.

**Figure 10**  
The Controller function – output measures and standards

| 2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)  | Actual   |
|---|--|
| 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.<br><br><i>We achieved our forecast standard.</i> | 2010/11 – all monthly procedures have been followed and agreed time frames achieved.<br><br>2006-10 – all monthly procedures have been followed and agreed time frames achieved. |

|   |  |
|---|--|
| <p>Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately.</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> <p>Not applicable.</p> | <p>No internal review was undertaken in 2010/11.</p> <p>2008/09 – An internal review was carried out in May 2009, which confirmed that the control 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.</p> |
|---|--|

\* This action is based on the requirement in section 65Y of the Public Finance Act 1989 for the Treasury to submit reports to the Auditor-General following the preparation (under section 31A) of financial statements of the Government “after the end of each month (except for the first 2 months and the last month) in each financial year”.

**Figure 11**  
Financial performance of output class: Supporting accountability to Parliament

|                          | 2010/11<br>Actual<br>\$000 | 2010/11<br>Supp.<br>Estimates<br>\$000 | 2009/10<br>Actual<br>\$000 | 2008/09<br>Actual<br>\$000 |
|--------------------------|----------------------------|--|----------------------------|----------------------------|
| <b>Income</b>            |                            |  |                            |                            |
| Crown                    | 2,460                      | 2,460                                  | 2,460                      | 2,460                      |
| Other                    | 0                          | 0                                      | 0                          | 7                          |
| <b>Expenditure</b>       | (2,442)                    | (2,460)                                | (2,342)                    | (2,457)                    |
| <b>Surplus/(Deficit)</b> | <b>18</b>                  | <b>0</b>                               | <b>118</b>                 | <b>10</b>                  |

## Performance audits and inquiries

The Public Audit Act 2001 provides the Auditor-General with 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
- 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.

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 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 in relation to 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.

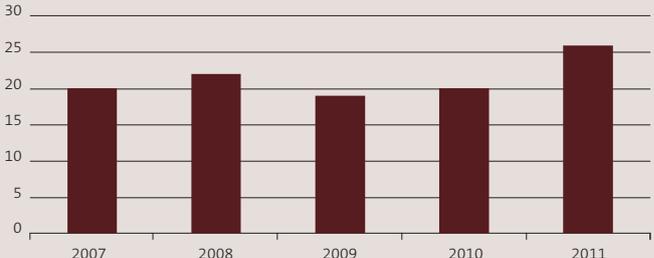
**Figure 12**  
Performance audits and inquiries – main impact measures and standards

| 2010-13 main impact measures and standards   | Actual   |
|--|--|
| Entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of performance audits published in the previous year. The results are presented to the Officers of Parliament Committee in our annual follow-up report. | <p>2010/11 – In April 2011, we reported to Parliament on how well five public entities have implemented our recommendations. The entities had generally accepted our recommendations, but progress in implementing them had been faster for some recommendations than others. For those entities, and for other public entities, communicating results is an ongoing challenge.</p> <p>A selection of our performance audit reports were 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> |
| Entities take action in response to concerns identified in inquiry reports, as assessed by follow-up on a sample of significant and major inquiries undertaken in the previous year.   | <p>2011 – We followed up on three inquiries. In all cases, the entity accepted our comments and took action to address the concerns.</p> <p>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>  |

### Performance audits

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. It provides Parliament with assurance about specific issues or programmes and how well these are managed by the relevant public entity or entities. We also do other studies that may result in published good practice guidance on topical issues of public sector accountability and performance to assist public entities to better manage these issues.

**Figure 13**  
Performance audits – output measures and standards

| Measures and standards of output delivery for 2010/11 (and forecast for 2011/12 and 2012/13)  | Actual   |      |                   |      |    |      |    |      |    |      |    |      |    |
|---|--|------|-------------------|------|----|------|----|------|----|------|----|------|----|
| <p>We complete 19 to 21 reports on matters arising from performance audits and other studies, and inquiries.</p> <p><i>We achieved our forecast standard. The actual result for 2010/11 was 26.</i></p>                             | <p><b>Completed reports on matters arising from performance audits and other studies, and inquiries from 2007 to 2011</b></p>  <table border="1"> <caption>Data for Figure 13: Completed reports from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Number of Reports</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>19</td> </tr> <tr> <td>2008</td> <td>21</td> </tr> <tr> <td>2009</td> <td>18</td> </tr> <tr> <td>2010</td> <td>19</td> </tr> <tr> <td>2011</td> <td>26</td> </tr> </tbody> </table> | Year | Number of Reports | 2007 | 19 | 2008 | 21 | 2009 | 18 | 2010 | 19 | 2011 | 26 |
| Year  | Number of Reports  |      |                   |      |    |      |    |      |    |      |    |      |    |
| 2007  | 19   |      |                   |      |    |      |    |      |    |      |    |      |    |
| 2008  | 21   |      |                   |      |    |      |    |      |    |      |    |      |    |
| 2009  | 18   |      |                   |      |    |      |    |      |    |      |    |      |    |
| 2010  | 19   |      |                   |      |    |      |    |      |    |      |    |      |    |
| 2011  | 26   |      |                   |      |    |      |    |      |    |      |    |      |    |
| <p>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).</p> <p><i>We achieved our forecast standard</i></p> | <p>2011 – Feedback received from select committees and other stakeholders mainly supported our proposals and approach, with a specific suggestion made for future years being the performance of the New Zealand Police in road safety enforcement.</p> <p>2007 to 2010 – Feedback received from select committees and other stakeholders mainly supported our proposals and approach.</p>   |      |                   |      |    |      |    |      |    |      |    |      |    |

| <p>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:</p> <ul style="list-style-type: none"> <li>• quality; and</li> <li>• usefulness.</li> </ul> <p><i>We achieved our forecast standard for quality, with an actual result of 88%.</i></p> <p><i>We did not achieve our forecast standard for usefulness, with an actual result of 75%.</i></p> | <p><b>Percentage of select committee, local government, and other stakeholders who are satisfied with the quality and usefulness of our performance audit reports for the five years from 2007 to 2011</b></p> <table border="1"> <caption>Percentage of select committee, local government, and other stakeholders who are satisfied with the quality and usefulness of our performance audit reports for the five years from 2007 to 2011</caption> <thead> <tr> <th>Year</th> <th>Quality (%)</th> <th>Usefulness (%)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>95</td> <td>85</td> </tr> <tr> <td>2008</td> <td>50</td> <td>65</td> </tr> <tr> <td>2009</td> <td>95</td> <td>65</td> </tr> <tr> <td>2010</td> <td>80</td> <td>95</td> </tr> <tr> <td>2011</td> <td>85</td> <td>75</td> </tr> </tbody> </table> | Year           | Quality (%) | Usefulness (%) | 2007 | 95 | 85 | 2008 | 50 | 65 | 2009 | 95 | 65 | 2010 | 80 | 95 | 2011 | 85 | 75 |
|---|---|----------------|-------------|----------------|------|----|----|------|----|----|------|----|----|------|----|----|------|----|----|
| Year  | Quality (%)   | Usefulness (%) |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| 2007  | 95  | 85             |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| 2008  | 50  | 65             |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| 2009  | 95  | 65             |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| 2010  | 80  | 95             |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| 2011  | 85  | 75             |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| <p>Our performance audit methodology reflects good practice for undertaking such audits, as assessed every second year by the Australian National Audit Office.</p> <p><i>We achieved our forecast standard.</i></p>  | <p>2010/11 – The Australian National Audit Office (ANAO) reviewed two performance audits and found that they met the majority of the review criteria and were generally conducted in keeping with key OAG processes and practices.</p> <p>2008/09 – The ANAO 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 ANAO reviewed two performance audits and endorsed the quality of the reports.</p>  |                |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |
| <p>Each year, independent reviews of two performance audits are undertaken. These reviews confirm 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.</p> <p><i>We achieved our forecast standard.</i></p>                             | <p>2010/11 – Two of our reports were independently reviewed by a panel of reviewers used by the Australasian Council of Auditors-General (ACAG) and two New Zealand reviewers. Overall, the reviewers’ ratings showed that one report was rated higher than reports from other audit offices that the ACAG panel had reviewed over the past three years, and higher than the average for our reports reviewed over the past three years. The other report was rated below the average for reports from other offices and below the average score for our reports.</p> <p>2007 to 2010 – Independent reviews of two performance audits confirmed the quality of reports, and provided feedback on areas for us to improve.</p>   |                |             |                |      |    |    |      |    |    |      |    |    |      |    |    |      |    |    |

Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried during a three-year period.)

*We achieved our forecast standard.*

Internal review in 2010/11 confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.

There was no internal review in 2008/09 or 2009/10.

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.

### Reports on performance audits, other studies, and major inquiries completed during 2010/11

In 2010/11, we completed 26 reports on matters arising from performance audits, other studies, and major inquiries. Each of the reports that we complete is unique and requires a different level of time and resource, so the number of reports that we produce can be expected to fluctuate from year to year.

The 26 reports we completed during 2010/11 cover a broad range of issues and different types of report, including audit and inquiry reports, reports promoting good practice and learning from experience, a checklist for use by school boards of trustees and principals, and guidance to members of local authorities. We presented reports in two of our areas of key focus:

- Auckland – on the transition to the amalgamated Auckland Council; and
- performance reporting – on examples of better practice in forecasting and on how cost-effectiveness can be demonstrated in annual reporting.

The reports are listed in Figure 14. Appendix 1 on pages 103–114 summarises each of these reports. Copies of published reports are available on our website: [www.oag.govt.nz](http://www.oag.govt.nz).

**Figure 14**  
Performance audits, other studies, and major inquiries completed in 2010/11

| Performance audits and other studies from our 2010/11 annual plan                         |   |
|---|---|
| 1   | <i>Spending on supplies and services by district health boards: Learning from examples</i><br>(published in September 2010)   |
| 2   | <i>Matters arising from Auckland Council's planning document</i><br>(published in December 2010)  |
| 3   | <i>Public entities' progress in implementing the Auditor-General's recommendations</i><br>(published in April 2011)   |
| 4   | <i>Inland Revenue Department: Making it easy to comply</i><br>(published in June 2011)  |
| 5   | <i>Central government: Cost-effectiveness and improving annual reports</i><br>(published in June 2011)  |
| 6   | <i>Final audits of Auckland's dissolved councils, and managing leaky home liabilities</i><br>(published in June 2011)   |
| Performance audits and other studies from previous annual plans                           |   |
| 7   | <i>Inland Revenue Department: Managing child support debt</i><br>(published in July 2010)   |
| 8   | <i>District health boards: Availability and accessibility of after-hours services</i><br>(published in September 2010)  |
| 9   | <i>New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network</i><br>(published in September 2010)                       |
| 10  | <i>Department of Internal Affairs: Administration of two grant schemes</i><br>(published in November 2010)  |
| 11  | <i>Defence Major Projects Report</i><br>(published in November 2010 by the Ministry of Defence and New Zealand Defence Force – overview and opinion by the Auditor-General) |
| 12  | <i>Sport and Recreation New Zealand: Improving how it measures its performance</i><br>(published in December 2010)  |
| 13  | <i>Ministry of Social Development: Managing the recovery of debt</i><br>(published in April 2011)   |
| 14  | <i>Progress in delivering publicly funded scheduled services to patients</i><br>(published in June 2011)  |
| Major inquiries and other studies not in our 2010/11 annual plan or previous annual plans |   |
| 15  | <i>Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations</i><br>(published in July 2010)   |
| 16  | <i>Inquiry into the Plumbers, Gasfitters, and Drainlayers Board</i><br>(published in August 2010)   |
| 17  | <i>Matters arising from the 2009-19 long-term council community plans</i><br>(published in August 2010)   |
| 18  | <i>Effectiveness of the Get Checked diabetes programme</i><br>(published in September 2010)   |

|    |  |
|----|--|
| 19 | <i>Guidance for members of local authorities about the local authorities (Members' Interests) Act 1968</i><br>(published in October 2010)    |
| 20 | <i>Inquiry into payments to chief executives of dissolving local authorities in Auckland</i><br>(published in October 2010)                  |
| 21 | <i>How the Department of Internal Affairs manages spending that could give personal benefit to Ministers</i><br>(published in December 2010) |
| 22 | <i>Provision of billboard for Len Brown's Mayoral Campaign</i><br>(published in February 2011)   |
| 23 | <i>Effective reporting on students' progress and achievement</i><br>(published in February 2011)   |
| 24 | <i>Central government: Case studies in reporting forecast performance information</i><br>(published in February 2011)                        |
| 25 | <i>District Health Boards: Learning from 2010-13 Statements of Intent</i><br>(published in February 2011)                                    |
| 26 | <i>Review of the Northland Events Centre</i><br>(published in May 2011)  |

### Progress with completion of our 2010/11 annual plan

On pages 65-70 of our Annual Plan 2010/11, we listed the 19 performance audits and other studies that we proposed to start in 2010/11. Our actual work programme varies from that planned in response to changing priorities, such as urgent work on new inquiries, and changes in government policy or entity circumstances affecting the timing or relevance of audits. As at 30 June 2011, we had completed five of the 19 proposed performance audits and other studies. Another 11 were at various stages of completion and scheduled to be published in 2011/12. We have deferred the other three proposed performance audits. Figure 17 shows details of the progress we have made in completing the proposed work programme set out in our 2010/11 annual plan.

**Figure 15**  
Progress with completion of our 2010/11 annual plan

| Performance audit or study |   | Status                  | References and notes  |
|----------------------------|---|-------------------------|---|
| 1                          | ONTRACK follow-up audit: Maintaining and renewing the rail network  | Under way               | Scheduled to be published in 2011/12  |
| 2                          | Freshwater quality in New Zealand: Effectiveness of management responses  | Completed after 30/6/11 | <i>Managing freshwater quality: Challenges for regional councils</i> (published in September 2011)                                      |
| 3                          | New Zealand Transport Agency: State highway maintenance – Part 2  | Completed after 30/6/11 | <i>New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway network</i> (published in September 2011) |
| 4                          | Transpower: Managing the national grid  | Completed after 30/6/11 | <i>Transpower New Zealand Limited: Managing risks to transmission assets</i> (published in October 2011)                                |
| 5                          | Housing New Zealand Corporation: Maintenance of state housing follow-up   | Deferred                | To consider ongoing relevance of this audit, given changes in the sector  |
| 6                          | Accident Compensation Corporation: Management of funds  | Deferred                | To consider ongoing relevance of this audit, given changes in the sector  |
| 7                          | New Zealand Customs Service: Effectiveness of the customs revenue assurance strategy and programme  | Completed after 30/6/11 | <i>New Zealand Customs Service: Providing assurance about revenue</i> (published in July 2011)  |
| 8                          | Quality assurance and administration of internally assessed standards for the National Certificate of Educational Achievement                       | Under way               | Scheduled to be published in 2011/12  |
| 9                          | Ministry of Health and district health boards: Provision of home-based support services for older people  | Completed after 30/6/11 | <i>Home-based support services for older people</i> (published in July 2011)  |
| 10                         | The role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools | Under way               | Scheduled to be published in 2011/12  |
| 11                         | Management of care and protection services for children and young people in care  | Deferred                | To consider ongoing relevance of this audit, given changes in the sector  |

|    |   |   |  |
|----|---|---|--|
| 12 | District Health Boards: Contract management practice                | Completed in 2010/11                                | <i>Spending on supplies and services by district health boards: Learning from examples</i> (published in September 2010)   |
| 13 | Review of reported performance information                          | Completed in 2010/11<br><br>Completed after 30/6/11 | <i>Central government: Cost-effectiveness and improving annual reports</i> (published in June 2011)<br><br><i>Local government: Improving the usefulness of annual reports</i> (published in September 2011) |
| 14 | The effectiveness of responses to Māori housing needs and demand    | Completed after 30/6/11                             | <i>Government planning and support for housing on Māori land</i> (published in September 2011)   |
| 15 | The demand for water – Auckland region                              | Completed   | <i>Planning to meet the forecast demand for drinking water in Auckland</i> (published in August 2011)  |
| 16 | Matters arising from our audit of the Auckland planning document    | Completed in 2010/11                                | <i>Matters arising from Auckland Council's planning document</i> (published in December 2010)  |
| 17 | Observations on the audits of Auckland councils being dissolved.    | Completed in 2010/11                                | <i>Final audits of Auckland's dissolved councils, and managing leaky home liabilities</i> (published in June 2011)   |
| 18 | The Treasury: Administration of the Retail Deposit Guarantee Scheme | Completed after 30/6/11                             | <i>The Treasury: Implementing and managing the Crown Retail Deposit Guarantee Scheme</i> (published in October 2011)   |
| 19 | Inland Revenue Department: The voluntary compliance strategy.       | Completed in 2010/11                                | <i>Inland Revenue Department: Making it easy to comply</i> (published in June 2011)  |

There are four other pieces of work from previous annual plans that we have decided to defer pending further consideration of changes in the respective sectors and whether our proposed audits remain relevant and valuable. These are work on:

- Department of Corrections: Managing prisoner employment;
- Department of Building and Housing: Effective management of tenancy services;
- Tertiary Education Commission: Monitoring of tertiary education institutions; and
- Ministry of Education: Effective management of the Crown's financial interests in integrated schools.

We have also decided to cancel a proposed performance audit of social marketing campaigns as our preliminary inquiries found that there were no significant issues warranting a performance audit of this topic.

### **The relevance and usefulness of our work programme**

We consulted with Parliament and other stakeholders to ensure that our programme of proposed performance audits and other studies would be relevant and useful to Parliament, public entities, and the public. The feedback we received mainly supported the proposals we made, with a specific suggestion made for future years to review the performance of the New Zealand Police in road safety enforcement.

### **The strength of our methodology**

Every second year, our performance audit methodology is assessed by the Australian National Audit Office (ANAO). The ANAO reviewed two of our performance audits in 2010/11 and found that they met most of the review criteria and were generally conducted in keeping with key OAG processes and practices. The review team identified clear reporting, strong analysis and evidence collection, and sound planning as our strengths. They also identified that we could improve the structure and content of the Auditor-General's overview, presentation of the scope of audits, and how we conduct multi-entity audits. We are encouraged by the generally positive findings from the ANAO's review, and will consider and adopt useful suggestions as part of continuing improvements to our performance audit work.

We also conduct internal quality assurance reviews on selected performance audit reports to confirm that reports are prepared in keeping with our performance audit methodology. The internal review in 2010/11 confirmed that appropriate systems and controls are in place to mitigate identified potential risks in conducting performance audits, and that reports are prepared in keeping with our performance audit methodology.

### **The quality and usefulness of our reports**

Each year, we seek the views of a small sample of select committee chairpersons, deputy chairpersons, and other stakeholders on the quality and usefulness of the performance audit reports that we have published. For 2010/11, we are pleased that 88% of the stakeholders we surveyed rated the quality of our performance audits highly, an increase from last year and above our target of 85%. The proportion of stakeholders rating the usefulness of our performance audit reports highly has dropped to 75% in 2010/11 from 100% the year before,

falling below our target of 85%. One person thought that we could carry out wider benchmarking of public sector agencies against the private sector.

Overall, the proportion of stakeholders rating both the quality and usefulness of our performance audit reports highly has fluctuated during the last five years. The extent of the fluctuation is partly a reflection of the relatively small number of stakeholders that we survey each year, which means that one or two rating changes can affect the percentages significantly. We are encouraged that the trend during the last four years is that stakeholders continue to rate the quality and usefulness of our performance audit reports highly, and our aim is to consistently meet or exceed our targets.

Each year, we also have two of our performance audit reports independently reviewed to assess 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. For 2010/11, two of our reports were independently reviewed by a panel of reviewers used by the Australasian Council of Auditors-General (ACAG) and a New Zealand reviewer.

Overall, the reviewers' ratings showed that our progress report on the Civil Aviation Authority was rated higher than reports from other audit offices that the ACAG panel had reviewed over the past three years, and higher than the average for our reports reviewed over the past three years. The other report was rated slightly below the average for reports from other offices and below the average for our reports.

Many of the reviewers commented on the overall quality and value that the reports represented. They also noted that, overall, the reports were well presented and easy to understand. Other strengths noted were that:

- the purpose of the reports and their scope was clear;
- the findings of the reports were clearly tied in to the evidence that was presented, and good analysis was used to present conclusions; and
- the reports used appropriate methodologies to answer the audit questions.

The reviewers noted the following areas where we could improve our reports:

- the degree of seriousness and risk around some of the findings could be made clearer and we could better explain the scale of problems that we identify;
- our reports could include cost-benefit analysis applied to the recommendations; and
- we could refer more to best practice overseas.

Overall, we were pleased by the positive and useful feedback provided from the reviews, which we will incorporate as part of continuing improvements to our performance audit work. We are committed to adding value through insightful assessment of the effectiveness and efficiency of the activities we report on and to continuously strengthening the depth and relevance of our performance audits and other studies.

### Inquiries

The Auditor-General has the discretion to inquire into a public entity's use of resources. The Auditor-General can carry out inquiries on her own initiative and when correspondence from the public draws attention to potential issues. A few such issues lead to major inquiries. We also administer the Local Authorities (Members' Interests) Act 1968, which governs the financial interests of members of local authorities.

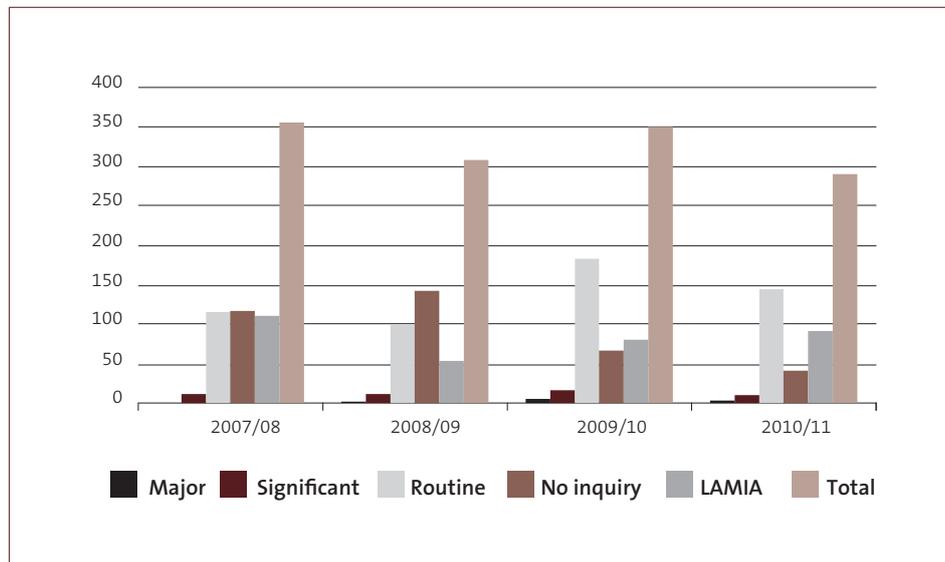
Each year, we usually receive:

- 200 to 300 requests for inquiries; and
- 50 to 100 enquiries under the Local Authorities (Members' Interests) Act.
- We received slightly fewer requests for inquiries during 2010/11 – 196 new requests for inquiries and 89 requests on Members' Interests Act matters. We had carried forward a total of 23 requests from the previous year, and ended the year carrying forward 18 requests. In terms of workflow, we usually have about 20 inquiry matters open at any point in time.

**Figure 16**  
Number and type of inquiries completed

|              | 2010/11    | 2009/10    | 2008/09    | 2007/08    |
|--------------|------------|------------|------------|------------|
| Major        | 3          | 5          | 2          | 0          |
| Significant  | 10         | 16         | 11         | 11         |
| Routine      | 144        | 182        | 99         | 115        |
| No inquiry   | 41         | 66         | 142        | 116        |
| LAMIA*       | 91         | 80         | 53         | 110        |
| <b>Total</b> | <b>289</b> | <b>349</b> | <b>307</b> | <b>354</b> |

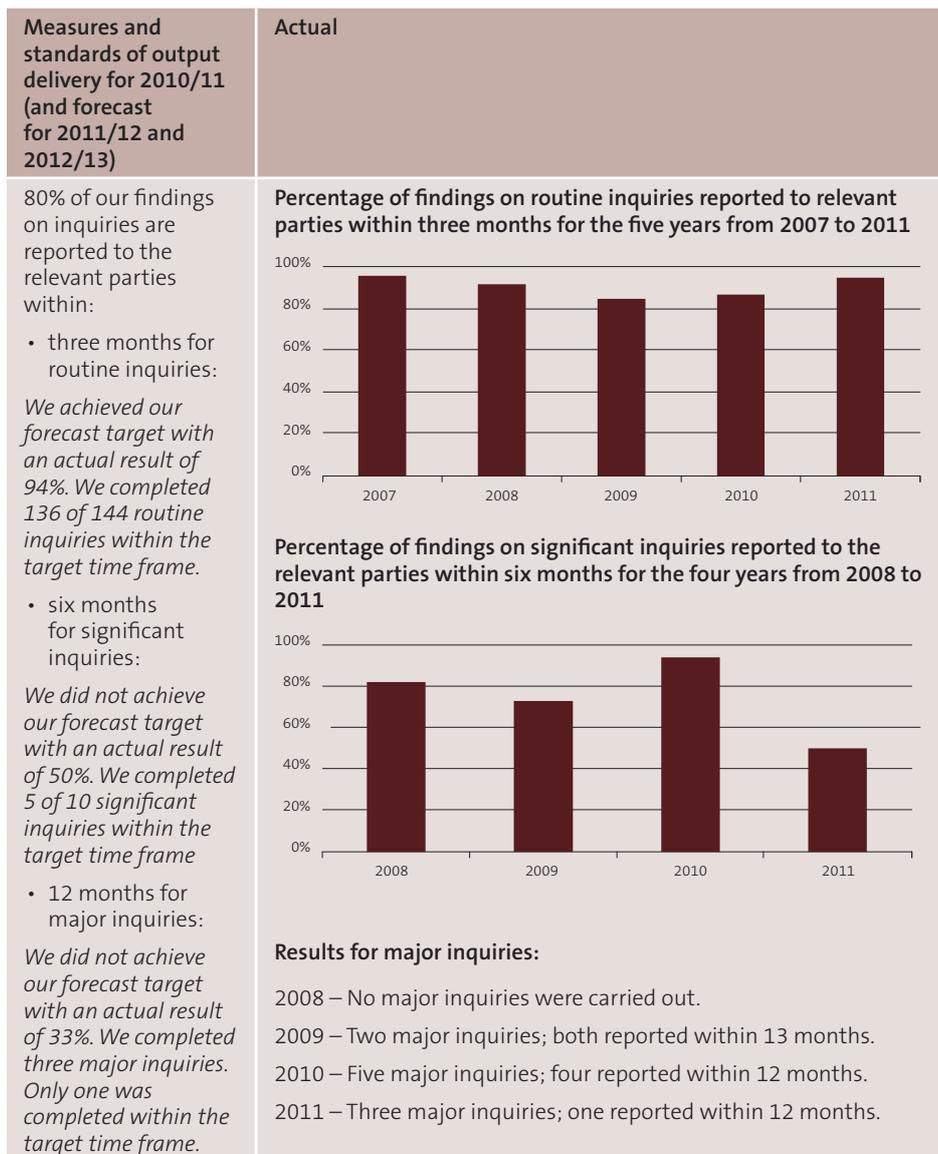
\* Local Authorities (Members' Interests) Act 1968.

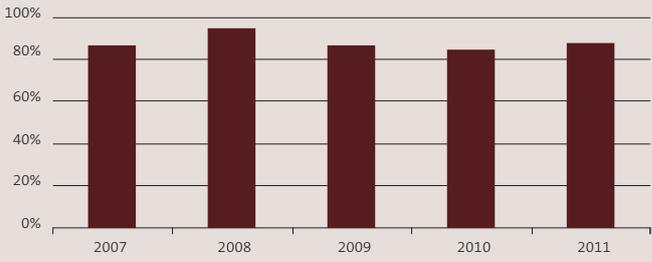


## Our performance

- As signalled in last year's annual report, the number of larger and more complex inquiries that we have dealt with in recent years had placed some strain on our resources and affected our timeliness. In particular, when we began the year, we were still working on some longstanding major and significant inquiries. We completed the two longstanding major inquiries in July and August 2010 – *Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations and Inquiry into the Plumbers, Gasfitters, and Drainlayers Board* – and concluded the various significant inquiries later in the year. We maintained the flow of routine work throughout the year, and have been able to complete new inquiries within our timeliness targets. By 30 June 2011, we had largely “caught up”, and the volume of work at present is manageable.
- We hope to improve our performance further in the coming year. To this end, we have made a number of changes to our internal processes to streamline our work, and have revised our public information on what we do and do not look at in inquiries to explain more clearly to people when it is appropriate to come to us and what to expect.

**Figure 17**  
**Inquiries – output measures and standards**



| <p>For enquiries under the Local Authorities (Members' Interests) Act 1968, we complete 80% of enquiries within 30 working days.</p> <p><i>We achieved our forecast target with an actual result of 88%. We completed 80 of 91 requests within the target time frame.</i></p>   | <p><b>Percentage of enquiries under the Local Authorities (Members' Interests) Act 1968 completed within 30 working days for the five years from 2007 to 2011</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>82%</td> </tr> <tr> <td>2008</td> <td>88%</td> </tr> <tr> <td>2009</td> <td>82%</td> </tr> <tr> <td>2010</td> <td>80%</td> </tr> <tr> <td>2011</td> <td>82%</td> </tr> </tbody> </table> | Year | Percentage | 2007 | 82% | 2008 | 88% | 2009 | 82% | 2010 | 80% | 2011 | 82% |
|---|---|------|------------|------|-----|------|-----|------|-----|------|-----|------|-----|
| Year  | Percentage  |      |            |      |     |      |     |      |     |      |     |      |     |
| 2007  | 82%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2008  | 88%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2009  | 82%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2010  | 80%   |      |            |      |     |      |     |      |     |      |     |      |     |
| 2011  | 82%   |      |            |      |     |      |     |      |     |      |     |      |     |
| <p>Responses to requests for inquiries, and our administering of the Local Authorities (Members' Interests) Act 1968 requests, are in accordance with relevant policies, procedures, and standards, as confirmed by internal quality assurance review.</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> | <p>2010/11 - Reviews were completed for both the general inquiries and Members' Interests inquiries systems, and confirmed that requests are undertaken in accordance with relevant policies, procedures, and standards.</p> <p>No internal quality assurance review was done in 2009/10</p> <p>No internal quality assurance review was done in 2008/09.</p>   |      |            |      |     |      |     |      |     |      |     |      |     |

We completed and presented to Parliament the following reports on major inquiries during 2010/11:

- *Inquiry into the New Zealand Defence Force payments to officers seconded to the United Nations* (July 2010);
- *Inquiry into the Plumbers, Gasfitters, and Drainlayers Board* (August 2010); and
- *How the Department of Internal Affairs manages spending that could give personal benefit to Ministers* (December 2010).

In each case, we identified significant problems. We intend to follow up on each of these reports to assess progress with remedying the problems we identified, once the relevant agencies have had a reasonable opportunity to make changes.

We also completed and published our findings on several significant local government issues that attracted attention:

- *Inquiry into payments to chief executives of dissolving local authorities in Auckland* (October 2010);
- *Provision of billboard for Len Brown's Mayoral Campaign* (February 2011); and
- *Review of the Northland Events Centre project* (May 2011).

### The Local Authorities (Members' Interests) Act 1968

In late 2010, our work relating to the Members' Interests Act was dominated by the local authority elections (held in October 2010). Much of the increase in the number of issues we dealt with was caused by election-related queries, because the Act contains some complex rules that limit eligibility to take office. We also contributed a segment on the Act to the training for new members that Local Government New Zealand provided around the country.

In our last annual report, we recorded that we had written a letter, jointly with the president of Local Government New Zealand, to the Minister of Local Government setting out our concerns with the Act and asking for it to be reviewed. We are pleased to note that the Minister has recently initiated a full review and published a discussion paper on options for reform, which was released on 24 August 2011. We will co-operate closely with the Department of Internal Affairs as the review progresses.

**Figure 18**  
Financial performance of output class: Performance audits and inquiries

|                          | 2010/11<br>Actual<br>\$000 | 2010/11<br>Supp.<br>Estimates<br>\$000 | 2009/10<br>Actual<br>\$000 | 2008/09<br>Actual<br>\$000 |
|--------------------------|----------------------------|--|----------------------------|----------------------------|
| <b>Income</b>            |                            |  |                            |                            |
| Crown                    | 6,587                      | 6,587                                  | 6,587                      | 6,587                      |
| Other                    | 0                          | 0                                      | 0                          | 17                         |
| <b>Expenditure</b>       | (5,991)                    | (6,587)                                | (6,044)                    | (6,159)                    |
| <b>Surplus/(Deficit)</b> | <b>596</b>                 | <b>0</b>                               | <b>543</b>                 | <b>445</b>                 |



Part 3  
**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.

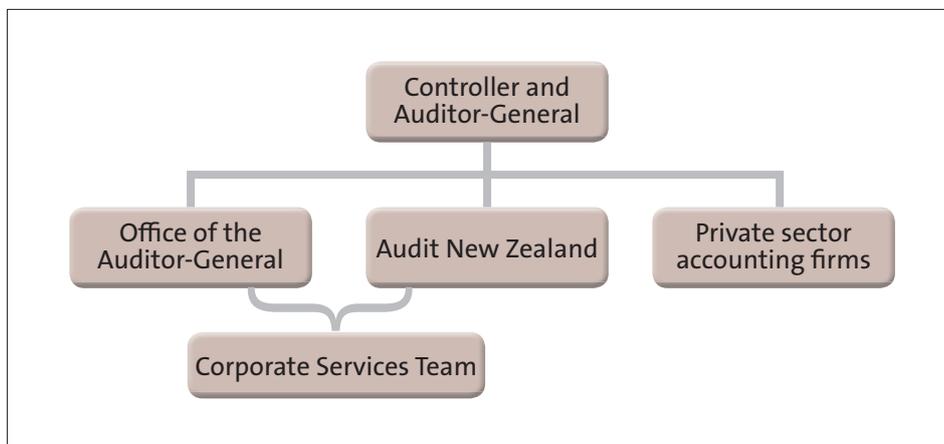
### The organisation

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 50 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 19**  
Our operating model



The core expertise of the Auditor-General 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

We will continue to recruit a number of new staff each year. Some of these will be experienced professionals – replacing those who have left us – but we also hire a number of accounting graduates. When evaluating candidates, we are careful to select people who have not only the required expertise but also a strong affinity with the core ethical and public service values of the Office. Through their work for the Office, we expect to see our staff develop both their vocational and leadership expertise, strengthening their contribution to the Office and the public sector, and being sought by other public sector organisations for their knowledge of, and contribution to, improving public sector performance.

We will continue our focus on each individual's needs in developing skills identified in our competency frameworks, on our leadership development programmes, and on improving the level of engagement of our people (as measured by our annual staff survey).

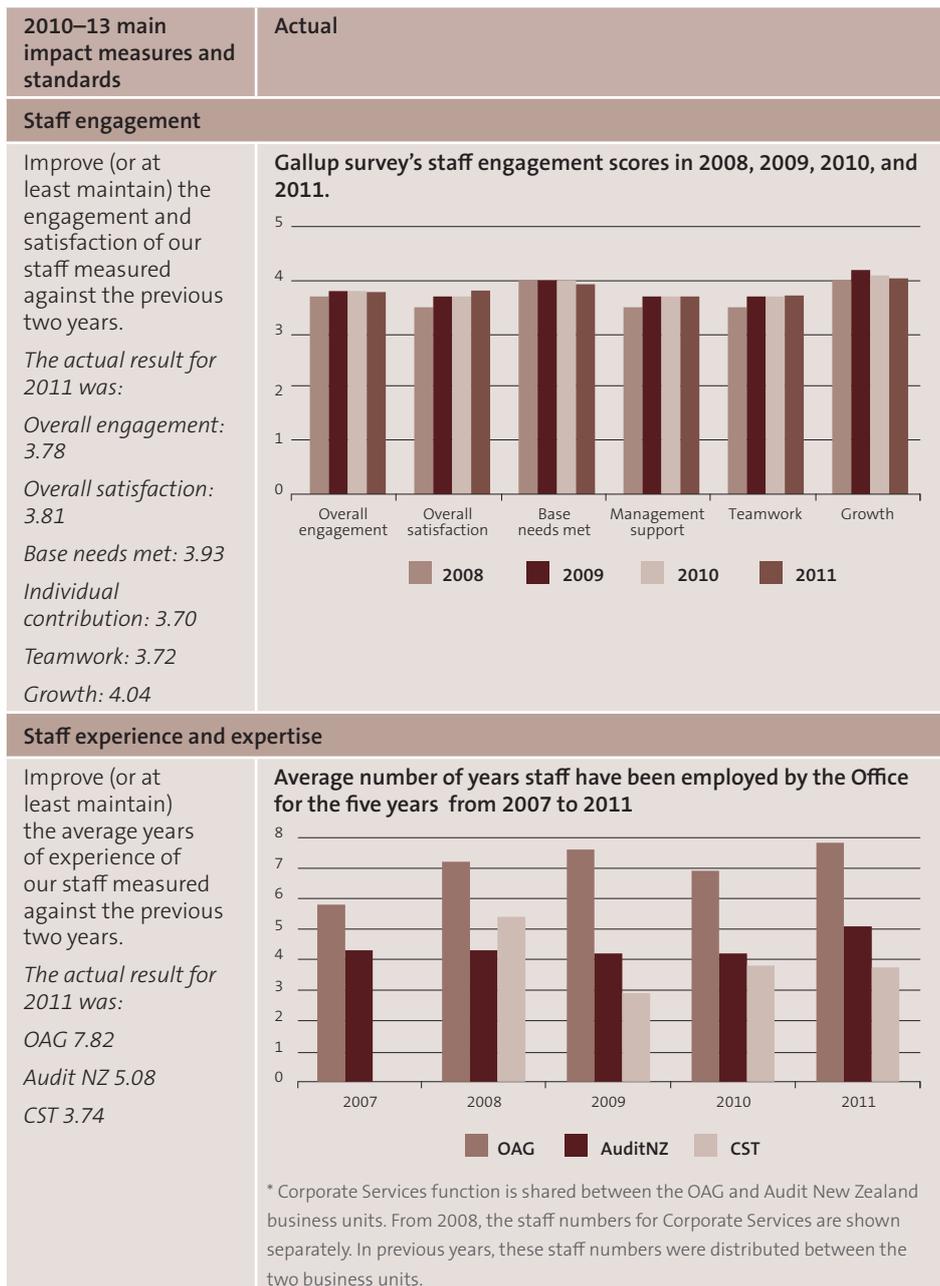
A particular area of development focus from 2010 to 2013 is our auditors' understanding of, and expertise in, the changed audit requirements in the Auditor-General's revised auditing standard about reporting the performance of public entities. It is critical not only that entities are assessed appropriately according to the standard but also that these assessments are consistent throughout the public sector.

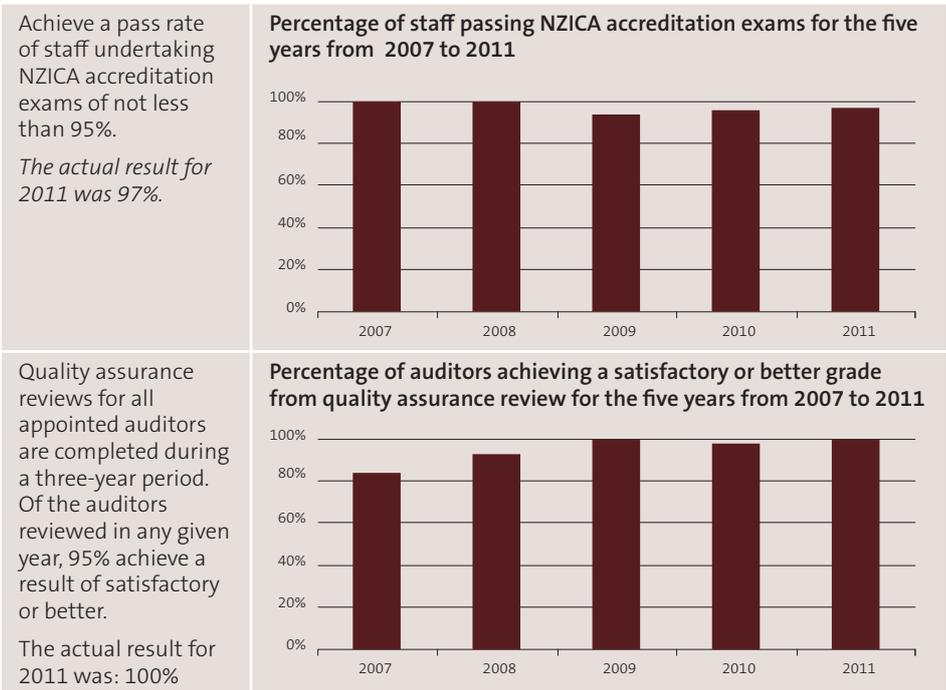
Historically, our highest area of staff attrition is in recently qualified accountants. The global and local economic downturn resulted in a reduced turnover of staff in 2009/10. However, as expected, attrition in 2010/11 has been returning to pre-recession levels.

The Office benefits from a diverse workforce, and we are committed to recognising and valuing different skills, talents, experiences, and perspectives

among our employees. A diverse workforce will help the Office relate to our clients and bring a variety of perspectives to bear on our work.

**Figure 20**  
Organisational health and capability – main impact measures and standards





| Listening, understanding, and exercising judgment   |  |          |         |         |                               |     |     |                          |     |     |                        |     |     |
|---|--|----------|---------|---------|-------------------------------|-----|-----|--------------------------|-----|-----|------------------------|-----|-----|
| <p>Client survey feedback shows that auditors' knowledge of entities' business and operating context is improving and that auditors are investing in work to understand that context. Our clients give us improved (or at least maintained) ratings compared with the previous two years for their auditors':</p> <ul style="list-style-type: none"> <li>• understanding of clients' business and the risks that clients face;</li> <li>• general skills and knowledge required to conduct the audit; and</li> <li>• provision of information to help clients' identify and promote improvement in the business.</li> </ul> | <p><b>Audit staff have high levels of expertise</b></p> <p>This was a new measure in 2010/11.</p> <table border="1"> <caption>Audit staff expertise scores (2009/10 vs 2010/11)</caption> <thead> <tr> <th>Category</th> <th>2009/10</th> <th>2010/11</th> </tr> </thead> <tbody> <tr> <td>Understand business and risks</td> <td>7.0</td> <td>7.2</td> </tr> <tr> <td>General skills knowledge</td> <td>7.0</td> <td>7.0</td> </tr> <tr> <td>Information to improve</td> <td>5.8</td> <td>6.2</td> </tr> </tbody> </table>  | Category | 2009/10 | 2010/11 | Understand business and risks | 7.0 | 7.2 | General skills knowledge | 7.0 | 7.0 | Information to improve | 5.8 | 6.2 |
| Category  | 2009/10  | 2010/11  |         |         |                               |     |     |                          |     |     |                        |     |     |
| Understand business and risks   | 7.0  | 7.2      |         |         |                               |     |     |                          |     |     |                        |     |     |
| General skills knowledge  | 7.0  | 7.0      |         |         |                               |     |     |                          |     |     |                        |     |     |
| Information to improve  | 5.8  | 6.2      |         |         |                               |     |     |                          |     |     |                        |     |     |
| <p>Our quality assurance review of audit and assurance work confirms that auditors are carrying out the requirements of AG-4 (revised).</p>   | <p><b>Audit staff have high levels of expertise: Auditing performance information</b></p> <p>Our quality assurance reviews of our audit and assurance work confirms that auditors are carrying out their requirements in relation to performance information in keeping with the Auditor-General's Auditing Standards and our attestation that performance statements fairly reflect the achievements of the entity.</p> <p>During 2010/11, a quality assurance review was carried out of a selection of local authority audits (the first sector where AG-4 (revised) applies). The QA review found that auditors understood the new requirements and were suitably trained to audit performance information in accordance with AG-4 (revised).</p> <p>This was a new measure in 2010/11.</p> |          |         |         |                               |     |     |                          |     |     |                        |     |     |

## 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, 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.

**Figure 21**  
Staff profile and diversity

| As at 30 June                                     | 2011 | 2010 |
|---|------|------|
| <b>Staff numbers (full-time equivalents)</b>      |      |      |
| Office of the Auditor-General                     | 64   | 62   |
| Audit New Zealand                                 | 252  | 251  |
| Corporate Services*                               | 46   | 41   |
| Total   | 362  | 354  |
| <b>Gender distribution – all staff</b>            |      |      |
| Women   | 53%  | 53%  |
| Men   | 47%  | 47%  |
| <b>Gender distribution – executive management</b> |      |      |
| Women   | 50%  | 50%  |
| Men   | 50%  | 50%  |
| <b>Ethnicity distribution</b>                     |      |      |
| NZ European                                       | 49%  | 44%  |
| NZ Māori  | 2%   | 2%   |
| Pacific Islander                                  | 2%   | 3%   |
| Asian   | 10%  | 10%  |
| Other European                                    | 12%  | 11%  |
| Other ethnic groups                               | 7%   | 8%   |
| Undeclared  | 18%  | 22%  |

| <b>Functional distribution</b> |     |     |
|--------------------------------|-----|-----|
| Audit/assurance                | 65% | 64% |
| Technical and advisory         | 11% | 13% |
| Corporate support              | 21% | 20% |
| Senior management              | 3%  | 3%  |
| <b>Turnover</b>                |     |     |
| Office of the Auditor-General  | 17% | 8%  |
| Audit New Zealand              | 15% | 11% |
| Corporate Services*            | 30% | 9%  |

\* Corporate Services function is shared between the OAG and Audit New Zealand.

## 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.

In 2010/11, the leadership team continued to focus on those key risks that could affect our reputation, independence, capability, and product integrity, including work on improvements to our stakeholder relationships, information security, and our risk management processes.

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

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.

The Canterbury earthquakes have caused considerable disruption to our Audit New Zealand Christchurch operation, although we are very relieved that none of our people were injured as a result. Our Christchurch staff have been working from temporary premises since February. Although these premises meet our basic requirements, the effectiveness and efficiency of our people has been affected. We are currently seeking suitable long-term premises in the Christchurch area.

## Information systems

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 the 4000 or so audits carried out annually by appointed auditors from Audit New Zealand and about 50 chartered accounting firms. Corporate services staff are responsible for the core financial, time and cost, document and records management, publishing and communications, and human resources systems that underpin the Office's operation.

In 2010/11, we:

- improved the reliability and connectivity of the systems used by our field staff;
- developed the first stage of an off-site "disaster recovery" facility for our central computer systems; and
- enhanced the functionality of our financial management systems and audit tracking systems.

Part 4  
**Financial statements**

## Contents

|  |    |
|--|----|
| Audit report   | 72 |
| Statement of responsibility  | 75 |
| Statement of comprehensive income  | 76 |
| Statement of changes in taxpayers' funds (equity)  | 77 |
| Statement of financial position  | 78 |
| Statement of cash flows  | 79 |
| Statement of commitments   | 80 |
| Statement of contingent liabilities and contingent assets                                    | 81 |
| Statement of output expenses, other expenses, and capital expenditure against appropriations | 82 |
| Statement of unappropriated expenditure  | 83 |
| Statement of trust money   | 83 |
| Notes to the financial statements  | 84 |

# Audit report



## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

We have been appointed by the House of Representatives to carry out the audit of the financial statements and non-financial information included in the annual report of the Controller and Auditor-General for the year ended 30 June 2011.

We have audited:

- the financial statements of the Controller and Auditor-General on pages 76 to 102, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in taxpayers' funds (equity), statement of cash flows, statement of output expenses, other expenses and capital expenditure against appropriations, statement of unappropriated expenditure, and statement of trust money for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Controller and Auditor-General that comprises the statement of service performance on pages 22 to 59.

#### Opinion

In our opinion:

- the financial statements of the Controller and Auditor-General on pages 76 to 102:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Controller and Auditor-General's:
    - financial position as at 30 June 2011;
    - financial performance and cash flows for the year ended on that date;
    - output expenses, other expenses and capital expenditure against each appropriation administered by the Controller and Auditor-General and each class of outputs included in each output expense appropriation for the year ended 30 June 2011; and
    - unappropriated expenses for the year ended 30 June 2011; and
  - fairly reflect the trust money administered by the Controller and Auditor-General.
- the non-financial performance information of the Controller and Auditor-General on pages 22 to 59:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Controller and Auditor-General's service performance and outcomes for the year ended 30 June 2011, including for each class of outputs:
    - the service performance compared with the forecasts in the forecast statement of service performance at the start of the financial year; and
    - the revenue earned and output expenses incurred as compared with the forecasts in the forecast statement of service performance at the start of the financial year.

The audit was completed on 23 September 2011. This is the date at which our opinion is expressed.

audit and assurance services CST NEXIA AUDIT visit us at [www.cstnexus.co.nz](http://www.cstnexus.co.nz)  
 Level 3, CST Nexia Centre, 22 Amersham Way, PO Box 76 261 Manukau City New Zealand. Tel 0-9 262 2595 Fax 0-9 262 2606 Email: [team@cstnexus.co.nz](mailto:team@cstnexus.co.nz)  
 CST NEXIA AUDIT is a member of Nexia International, a worldwide network of independent accounting and consulting firms.





The basis of our opinion is explained below. In addition, we outline the responsibilities of the Controller and Auditor-General and our responsibilities, and explain our independence.

#### **Basis of Opinion**

We carried out the audit in accordance with International Standards on Auditing (New Zealand), and we applied the Auditor-General's Auditing Standard 4 (Revised) – *The Audit of Service Performance Reports* that is also applied to the audit of non-financial performance information in many other public sector entities in New Zealand. Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Controller and Auditor-General's preparation of the financial statements and the non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Controller and Auditor-General's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Controller and Auditor-General;
- the appropriateness of the reported non-financial performance information within the Controller and Auditor-General's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and the non-financial performance information; and
- the overall presentation of the financial statements and the non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the non-financial performance information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.



#### **Responsibilities of the Controller and Auditor-General**

The Controller and Auditor-General is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Controller and Auditor-General's financial position, financial performance, cash flows, output expenses, other expenses and capital expenditure against each appropriation and unappropriated expenses;
- fairly reflect the trust money administered by the Controller and Auditor-General; and
- fairly reflect the Controller and Auditor-General's service performance and outcomes.

The Controller and Auditor-General is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error.

The Controller and Auditor-General's responsibility arises from sections 45A, 45B, and 45F of the Public Finance Act 1989.

#### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and the non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

#### **Independence**

When carrying out the audit, we followed the independence requirements of the New Zealand Institute of Chartered Accountants.

We carry out some audits of public entities on behalf of the Controller and Auditor-General. The amount of work we carry out on behalf of the Controller and Auditor-General is no more than the amount of work we did prior to our appointment as auditor of the Controller and Auditor-General. Other than the audit of the Controller and Auditor-General and the audits we carry out on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Controller and Auditor-General.

*CST Nexia Audit*  
**CST Nexia Audit**  
**Chartered Accountants**  
**Manukau City, New Zealand**

## Statement of responsibility

In terms of the Public Finance Act 1989 and the Public Audit Act 2001, the Controller and Auditor-General is responsible for the accuracy and judgements used in the preparation of the financial statements, and for establishing and maintaining systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

Appropriate systems of internal control have been employed to ensure that:

- all transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.

In my opinion, the information set out in the statement of service performance, the financial statements, and attached notes to those statements (on pages 22–59 and 76–102) fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2011, and our financial position as at that date.

Signed:



Lyn Provost  
Controller and Auditor-General  
23 September 2011

Countersigned:



Maria Viviers  
Financial Controller  
23 September 2011

## Statement of comprehensive income for the year ended 30 June 2011

76

This statement reports the income and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the income and expenditure of each output class are on pages 34, 44, and 59.

Explanations of significant variances against the main Estimates are detailed in Note 19.

| Actual<br>2010<br>\$000 |  | Notes | Actual<br>2011<br>\$000 | Supp.<br>Estimates<br>2011<br>\$000 | Main<br>Estimates<br>2011<br>\$000 |
|-------------------------|--|-------|-------------------------|-------------------------------------|------------------------------------|
|                         | <b>Income</b>                            |       |                         |                                     |                                    |
| 9,859                   | Crown funding                            | 2     | 10,000                  | 10,000                              | 9,948                              |
| 63,475                  | Audit fee revenue                        | 3     | 64,958                  | 64,635                              | 61,602                             |
| 442                     | Other income                             |       | 212                     | 162                                 | 141                                |
| 22                      | Gain on sale of plant<br>and equipment   |       | 25                      | 0                                   | 0                                  |
| <b>73,798</b>           | <b>Total income</b>                      |       | <b>75,195</b>           | <b>74,797</b>                       | <b>71,691</b>                      |
|                         | <b>Expenditure</b>                       |       |                         |                                     |                                    |
| 34,020                  | Personnel costs                          | 4     | 34,744                  | 34,285                              | 33,467                             |
| 36,602                  | Other operating costs                    | 5     | 38,407                  | 39,329                              | 36,767                             |
| 898                     | Depreciation and<br>amortisation expense | 9, 10 | 867                     | 914                                 | 1,117                              |
| 264                     | Capital charge                           | 6     | 261                     | 269                                 | 302                                |
| <b>71,784</b>           | <b>Total expenditure</b>                 |       | <b>74,279</b>           | <b>74,797</b>                       | <b>71,653</b>                      |
| <b>2,014</b>            | <b>Net surplus/(deficit)</b>             |       | <b>916</b>              | <b>0</b>                            | <b>38</b>                          |
| 0                       | Other comprehensive<br>income            |       | 0                       | 0                                   | 0                                  |
| <b>2,014</b>            | <b>Total comprehensive<br/>income</b>    |       | <b>916</b>              | <b>0</b>                            | <b>38</b>                          |

The accompanying notes form part of these financial statements.

## Statement of changes in taxpayers' funds (equity) for the year ended 30 June 2011

| Actual<br>2010<br>\$000 |   | Notes | Actual<br>2011<br>\$000 | Supp.<br>Estimates<br>2011<br>\$000 | Main<br>Estimates<br>2011<br>\$000 |
|-------------------------|---|-------|-------------------------|-------------------------------------|------------------------------------|
| 3,521                   | <b>Taxpayers' funds brought forward at 1 July</b> |       | 3,521                   | 3,521                               | 3,521                              |
| 2,014                   | Total comprehensive income                        |       | 916                     | 0                                   | 38                                 |
| (2,014)                 | Repayment of surplus to the Crown                 | 12    | (916)                   | 0                                   | (38)                               |
| 0                       | Capital contribution                              |       | 500                     | 500                                 | 500                                |
| <b>3,521</b>            | <b>Taxpayers' funds at 30 June</b>                |       | <b>4,021</b>            | <b>4,021</b>                        | <b>4,021</b>                       |

The accompanying notes form part of these financial statements.

## Statement of financial position as at 30 June 2011

78

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

Explanations of significant variances against the main Estimates are detailed in Note 19.

| Actual<br>2010<br>\$000 |                                      | Notes | Actual<br>2011<br>\$000 | Supp.<br>Estimates<br>2011<br>\$000 | Main<br>Estimates<br>2011<br>\$000 |
|-------------------------|--------------------------------------|-------|-------------------------|-------------------------------------|------------------------------------|
|                         | <b>Current assets</b>                |       |                         |                                     |                                    |
| 4,209                   | Cash and cash equivalents            |       | 4,283                   | 2,848                               | 3,271                              |
| 178                     | Prepayments                          |       | 255                     | 180                                 | 205                                |
| 2,125                   | Work in progress                     |       | 1,886                   | 2,200                               | 2,201                              |
| 5,488                   | Debtors and other<br>receivables     | 8     | 6,003                   | 5,440                               | 4,514                              |
| 12,000                  | <i>Total current assets</i>          |       | 12,427                  | 10,668                              | 10,191                             |
|                         | <b>Non-current assets</b>            |       |                         |                                     |                                    |
| 1,227                   | Plant and equipment                  | 9     | 1,304                   | 1,412                               | 1,604                              |
| 1,038                   | Intangible assets                    | 10    | 810                     | 855                                 | 1,014                              |
| 16                      | Long term receivables                | 8     | 0                       | 0                                   | 0                                  |
| 2,281                   | <i>Total non-current assets</i>      |       | 2,114                   | 2,267                               | 2,618                              |
| <b>14,281</b>           | <b>Total assets</b>                  |       | <b>14,541</b>           | <b>12,935</b>                       | <b>12,809</b>                      |
|                         | <b>Current liabilities</b>           |       |                         |                                     |                                    |
| 4,391                   | Creditors and other<br>payables      | 11    | 5,047                   | 4,666                               | 4,165                              |
| 2,014                   | Repayment of surplus                 | 12    | 916                     | 0                                   | 38                                 |
| 3,791                   | Employee entitlements                | 13    | 3,971                   | 3,678                               | 4,055                              |
| 10,196                  | <i>Total current liabilities</i>     |       | 9,934                   | 8,344                               | 8,258                              |
|                         | <b>Non-current liabilities</b>       |       |                         |                                     |                                    |
| 564                     | Employee entitlements                | 13    | 586                     | 570                                 | 530                                |
| 564                     | <i>Total non-current liabilities</i> |       | 586                     | 570                                 | 530                                |
| <b>10,760</b>           | <b>Total liabilities</b>             |       | <b>10,520</b>           | <b>8,914</b>                        | <b>8,788</b>                       |
| <b>3,521</b>            | <b>Net assets</b>                    |       | <b>4,021</b>            | <b>4,021</b>                        | <b>4,021</b>                       |
|                         | <b>Taxpayers' funds</b>              |       |                         |                                     |                                    |
| 3,521                   | General funds                        |       | 4,021                   | 4,021                               | 4,021                              |
| <b>3,521</b>            | <b>Total taxpayers' funds</b>        |       | <b>4,021</b>            | <b>4,021</b>                        | <b>4,021</b>                       |

The accompanying notes form part of these financial statements.

## Statement of cash flows for the year ended 30 June 2011

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

| Actual<br>2010<br>\$000 |  | Notes | Actual 2011<br>\$000 | Supp.<br>Estimates<br>2011<br>\$000 | Main<br>Estimates<br>2011<br>\$000 |
|-------------------------|--|-------|----------------------|-------------------------------------|------------------------------------|
|                         | <b>Cash flows from operating activities</b>              |       |                      |                                     |                                    |
| 9,859                   | Receipts from the Crown                                  |       | 10,000               | 10,000                              | 9,948                              |
| 36,927                  | Receipts from public entities*                           |       | 37,310               | 38,062                              | 35,923                             |
| 144                     | Interest earned  |       | 0                    | 0                                   | 0                                  |
| (6,194)                 | Payments to suppliers *                                  |       | (5,412)              | (8,891)                             | (7,031)                            |
| (34,198)                | Payments to employees                                    |       | (34,381)             | (34,178)                            | (33,367)                           |
| (4,403)                 | Net GST paid**   |       | (4,891)              | (3,714)                             | (3,750)                            |
| (334)                   | Capital charge paid                                      |       | (269)                | (269)                               | (302)                              |
| <b>1,801</b>            | <i>Net cash flow from operating activities</i>           | 14    | <b>2,357</b>         | <b>1,010</b>                        | <b>1,421</b>                       |
|                         | <b>Cash flows from investing activities</b>              |       |                      |                                     |                                    |
| 120                     | Receipts from sale of plant and equipment                |       | 83                   | 188                                 | 155                                |
| (676)                   | Purchase of plant and equipment                          |       | (777)                | (917)                               | (1,202)                            |
| (245)                   | Purchase of intangible assets                            |       | (75)                 | (128)                               | (350)                              |
| <b>(801)</b>            | <i>Net cash flow from (used in) investing activities</i> |       | <b>(769)</b>         | <b>(857)</b>                        | <b>(1,397)</b>                     |
|                         | <b>Cash flows from financing activities</b>              |       |                      |                                     |                                    |
| (486)                   | Surplus repayment to the Crown                           |       | (2,014)              | (2,014)                             | (18)                               |
| -                       | Capital contribution                                     |       | 500                  | 500                                 | 500                                |
| <b>(486)</b>            | <i>Net cash flow from (used in) financing activities</i> |       | <b>(1,514)</b>       | <b>(1,514)</b>                      | <b>482</b>                         |
| 514                     | Total net increase (decrease) in cash held               |       | 74                   | (1,361)                             | 506                                |
| 3,695                   | Cash at the beginning of the year                        |       | 4,209                | 4,209                               | 2,765                              |
| <b>4,209</b>            | <b>Cash at the end of the year</b>                       |       | <b>4,283</b>         | <b>2,848</b>                        | <b>3,271</b>                       |

\*The statement of cash flows does not include the contracted audit service provider audit fee revenue or expenditure, as these do not involve any cash transactions with the Office.

\*\* The GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying notes form part of these financial statements.

## Statement of commitments as at 30 June 2011

This statement records expenditure to which the Office is contractually committed at 30 June 2011.

### Non-cancellable operating lease commitments

The Office has long-term operating leases on its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 6-yearly.

Equipment lease commitments include leases of telephone exchange systems and software contracts. There are no restrictions placed on the Office by any of its leasing arrangements.

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
|                         | <b>Non-cancellable operating lease commitments</b> |                         |
|                         | <b>Property lease commitments</b>                  |                         |
| 1,978                   | Not later than one year                            | 1,662                   |
| 2,445                   | Later than one year and not later than five years  | 1,081                   |
| 40                      | Later than five years                              | 0                       |
| 4,463                   | <i>Total property lease commitments</i>            | 2,743                   |
|                         | <b>Equipment lease commitments</b>                 |                         |
| 283                     | Not later than one year                            | 332                     |
| 139                     | Later than one year and not later than five years  | 21                      |
| 0                       | Later than five years                              | 0                       |
| 422                     | <i>Total equipment lease commitments</i>           | 353                     |
| <b>4,885</b>            | <b>Total operating lease commitments</b>           | <b>3,096</b>            |

# Statement of contingent liabilities and contingent assets

## as at 30 June 2011

This statement discloses situations that existed at 30 June 2011, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

### **Contingent liabilities**

The Office did not have any contingent liabilities as at 30 June 2011 (nil as at 30 June 2010).

### **Contingent assets**

There were no contingent assets as at 30 June 2011 (nil as at 30 June 2010).

# Statement of output expenses, other expenses, and capital expenditure against appropriations

## for the year ended 30 June 2011

82

This statement reports actual expenses incurred against each appropriation administered by the Office.

| Actual<br>2010<br>\$000 | Vote Audit   | Actual<br>2011<br>\$000 | Supp.<br>Estimates<br>2011<br>\$000 |
|-------------------------|--|-------------------------|-------------------------------------|
|                         | <b>Appropriations for output expenses</b>  |                         |                                     |
|                         | <i>Multi-class output appropriations</i>   |                         |                                     |
|                         | Legislative auditor  |                         |                                     |
| 2,342                   | Supporting accountability to Parliament  | 2,442                   | 2,460                               |
| 6,044                   | Performance audits and inquiries   | 5,991                   | 6,587                               |
| <b>8,386</b>            | <b>Total legislative auditor</b>   | <b>8,433</b>            | <b>9,047</b>                        |
|                         | <i>Annual and other appropriations</i>   |                         |                                     |
| 150                     | Audit and assurance services   | 150                     | 150                                 |
| 62,586                  | Provision of audit and assurance services (revenue-dependent appropriation) <sup>1</sup> | 64,893                  | 64,797                              |
| 71,122                  | <b>Total appropriations for output expenses</b>  | <b>73,476</b>           | <b>73,994</b>                       |
|                         | <b>Other expenses to be incurred by the Office</b>                                       |                         |                                     |
| 662                     | Remuneration of the Auditor-General and Deputy Auditor-General <sup>2</sup>              | 803                     | 803                                 |
| 921                     | Capital expenditure  | 852                     | 1,045                               |
| <b>72,705</b>           | <b>Total</b>   | <b>75,131</b>           | <b>75,842</b>                       |

<sup>1</sup> Revenue-dependent appropriation – Provision of audit and assurance services. In 2010/11, the Office earned \$64.958 million from audit and assurance services – refer Note 3. The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation.

<sup>2</sup> Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

## Statement of unappropriated expenditure for the year ended 30 June 2011

The Office incurred no unappropriated expenditure during the year ended 30 June 2011 (nil for the year ended 30 June 2010).

## Statement of trust money for the year ended 30 June 2011

On 1 November 1996, the Office was appointed Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI). PASAI exists to encourage, promote, and advance co-operation among its public audit members.

Until June 2010, the Office carried out the financial transactions on behalf of PASAI, recorded in a trust account.

PASAI now operates through an Incorporated Society with the financial records managed by the Secretariat. During the 2010/11 financial year, trust account balances were transferred to the Secretariat and the trust accounts were closed.

All trust money transactions were recorded on a cash basis. None of the transactions associated with the PASAI trust account are recorded in the statement of comprehensive income or the statement of financial position.

| Actual<br>2010<br>\$000 |                                   | Actual<br>2011<br>\$000 |
|-------------------------|-----------------------------------|-------------------------|
| 11                      | Opening balance at 1 July         | 10                      |
| 116                     | Receipts                          | -                       |
| (117)                   | Payments                          | (10)                    |
| <b>10</b>               | <b>Closing balance at 30 June</b> | <b>0</b>                |

# Notes to the financial statements

## for the year ended 30 June 2011

### Note 1: 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 purposes 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).

In addition, the Office has reported on trust money that it administers.

The financial statements of the Office are for the year ended 30 June 2011. The financial statements were authorised for issue by the Controller and Auditor-General on 23 September 2011.

#### Basis of preparation

The financial statements of the Controller and Auditor-General have been prepared in accordance with sections 45A, 45B, and 45F of the Public Finance Act 1989.

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for a public benefit entity.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The 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 (\$000). The functional currency of the Office is New Zealand dollars.

There have been no changes in accounting policies during the financial year.

*Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted*

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Office include:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Office has not yet assessed the effect of the new standard and expects it will not be adopted early.

## Accounting policies

### Income

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

### *Crown funding*

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Fee revenue generated by the Office for audits and other assurance work

Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised.

*Fee revenue generated by contracted audit service providers for audits*

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.

*Interest*

Interest revenue is recognised using the effective interest method.

**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.

*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 (including those for which forward foreign exchange contracts are held) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

*Capital Charge*

The capital charge is recognised as an expense in the period to which the charge relates.

**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 funds on deposit with banks and is measured at its face value.

**Work in progress**

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

**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, IT 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. Where 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.

The costs of day to day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

### *Depreciation*

Depreciation is provided on a straight-line basis on all plant and equipment, at rates that will write off the cost less estimated residual values of the plant and equipment 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 - 5 years (20% - 40%) |
| IT hardware            | 2.5 - 5 years (20% - 40%) |
| Motor vehicles         | 3-4 years (25% - 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 licenses 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 that 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% - 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.

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment.

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 amounts billed are in excess of the amounts recognised as revenue.

**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 those 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.

#### *Presentation of employee entitlements*

Sick leave, annual leave, time off in lieu of overtime worked and vested long service leave are classified as a current liability. Non-vested long service leave and retiring/resigning leave expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

#### **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.

Where 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 relating to 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.

### **Main Estimates and Supplementary Estimates**

The Main Estimates figures are those included in the Office's annual plan for the year ended 30 June 2011. In addition, the financial statements also present updated figures from the Supplementary Estimates. The Main estimates and Supplementary estimates figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

### **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: Provision of audit and assurance services.

Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output. 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, 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.

#### *Audit fee revenue and work in progress*

Assessing the value of audit fee revenue and associated work in progress or income in advance for engagements open at balance date is the most significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement may result in a different value being determined for revenue and also a different carrying value being determined for work in progress.

#### *Depreciation and amortisation*

Determining the amortisation rates for intangible assets and depreciation rates for physical assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for depreciation or amortisation costs, accumulated depreciation or amortisation, and net book values.

## **Note 2: Crown funding**

The Crown provides revenue to meet the costs of the Office in assisting Parliament in its role of ensuring accountability for public resources. The services provided to Parliament include reports to Parliament and other constituencies, reports and advice to select committees, responding to taxpayer and ratepayer enquiries, advice to government bodies, professional bodies, and other agencies, and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

### Note 3: Audit fee revenue

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
| 37,215                  | Fee revenue generated by the Office for audit and assurance services                       | 37,486                  |
| 26,260                  | Fee revenue generated by contracted audit service providers for audits of public entities* | 27,472                  |
| <b>63,475</b>           | <b>Total audit fee revenue</b>   | <b>64,958</b>           |

\* Revenue generated by contracted audit service providers does not involve any cash transactions with the Office.

### Note 4: Personnel costs

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
| 33,010                  | Salaries and wages                                   | 33,203                  |
| 315                     | Other employee-related costs                         | 339                     |
| 967                     | Employer contributions to defined contribution plans | 1,000                   |
| (272)                   | Increase/(decrease) in employee entitlements         | 202                     |
| <b>34,020</b>           | <b>Total personnel costs</b>                         | <b>34,744</b>           |

Employer contributions to defined contribution plans include contributions to the Auditor-General's retirement savings plan, KiwiSaver, and the Government Superannuation Fund.

### Note 5: Other operating costs

| Actual<br>2010<br>\$000 |   | Actual<br>2011<br>\$000 |
|-------------------------|---|-------------------------|
| 23                      | (Decrease)/Increase in provision for impairment of receivables                              | (54)                    |
| 85                      | Fees to CST Nexia for the audit of the Office's financial statements                        | 85                      |
| 12                      | Fees to CST Nexia for other assurance services provided to the Office                       | 5                       |
| 1,997                   | Operating lease payments  | 1,924                   |
| 122                     | Fees for audits of public entities carried out by CST Nexia*                                | 138                     |
| 26,138                  | Fees for audits of public entities carried out by other contracted audit service providers* | 27,334                  |
| 11                      | Net loss on disposal  | 79                      |
| 8,214                   | Other expenses  | 8,896                   |
| <b>36,602</b>           | <b>Total other operating costs</b>  | <b>38,407</b>           |

\* Expenditure relating to audits carried out by contracted audit service providers does not involve any cash transactions with the Office.

## Note 6: Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 31 May and 30 November each year. The capital charge rate is determined by the Treasury and for the year ended 30 June 2011 was 7.5% (2010 – 7.5%).

## Note 7: Overdraft facility

The Office has the use of an overdraft facility to manage its seasonal cash flows during the second half of the financial year. The overdraft limit is \$500,000, and interest is charged on the daily balance at Westpac Banking Corporation's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (and none were drawn down in 2009/10).

## Note 8: Debtors and other receivables

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
| 5,749                   | Debtors                                      | 6,195                   |
| (246)                   | Less provision for impairment of receivables | (192)                   |
| 5,503                   | <i>Net debtors</i>                           | 6,003                   |
| 1                       | Other receivables                            | 0                       |
| <b>5,504</b>            | <b>Total receivables</b>                     | <b>6,003</b>            |
|                         | <b>Represented by:</b>                       |                         |
| 5,488                   | Current                                      | 6,003                   |
| 16                      | Non Current                                  | 0                       |
| <b>5,504</b>            | <b>Total</b>                                 | <b>6,003</b>            |

The carrying value of debtors and other receivables approximates their fair value.

As at 30 June 2011 and 2010, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

|                        | 2010           |                          |              | 2011           |                          |              |
|------------------------|----------------|--------------------------|--------------|----------------|--------------------------|--------------|
|                        | Gross<br>\$000 | Impair-<br>ment<br>\$000 | Net<br>\$000 | Gross<br>\$000 | Impair-<br>ment<br>\$000 | Net<br>\$000 |
| Not past due           | 520            | -                        | 520          | 3,838          | -                        | 3,838        |
| Past due 1-30 days     | 3,819          | -                        | 3,819        | 1,814          | -                        | 1,814        |
| Past due 31-60 days    | 850            | -                        | 850          | 111            | -                        | 111          |
| Past due 61-90 days    | 178            | -                        | 178          | 90             | -                        | 90           |
| Past due >90 days      | 383            | (246)                    | 137          | 342            | (192)                    | 150          |
| <b>Carrying amount</b> | <b>5,750</b>   | <b>(246)</b>             | <b>5,504</b> | <b>6,195</b>   | <b>(192)</b>             | <b>6,003</b> |

The impairment provision has been calculated based on expected losses for the Office's pool of debtors. Expected losses have been determined based on an analysis of the Office's losses in previous periods and review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

| Actual 2010 \$000 |   | Actual 2011 \$000 |
|-------------------|---|-------------------|
| 223               | Balance at 1 July                                     | 246               |
| 23                | Additional provisions made/(reversed) during the year | (54)              |
| 0                 | Receivables written off during the period             | 0                 |
| <b>246</b>        | <b>Balance at 30 June</b>                             | <b>192</b>        |

## Note 9: Plant and equipment

|   | Furniture and fittings \$000 | Office equipment \$000 | IT hardware \$000 | Motor vehicles \$000 | Total \$000 |
|---|------------------------------|------------------------|-------------------|----------------------|-------------|
| <b>Cost</b>   |                              |                        |                   |                      |             |
| Balance at 1 July 2009                                | 2,591                        | 228                    | 2,361             | 1,171                | 6,351       |
| Additions   | 42                           | 15                     | 258               | 406                  | 721         |
| Disposals   | (63)                         | (4)                    | (168)             | (273)                | (508)       |
| Balance at 30 June 2010                               | 2,570                        | 239                    | 2,451             | 1,304                | 6,564       |
| Additions   | 4                            | 43                     | 333               | 396                  | 776         |
| Disposals   | (407)                        | (10)                   | (419)             | (364)                | (1,200)     |
| Balance at 30 June 2011                               | 2,167                        | 272                    | 2,365             | 1,336                | 6,140       |
| <b>Accumulated depreciation and impairment losses</b> |                              |                        |                   |                      |             |
| Balance at 1 July 2009                                | 2,322                        | 199                    | 2,021             | 598                  | 5,140       |
| Depreciation expense                                  | 171                          | 13                     | 259               | 153                  | 596         |
| Elimination on disposal                               | (63)                         | (4)                    | (168)             | (164)                | (399)       |
| Balance at 30 June 2010                               | 2,430                        | 208                    | 2,112             | 587                  | 5,337       |
| Depreciation expense                                  | 78                           | 19                     | 261               | 205                  | 563         |
| Elimination on disposal                               | (396)                        | (11)                   | (419)             | (238)                | (1,064)     |
| Balance at 30 June 2011                               | 2,112                        | 216                    | 1,954             | 554                  | 4,836       |
| <b>Carrying amounts</b>                               |                              |                        |                   |                      |             |
| Balance at 1 July 2009                                | 269                          | 29                     | 340               | 573                  | 1,211       |
| Balance at 30 June 2010                               | 140                          | 31                     | 339               | 717                  | 1,227       |
| Balance at 30 June 2011                               | 55                           | 56                     | 411               | 782                  | 1,304       |

## Note 10: Intangible assets

|   | Acquired software<br>\$000 | Internally generated software<br>\$000 | Total<br>\$000 |
|---|----------------------------|--|----------------|
| <b>Cost</b>   |                            |  |                |
| Balance at 1 July 2009                                | 3,131                      | 120                                    | 3,251          |
| Additions   | 200                        | 0                                      | 200            |
| Disposals   | (197)                      | 0                                      | (197)          |
| Balance at 30 June 2010                               | 3,134                      | 120                                    | 3,254          |
| Additions   | 76                         | 0                                      | 76             |
| Disposals   | 0                          | 0                                      | 0              |
| Balance at 30 June 2011                               | 3,210                      | 120                                    | 3,330          |
| <b>Accumulated amortisation and impairment losses</b> |                            |  |                |
| Balance at 1 July 2009                                | 2,095                      | 16                                     | 2,111          |
| Amortisation expense                                  | 278                        | 24                                     | 302            |
| Disposals   | (197)                      | 0                                      | (197)          |
| Balance at 30 June 2010                               | 2,176                      | 40                                     | 2,216          |
| Amortisation expense                                  | 280                        | 24                                     | 304            |
| Disposals   | 0                          | 0                                      | 0              |
| Balance at 30 June 2011                               | 2,456                      | 64                                     | 2,520          |
| <b>Carrying amounts</b>                               |                            |  |                |
| At 1 July 2009  | 1,036                      | 104                                    | 1,140          |
| At 30 June 2010                                       | 958                        | 80                                     | 1,038          |
| At 30 June 2011                                       | 754                        | 56                                     | 810            |

## Note 11: Creditors and other payables

| Actual 2010<br>\$000 |   | Actual 2011<br>\$000 |
|----------------------|---|----------------------|
| 1,156                | Creditors                                 | 1,932                |
| 2,207                | Income in advance                         | 2,154                |
| 597                  | Accrued expenses                          | 430                  |
| 431                  | GST payable                               | 531                  |
| <b>4,391</b>         | <b>Total creditors and other payables</b> | <b>5,047</b>         |

Creditors and other payables are non-interest-bearing, and are normally settled on 30-day terms. The carrying value of creditors and other payables therefore approximates their fair value.

## Note 12: Surplus payment due to the Crown

The Office is not permitted to retain operating surpluses under the Public Finance Act 1989. Thus, the surplus for the year of \$916,000 is repayable to the Crown, and is due to be paid by 31 October 2011.

| Actual<br>2010<br>\$000 |   | Actual<br>2011<br>\$000 |
|-------------------------|---|-------------------------|
| 2,014                   | Surplus current year                            | 916                     |
| 486                     | Surplus brought forward                         | 2,014                   |
| (486)                   | Payment to the Crown                            | (2,014)                 |
| <b>2,014</b>            | <b>Total provision for payment to the Crown</b> | <b>916</b>              |

## Note 13: Employee entitlements

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
|                         | <b>Current employee entitlements comprise:</b>     |                         |
| 1,468                   | Salary and other accruals                          | 1,493                   |
| 2,011                   | Annual leave                                       | 2,114                   |
| 95                      | Long service leave                                 | 102                     |
| 98                      | Time off in lieu of overtime worked                | 94                      |
| 39                      | Retiring/resigning leave                           | 91                      |
| 80                      | Sick leave   | 77                      |
| 3,791                   | <i>Total current portion</i>                       | 3,971                   |
|                         | <b>Non-current employee entitlements comprise:</b> |                         |
| 31                      | Long service leave                                 | 19                      |
| 533                     | Retiring/resigning leave                           | 567                     |
| 564                     | <i>Total non-current portion</i>                   | 586                     |
| <b>4,355</b>            | <b>Total employee entitlements</b>                 | <b>4,557</b>            |

The measurement of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

The discount rate is based on NZ Government bond data at 30 June 2011. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$40,000 higher/lower.

If the salary inflation factor were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$57,000 higher/lower.

## Note 14: Reconciliation of surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the statement of comprehensive income on page 76, to arrive at the net cash flow from operating activities disclosed in the statement of cash flows on page 79.

| Actual<br>2010<br>\$000 |  | Actual<br>2011<br>\$000 |
|-------------------------|--|-------------------------|
| 2,014                   | <b>Surplus</b>   | 916                     |
|                         | <b>Non-cash items</b>                                    |                         |
| 898                     | Depreciation and amortisation                            | 867                     |
| <b>898</b>              | <i>Total non-cash items</i>                              | <b>867</b>              |
|                         | <b>Working capital movements</b>                         |                         |
| 19                      | (Increase)/decrease in prepayments                       | (77)                    |
| (675)                   | (Increase)/decrease in receivables                       | (499)                   |
| 70                      | (Increase)/decrease in work in progress                  | 239                     |
| (242)                   | (Decrease)/increase in payables                          | 656                     |
| (319)                   | (Decrease)/increase in employee entitlements             | 180                     |
| <b>(1,147)</b>          | <i>Total net working capital movements</i>               | <b>499</b>              |
|                         | <b>Investing activity items</b>                          |                         |
| (11)                    | Loss/(profit) on sale of plant and equipment             | 53                      |
| 0                       | Loss/(profit) on sale of intangible assets               | 0                       |
| <b>(11)</b>             | <i>Total net investing activity items</i>                | <b>53</b>               |
|                         | <b>Other items</b>                                       |                         |
| 47                      | Increase/(decrease) in non-current employee entitlements | 22                      |
| <b>47</b>               | <i>Total other items</i>                                 | <b>22</b>               |
| <b>1,801</b>            | <b>Net cash flow from operating activities</b>           | <b>2,357</b>            |

## Note 15: Related party transactions

The Office is a wholly owned entity of the Crown. The Office transacts with government departments, Crown entities, and State-owned enterprises on an arm's-length basis. Examples of those transactions include the Office providing audit services, paying ACC levies, and purchasing airfares and postal services, all of which occur within a normal supplier or client relationship. The transactions are carried out on terms and conditions no more or less favourable than those which it is reasonable to expect the Office would have adopted if dealing with that entity at arm's length in the same circumstances, and therefore have not been disclosed.

During the year, there were transactions between the Office and close family members of key management personnel, as follows:

- Some close family members of key management personnel were employed by the Office. The terms and conditions of their appointment were no more favourable than the Office would have adopted if there were no relationship to key management personnel.
- Close family members of a member of key management personnel were directors in a company that provided services to the Office under a contract that was entered into prior to the appointment of the member. The cost of the services purchased was \$9,852 (2010 – \$8,381) and there was a balance outstanding at balance date of \$8,165 (2010 – \$8,381).

### Key management personnel compensation

| Actual<br>2010<br>\$000 |   | Actual<br>2011<br>\$000 |
|-------------------------|---|-------------------------|
| 3,005                   | Salaries and other short-term employee benefits | 3,201                   |
| 0                       | Post-employment benefits                        | 0                       |
| 0                       | Other long-term benefits                        | 0                       |
| 0                       | Termination benefits                            | 0                       |
| <b>3,005</b>            |   | <b>3,201</b>            |

Key management personnel include the Auditor-General, the Deputy Auditor-General, and the ten members of the OAG and Audit New Zealand Leadership Teams.

## Note 16: Financial instrument risks

The Office's financial instruments are limited to cash and cash equivalents, debtors and other receivables, and creditors and other payables. These activities expose the Office to low levels of financial instrument risks, including market risk, credit risk, and liquidity risk.

**Market risk***Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were \$313,000 at balance date (2010 – nil).

*Interest rate risk*

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Office has no interest-bearing financial instruments and, accordingly, has no exposure to interest rate risk.

**Credit risk**

Credit risk is the risk that a third party will default on its obligation to the Office, causing the Office to incur a loss.

In the normal course of the Office's business, credit risk arises from debtors and deposits with banks.

The Office is permitted to deposit funds only with Westpac, a registered bank with high credit ratings. For its other financial instruments, the Office does not have significant concentrations of credit risk.

The Office's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net debtors and other receivables (see Note 8).

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

**Liquidity risk**

Liquidity risk is the risk that the Office will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Office closely monitors its forecast cash requirements with expected debtor receipts and cash drawdowns from the New Zealand Debt Management Office. The Office maintains a target level of available cash to meet liquidity requirements.

The Office's financial liabilities are outlined in Note 11: Creditors and other payables. These are all due to be settled within two months.

### Note 17: Categories of financial instruments

The carrying amounts of financial instruments in each of the NZ IAS 39 categories are as follows:

| Actual<br>2010<br>\$000 |   | Actual<br>2011<br>\$000 |
|-------------------------|---|-------------------------|
|                         | <b>Loans and receivables</b>                            |                         |
| 4,209                   | Cash and cash equivalents                               | 4,283                   |
| 5,504                   | Debtors and other receivables (Note 8)                  | 6,003                   |
| <b>9,713</b>            | <b>Total loans and receivables</b>                      | <b>10,286</b>           |
|                         | <b>Financial liabilities measured at amortised cost</b> |                         |
| 4,391                   | Creditors and other payables (Note 11)                  | 5,047                   |
| <b>4,391</b>            | <b>Total creditors and other payables</b>               | <b>5,047</b>            |

### Note 18: Management of taxpayers' funds (equity)

The Office's taxpayers' funds (equity) comprise general funds and is represented by net assets.

The Office manages its revenues, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which it has been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions.

### Note 19: Explanation of major variances against budget

Explanations for major variances from the Office's forecast figures in the *Annual Plan 2010/11* are as follows:

#### Statement of comprehensive income

Audit fee revenue was higher than budgeted due to additional revenue arising from the transition audits relating to the merger of Auckland Councils, additional revenue for Treasury's 2011 Departmental Internal Control Evaluation (not previously budgeted) and updated forecasts as audit fees are finalised and the flow of revenue across financial years crystallises.

Costs were higher than budgeted, a reflection of delivery of the additional audit work outlined above.

**Statement of financial position**

Current assets are higher than forecast which is mainly due to a higher cash balance arising from the operating surplus for the year. Debtors are also higher than forecast due to the timing of audit fee invoicing.

Current liabilities are higher than forecast, which is attributable to the provision for repayment of surplus to the Crown and higher payables due to the timing of payments at the end of the financial year.

**Note 20: Events after balance date**

After balance date, the Office entered into a non-cancellable contract to lease Wellington premises for a period of ten years from April 2012 with options to renew the lease for a total of a further twelve years. The agreement is not included in the statement of commitments because it was entered into after the balance date. As a result of the new lease contract, the Office also expects to incur costs of approximately \$170,000 in the 2011/12 financial year, relating to unused space in the premises being vacated.

The first year of the agreement includes interim arrangements for partial tenancy, with the rent for that year set at \$689,000. The annual rental from year two onwards is \$1,721,000 per annum, to be reviewed every three years.

The Office plans to fit out these premises at a total estimated cost of \$2.7 million over the next two financial years. Capital funding of \$2.2 million was approved by Parliament in the 2011 Budget.

There have been no other significant events after balance date.

**Note 21: Office accommodation statistics**

The following statistics are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

| Actual 2010        |  | Actual 2011        |
|--------------------|--|--------------------|
| 6250m <sup>2</sup> | Area                                       | 6037m <sup>2</sup> |
| 350                | Number of staff (FTE)                      | 367                |
| 17.9m <sup>2</sup> | Space allocation per person                | 16m <sup>2</sup>   |
| \$1,991,626        | Total costs of leased office accommodation | \$1,908,955        |
| \$5,690            | Rent costs per person                      | \$5,202            |
| \$291              | Utility costs per person                   | \$266              |
| 0                  | Vacant accommodation                       | 0                  |

# Appendix 1

## Summary of reports on performance audits, inquiries, and other studies published in 2010/11

### ***Spending on supplies and services by district health boards***

The report provides examples of good practice that we encourage, and examples of poor practice, to help District Health Boards (DHBs) improve their own spending on supplies and services from external suppliers and providers. Together, the 20 DHBs spend about \$6 billion on purchasing supplies and services from external organisations. This report brings together what the Office has learned during the last three years about how DHBs are managing the processes of spending money on supplies and services and determining value for money. The report sets out four critical questions that DHBs need to ask to determine whether they are managing the process of spending money on supplies and services well and ensuring value for money. This report gives examples from practices observed by the Office. These examples are intended to let DHBs compare their own practices and to help them determine how they can further improve the processes they use to spend money.

### ***Matters arising from Auckland Council's planning document***

Auckland Council became operational from 1 November 2010. Like all local authorities, Auckland Council must have an annual plan and a long-term plan. The planning document serves as Auckland Council's annual plan for 2010/11 and its long-term plan for 2010-19. Because the planning document had to be in place from 1 November 2010, it was produced on Auckland Council's behalf by the Auckland Transition Agency. This report covers aspects of Auckland Council's planning document from the perspective of our audit of it. It also provides some pointers for Auckland Council as it continues to develop its own strategies and planning for the future. Our audit of the planning document was our first opportunity to be involved in providing assurance to the new Auckland Council and its communities and stakeholders.

### ***Public entities' progress in implementing the Auditor-General's recommendations***

Our vision is to provide audit and assurance work that improves performance of, and the public's trust in, the public sector. We aim to do this through giving independent assurance to Parliament, public entities, and the public about whether public entities are carrying out their activities effectively, efficiently, and appropriately. In our series of annual progress reports, we consider the progress that public entities we have audited have made against our recommendations in our performance audit and inquiry work. The 2011 progress report looks at how well five public entities have implemented our recommendations. It is not a full and final assessment because some of the recommendations will take time to implement. The entities have generally accepted our recommendations, but progress in implementing them has been faster for some recommendations than for others.

***Inland Revenue Department: Making it easy to comply***

We carried out a performance audit to see how effectively Inland Revenue is making it easy for taxpayers to comply with their obligations to pay tax. As part of our audit, we tested Inland Revenue's website with two groups of taxpayers who had new tax obligations – tradespeople and rental property owners. We found that Inland Revenue can make it easier for taxpayers who need to file a tax return for the first time to understand their tax obligations and pay tax. By making it easier for taxpayers to comply, Inland Revenue could reduce the costs for taxpayers to comply, collect more revenue that is legitimately owed to the Crown, and spend less on collecting tax debt.

We found that Inland Revenue needs to better understand how effectively its different communication channels make it easy for taxpayers to comply with their tax obligations. Inland Revenue collects information about the usefulness of contact centre interactions but needs to better understand how useful some of its other main channels, such as its websites and publications, are for taxpayers. We also found that Inland Revenue is aware that it can improve how it provides information to make it easier for taxpayers to comply. Inland Revenue has prepared a communication channels strategy to do this. The strategy appears sensible and is similar to the approach taken by overseas revenue collection agencies.

***Central government: Cost-effectiveness and improving annual reports***

This discussion paper looks at the publicly reported performance information (annual reports) of six government departments and Crown entities during the last six years (2005 to 2010). We wrote this discussion paper to encourage ongoing improvements in performance reporting and in using information about performance to support good decision-making and management.

Government departments and Crown entities are required to prepare annual reports of their performance for external publication under the Public Finance Act 1989 or the Crown Entities Act 2004. Annual reports serve as an important tool for entities to promote what they do, how they deliver their services, and the value they provide to people.

The discussion paper focuses on findings that are common to a number of public entities and features illustrative examples from the six public entities. We have included recommendations that, if effectively addressed, would lead to significant improvements in an entity's reported performance information.

It is important that service performance information is useful and is being used to manage performance. In addition, taking a longer-term view of performance, and monitoring changes in demand and service delivery over time, is central to ensuring that service delivery will continue to be "fit for purpose".

***Final audits of Auckland's dissolved councils, and managing leaky home liabilities***

The former Auckland councils, and a significant number of their council-controlled organisations, were dissolved on 30 October 2010, immediately before commencement of Auckland Council and its new group. We audited the financial statements and statements of service performance included in these entities' final annual reports, which were for an extended period of 16-months up to the transition date. This report outlines the results of our audits, and some aspects of the final annual reports. The report also builds on our previous reporting of the effects of leaky homes liabilities on local authorities, the financial effect of which is concentrated in Auckland.

***Inland Revenue Department: Managing child support debt***

We carried out a performance audit to examine how effectively and efficiently the Inland Revenue Department was managing child support debt. Inland Revenue is responsible under the Child Support Act 1991 for making sure that parents take financial responsibility for their children when a relationship ends and the parents are unable to come to a voluntary arrangement for child support payments. Inland Revenue's role includes collecting money that is paid to the parents with whom the children spend most of their time (custodians), and collecting money for the Crown to offset the cost of any benefits paid to custodians. Child support debt incurs penalties, which are compounded monthly. As at 30 June 2009, child support debt totalled about \$1.56 billion, of which \$1.02 billion was for unpaid penalties.

We found that, overall, Inland Revenue is doing a good job monitoring, prioritising, and collecting child support debt. However, Inland Revenue needs to do more to prevent debt from occurring in the first place. Inland Revenue's debt strategy has not adequately focused on preventing debt; nor has it addressed the adverse effect that the penalty regime is having on levels of debt. The largest gains in collecting child support debt will come from making it more likely that a liable parent will make their payments voluntarily. This can be achieved in two ways: by creating a scheme that more parents understand and support, and the possibility of new international agreements making it easier to collect child support from overseas.

***District health boards: Availability and accessibility of after-hours services***

Sometimes an injury or worsening medical condition occurs when a general practitioner's practice is closed. The Government has set an expectation that district health boards (DHBs) should ensure that after-hours services are available for 95% of the population in each DHB district within 60 minutes' travel time. We carried out a performance audit to see whether DHB plans met this expectation for geographic availability of after-hours services.

We found that all DHBs met the expectation. Our audit showed that they had planned for after-hours services to be available as required by government policy. In addition to the expectation about geographic availability, the Government also has expectations about how DHBs will work to ensure that public health care services – including after-hours services – are accessible, which includes being affordable. We found that, despite a high level of geographic availability that met the Government's expectation, most DHBs had not clearly identified and responded to transport and affordability barriers.

DHBs have largely been responding to the after-hours challenges of today. This may not be enough to sustain after-hours service coverage in the future. DHBs need to design their service networks to ensure more sustainable after-hours services.

***New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network***

The state highway network is one of the country's major infrastructural assets. It carries about half of New Zealand's annual road traffic and is valued at about \$29 billion. The network is vital to New Zealand's economic growth and productivity. The Government also plans to invest significantly in it during the next 10 years. This report is on the first of two performance audits and looks at how well the New Zealand Transport Agency (NZTA) uses information about the condition of the network to plan for maintenance and renewal work.

We found that NZTA had good descriptive and condition information about state highway roads. We also found that NZTA had a planning framework that enabled it to use this information for day-to-day maintenance and renewal work. However, not all of the information was complete, especially for structures on the state highway network, such as bridges and tunnels. The long-term planning of NZTA was also incomplete at the time of the audit. NZTA was aware of these issues, and has been working to address them. The report makes 10 recommendations to support and enhance the improvements NZTA is making.

We intend to publish this year the second report, looking at how well NZTA carries out that maintenance and renewal work, and a summary of the overall findings for both audits.

***Department of Internal Affairs: Administration of two grant schemes***

The Department of Internal Affairs (the Department) aims to contribute to building strong, sustainable communities, hapū, and iwi. One way it does this is by distributing grants for community projects and organisations. Many community organisations depend heavily on grants for their operational

funding or special projects. For two schemes, the Lottery Grants Scheme and the Community Organisation Grants Scheme, grants are decided by decision-making committees. These committees are supported by the Department, who also administer payments, monitor review grant recipients' accountability, and carry out audits and reviews.

Our audit examined whether the Department's administration of these two schemes is consistent with the expectations that we outlined in our 2008 good practice guide *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*. We found that the Department bases its approach to administering the two schemes on the six main principles in our 2008 good practice guide. Overall, the Department's systems are effective in helping to put the principles into practice. However, we identified the need for improvements in transparency and accountability in the decision-making by the grants committees, and in accountability arrangements with grant recipients. We also made a recommendation to support the Department's intention to replace its electronic grants administration system, to improve the effectiveness and efficiency of grant administration.

#### ***Defence acquisitions – major projects report***

During 2009/10, in partnership with the Ministry of Defence, the New Zealand Defence Force, and the Treasury, and liaising closely with the Ministry of Foreign Affairs and Trade and the Defence and Trade Committee (the Committee), we identified what information stakeholders expected to see reported about major defence acquisition projects. The Defence acquisitions: Pilot major projects report was presented to the Committee in late 2009.

The Ministry of Defence and New Zealand Defence Force completed a major projects report covering eight major projects late in 2010. We undertook an independent review of the information provided in the project summaries and data sheets provided in the report. The defence agencies presented the report to the Committee in November 2010. The defence agencies intend to update this report annually and include information about new major projects as they are introduced.

#### ***Sport and Recreation New Zealand: Improving how it measures its performance***

The initial focus of the audit was to examine whether Sport and Recreation New Zealand (SPARC) was delivering its 14 functions as defined by the Sport and Recreation New Zealand Act 2002. We were also interested in how effectively SPARC's activities were contributing to increasing participation. SPARC had a range of activities that fulfilled its functions. However, we were unable to assess how effectively these activities were contributing to increasing participation because

the quality of the information about the relationship between SPARC's work and its broader outcomes was limited. SPARC had identified this and was already working to improve its information.

Because good quality performance information is critical for entities to account for how they have used public funds, we decided to examine the work SPARC was doing to improve how it measured its performance.

Because SPARC was still introducing its new measurement framework at the time of our audit, it was too early to assess the framework's effectiveness. However, it was clear that SPARC knew what its information needs were, had thoroughly considered how to meet these information needs, and was setting up systems to provide the information it needed. Accordingly, we did not make any recommendations. However, within an appropriate time frame, we plan to follow up on SPARC's efforts to improve how it measures its performance.

#### ***Ministry of Social Development: Managing the recovery of debt***

We carried out a performance audit to assess how well the Ministry of Social Development manages the recovery of money owed to the Ministry. Benefits are a major form of expenditure, and we wanted assurance that the Ministry was effectively managing the recovery of loans and other kinds of debt. People may owe money to the Ministry because they have received a recoverable assistance loan or a benefit overpayment.

Overall, our audit concluded that the Ministry is using well-established and appropriate systems to effectively recover the loans and the overpayment debt. It has a clear understanding of the main causes of benefit overpayments, and uses sensible strategies to try to prevent overpaying and to identify overpayments when they occur. We suggested some changes that could improve the Ministry's practices. In many instances, the Ministry already has work under way or has planned to make improvements.

#### ***Progress in delivering publicly funded scheduled services to patients***

New Zealand will always have more patients than our publicly funded non-urgent medical and surgical services can cope with at any one time. This report assessed the progress made in achieving the government strategy "Reduced Waiting Times for Public Hospital Elective Services", which was released in 2000. The strategy aimed to ensure that patients get an appointment with a specialist within six months and receive any treatment within six months. Our report found that about 90% of patients are getting scheduled services within this limit. In June 2010, there were 6800 people (10%) who did not receive required services within the time limits. Some had waited up to two years.

In the last five years, more patients have been getting services because of increased funding. We found that there is no certainty that the “right” patients are always seen, or that they are treated in the appropriate priority order. Despite encouraging improvements made in the last 10 years, there is not yet a system for scheduled services that can demonstrate national consistency and equitable treatment for all. We suggest that such a system is achievable. We found that useful steps were being taken, such as the introduction of a new tool to prioritise patients for cardiac surgery.

#### ***Inquiry into New Zealand Defence Force payments to officers to the United Nations***

In 2008, the Minister of Defence asked the then Auditor-General to inquire into a number of matters associated with the payment of accommodation assistance by the New Zealand Defence Force (NZDF) to four officers whom it seconded to the United Nations Department of Peacekeeping Operations in New York. Over a number of years, these officers had wrongly claimed accommodation assistance by submitting false declarations. This practice enabled them to receive additional accommodation assistance from NZDF outside the terms of the UN secondment. The request to the Auditor-General asked us to look more deeply at the causes of the problem, and in particular to identify whether anyone in NZDF had encouraged or condoned the wrongdoing.

Our inquiry found that this issue had arisen because of poor policy development and other failures at critical points. We also found that the rationale on which NZDF had decided to pay the seconded officers NZDF accommodation assistance was incorrect, that there was therefore no need to pay the seconded officers NZDF accommodation assistance, and that the problems that ensued could have been avoided.

The inquiry considered what had caused the problems to arise and how they could persist for so long when so many people in NZDF knew that what was being done was wrong. We concluded that three aspects of the organisational culture in NZDF headquarters contributed to the problem:

- a strong silo mentality, which enabled people to see the issue as someone else’s problem;
- the military discipline of hierarchy and command lines, which enabled people to see it as inappropriate for them to question decisions apparently taken by their superiors; and
- a general desire for practical solutions to problems, and an inadequate recognition of when those solutions may conflict with fundamental public sector values relating to integrity and legality.

***Inquiry into the Plumbers, Gasfitters, and Drainlayers Board***

During 2008/09, we carried out an inquiry into how the Plumbers, Gasfitters, and Drainlayers Board was carrying out its functions under the Plumbers, Gasfitters, and Drainlayers Act 1976. We found problems in how it was carrying out most of its functions. The problems differed for the various functions, but included unclear or non-existent policies, poor communication, poor processes, decisions and policies that were not clearly well-grounded in the legislation, and little awareness of the need to embed basic administrative law disciplines into the Board's everyday work and decision-making.

We also talked to many individuals and organisations working in the building and construction sector about their interactions with the Board. We encountered a sector that was characterised by suspicion and discontent. Many plumbers and gasfitters we spoke to were unhappy with the work of the Board at many levels.

In early 2008, the Minister for Building and Construction had replaced most of the appointed members of the Board. The new Board members took office with a clear understanding that their role was to address the problems confronting the Board. The Board did a great deal of work during 2009 and in early 2010 to deal with many of the issues that we had identified. We understand that the Board is still working on these issues. However, the problems with the Board's activities are deep seated and will require significant work in the future.

***Matters arising from the 2009-19 long-term council community plans***

This report outlines the results of, and the matters arising from, our audits of local authorities' 2009-19 long-term council community plans (LTCCPs). It builds on our previous reporting on audits of the 2006-16 LTCCPs. The report includes a summary of our findings from our audits of the 2009-19 LTCCPs. It focuses on positive aspects and good examples, and it acknowledges the significant improvements between the 2006-16 and 2009-19 LTCCPs. The report also identifies how and where local authorities could improve further when they prepare their 2012-22 long-term plans.

***Effectiveness of the Get Checked diabetes programme***

This report followed up on our 2007 report – Ministry of Health and district health boards: Effectiveness of the get checked diabetes programme – which had 17 recommendations for District Health Boards (DHBs). We prepared this latest report to help DHBs further improve the effectiveness of the Get Checked diabetes programme. It sets out the intent behind the 17 recommendations and includes examples of the actions that some DHBs reported to us that they were carrying out to meet the intent of our recommendations. DHBs can use the contents of this report, and the questions posed in it, to consider their progress and identify how the Get Checked programme could be improved.

***Guidance for members of local authorities about the local authorities (Members' Interests) Act 1968***

In October 2010, we published updated guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968. This good practice guide provides guidance for members of local authorities about how to identify financial and non-financial conflicts of interests and how to manage them.

***Inquiry into payments to chief executives of dissolving local authorities in Auckland***

In November 2010, the Auditor-General published the results of an inquiry into the employment termination arrangements for chief executives of the eight dissolving local authorities in Auckland.

We found that, of the total payments, almost all were made under contractual arrangements and in keeping with the Auckland transitional legislation. However, we considered that two payments with a total cost of \$42,000 were not authorised and did not need to be made.

We also considered that that total cost of payments in lieu of notice to chief executives of \$263,722 was significant and that the Auckland Transition Agency and the local authorities could have done more to reduce or avoid these costs. We concluded that the need to reduce or avoid these payments should be considered in any future restructuring of this kind.

***How the Department of Internal Affairs manages spending that could give personal benefits to Ministers***

After requests from the Prime Minister, a Minister, and the Department of Internal Affairs (the Department), the Auditor-General agreed to carry out an inquiry into how the Department manages spending that could give personal benefits to Ministers. The purpose of the inquiry was to:

- audit the expenditure incurred by one ministerial office from November 2008 until February 2010;
- review the rules, policies, and procedures to see whether they were appropriate and effective and identify any improvements that could be made; and
- consider any other matters that the Auditor-General considered relate to, or arise from, the above.

We published a report on the first term of reference on 30 March 2010. The second report addressing the two remaining terms of reference was published in December 2010.

In our second report, we concluded that the current system for providing support to Ministers has flaws at each of the levels we examined. The system

functions but, cumulatively, the problems are significant. We found that the institutional and legal context in which the Department's Ministerial Services unit must operate is unhelpful, and that there were weaknesses in the underlying administrative policies, procedures, and practices. We concluded that the basic design of the procedures is reasonable, but they need further development.

We found that, at an operational level, there did not appear to be any pattern of major spending irregularities, and we found only occasional examples of transactions that we considered were arguably or clearly outside the rules. We also found that the basic design of the financial management processes is sound.

Our overall conclusion was that, taken as a whole, the current Ministerial Services system for managing spending is an unsatisfactory basis for providing support to Ministers.

#### ***Provision of billboard for Len Brown's Mayoral Campaign***

In December 2010, the Minister of Local Government asked the Auditor-General to consider the legality and appropriateness of the Counties Manukau Pacific Trust's contribution of free billboard space to Mr Len Brown's mayoral campaign. In February 2011, we reported our findings to the Chairman of the Trust.

We found that there was not a significant lapse of judgement or lack of probity by the Trust, and that the financial benefit to Mr Brown's campaign was provided as part of the Trust's normal procedures for community organisations using the billboard. However, we did note that the Trust risked criticism for entering the political domain by supporting one candidate and could have thought about this more when making its decision. We did not consider that there was evidence that the Trust was intending to support a particular candidate or take a political role in making the billboard available to mayoral candidates.

We also found that there was no cost to Manukau City Council ratepayers. We noted that the Trust incurred no cost by making the billboard available, and in fact received a small amount of income in commission on the banner displayed.

#### ***Effective reporting on students' progress and achievement***

Our report to parliament on *Central government: Results of the 2009/10 audits (Volume 1)* included the results of our work examining how well a sample of primary school boards reported on student achievement in their 2009 annual reports. We followed up this work with a short summary report that we sent to all public primary schools. The summary provided guidance to school Principals and Board Chairpersons to help them prepare student achievement targets and improve the quality of analysis of variances between performance and the targets in their annual reports. Our summary included a checklist that school boards

of trustees could follow when preparing their analysis of variance reports. We received positive feedback from schools commenting on the usefulness of the guidance.

***Central government: Case studies in reporting forecast performance information***

This discussion paper sets out case studies of three government departments and Crown entities' forecast performance information contained in their 2009-12 statements of intent and 2009/10 forecast statements of service performance. The three entities – Career Services, Ministry of Economic Development, and New Zealand Customs Service – were chosen from among the public entities that received a “good” grade from our auditors for their service performance information and associated systems and controls.

Public entities are required to report their plans and their performance against those plans to demonstrate that they deliver services efficiently and effectively. This supports their accountability to Parliament and to the public for responsibly using the public resources and regulatory powers entrusted to them.

In this discussion paper, we discuss the six elements of a good performance story and then discuss each of the elements of the three featured entities. We commented on the elements that we liked as well as aspects that each entity could improve. We provided illustrative examples, and hope that public entities will find these helpful in preparing their own forecast performance information.

***District Health Boards: Learning from 2010-13 Statements of Intent***

During 2010/11, we reviewed the Statements of Intent (SOIs) of all district health boards (DHBs). This report relates to our findings from that review, and was published in February 2011 to help DHBs as they prepared their 2011-14 SOIs. We aimed to help the DHBs by reporting an overview of our findings, illustrating examples of better practice in some of the DHBs' 2010-13 SOIs, and discussing the need for measuring and reporting on the quality of DHB services.

By looking at nine key factors we considered important in DHB SOIs, we concluded that most DHBs had made notable improvements in their 2010-13 documents. However, some made little progress and were still grappling with basic performance framework issues. We concluded that all DHBs needed to ensure that their most significant services were properly covered in their SOI, and they all needed to report more measures of service quality.

We were able to highlight examples of the reporting practices of five DHBs, each of which presented a particular aspect of performance reporting better than the others. The examples related to presenting the performance story, reporting main measures and targets for health outcomes, differentiating the outputs from their

impacts, describing the health services provided, and providing a good coverage of the health services.

Although performance measures for the quality of health services were thin, we highlighted those we had identified and discussed some of the issues in reporting service quality to help DHBs consider how they might improve their reporting in their 2011-14 SOIs.

#### ***Review of the Northland Events Centre Project***

In 2011, we completed a review of the Northland Events Centre Project. Concerns had been raised with the Auditor-General about the project – in particular, about the business arrangements between Whangarei District Council and Northland Regional Council, their plans for ongoing management of the centre, and the way in which the Northland Rugby Union's interests in the development were being managed.

We concluded that the project appears to have been a success in practical terms. In particular, the stadium was built on time and within budget. However, we did identify some aspects of the project that we consider could have been managed better.

We found that the Whangarei District Council should have consulted more with the Northland Regional Council before changing its mind on the arrangements for the ongoing ownership and management of the centre, given that this was a joint project and Northland Regional Council was raising most of the capital costs from regional ratepayers.

We also found that, although the Northland Rugby Union was entitled to be compensated for the interests it surrendered to enable the redevelopment of Okara Park to proceed, we were not satisfied that the Whangarei District Council had sufficient information to show that the \$2 million figure it had agreed with the Rugby Union represented fair value for its interests in the site.

We also found that Whangarei District Council tried to manage perceptions about conflicts of interest for its councillors who had links to the Northland Rugby Union, but its approach of delegating relevant decision-making to its chief executive did not work well and needed to be reconsidered.

## Appendix 2

# Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act requires us to include in the annual report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

At 30 June 2011, arrangements had been entered into for audits of the following entities:

- Unipol Recreation Limited
- Māori Education Trust
- Literacy Aotearoa
- Tokelau International Trust Fund
- NZ Sports Foundation Charitable Trust
- Greytown District Trust Lands Trust
- TLab Limited
- AUT/Millennium Ownership Trust.



## Appendix 3

# Public entities not audited by the Auditor-General

Under section 14 of the Public Audit Act 2001, the Auditor-General is the auditor of every public entity. The definition of public entity in section 5 includes any entity controlled by one or more public entities.

Section 5 uses both legal and financial reporting definitions of control. Section 5(2) says that an entity is controlled by one or more other entities if:

- (a) the entity is a subsidiary of any of those other entities; or*
- (b) the other entity or entities together control the entity within the meaning of any relevant approved financial reporting standard; or*
- (c) the other entity or entities can together control directly or indirectly the composition of the board of the entity within the meaning of sections 7 and 8 of the Companies Act (which, for the purposes of this paragraph, are to be read with all necessary modifications).*

Applying paragraph (b) requires us to consider the substance of the relationship between two entities to determine whether one controls the other (within the meaning of any relevant approved financial reporting standard).

The judgements involved in applying paragraph (b) are not always clear cut. The application of the “control test” to trusts is particularly difficult.

In many cases, our judgements about whether trusts are public entities align with the view of, or are accepted by, the entities concerned. However, there are some trusts that do not agree with us. In the past two years, we have named a number of trusts and associated entities in our annual report as entities that are not currently audited by the Auditor-General because they do not accept that they are public entities.

Earlier this year, we decided to review our approach to these issues. That work is not yet complete. Therefore, we have decided not to name any entities this year.



# Appendix 4

## Senior management

Controller and Auditor-General

Lyn Provost

Deputy Controller and Auditor-General

Phillippa Smith

### **OAG Leadership Team**

Assistant Auditor-General, Accounting and Auditing Policy

Greg Schollum

Assistant Auditor-General, Corporate Services

Peter Grant

Assistant Auditor-General, Legal

Nicola White

Assistant Auditor-General, Local Government

Bruce Robertson

Assistant Auditor-General, Parliamentary Group

Wendy Venter

Assistant Auditor-General, Performance Audit Group

Mike Scott

Assistant Auditor-General, Research and Development

Ann Webster

### **Audit New Zealand Executive Leadership Team**

Executive Director, Audit New Zealand

Stephen Walker

General Manager, Operations

Bethia Gibson

General Manager, Professional Practices

Chong Lim

Assistant Auditor-General, Corporate Services

Peter Grant



# Appendix 5

## Directory of offices

### **Office of the Auditor-General**

Level 2  
State Services Commission Building  
100 Molesworth Street  
PO Box 3928  
Wellington 6140  
Telephone: (04) 917 1500  
Fax: (04) 917 1549  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

### **Audit New Zealand**

#### **National Office**

Level 8  
St Paul's Square  
45 Pipitea Street  
PO Box 99  
Wellington 6140  
Telephone: (04) 496 3099  
or 0508 283 486 (0508 AUDIT NZ)  
Fax: (04) 496 3095  
Website: [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

#### **Auckland**

Level 10  
Great Walls Finance Building  
155 Queen Street  
PO Box 1165  
Auckland 1140  
Telephone: 0508 283 486  
(0508 AUDIT NZ)  
Fax: (09) 366 0215

#### **Hamilton**

17 Clifton Road  
PO Box 256  
Hamilton 3240  
Telephone: 0508 283 486  
(0508 AUDIT NZ)  
Fax: (07) 838 0508

### **Tauranga**

745 Cameron Road  
PO Box 621  
Tauranga 3140  
Telephone: 0508 283 486 (0508 AUDIT NZ)  
Fax: (07) 577 9321

### **Palmerston North**

49 Victoria Avenue  
PO Box 149  
Palmerston North 4440  
Telephone: 0508 283 486 (0508 AUDIT NZ)  
Fax: (06) 356 7794

### **Wellington**

Level 8  
St Paul's Square  
45 Pipitea Street  
PO Box 99  
Wellington 6140  
Telephone: (04) 496 3099  
or 0508 283 486 (0508 AUDIT NZ)  
Fax: (04) 496 3195

### **Christchurch**

Unit 4B  
337 Harewood Road  
Bishopdale  
PO Box 2  
Christchurch 8140  
Telephone: 0508 283 486 (0508 AUDIT NZ)  
Fax: (03) 359 4128

### **Dunedin**

Level 1  
399 Moray Place  
PO Box 232  
Dunedin 9054  
Telephone: 0508 283 486 (0508 AUDIT NZ)



# Publications by the Auditor-General

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

- Transpower New Zealand Limited: Managing risks to transmission assets
- The Treasury: Implementing and managing the Crown Retail Deposit Guarantee Scheme
- Managing freshwater quality: Challenges for regional councils
- Local government: Improving the usefulness of annual reports
- New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway network
- Government planning and support for housing on Māori land
- Inquiry into the use of parliamentary travel entitlements by Mr and Mrs Wong
- The Emissions Trading Scheme – summary information for public entities and auditors
- Planning to meet the forecast demand for drinking water in Auckland
- Appointing public sector auditors and setting audit fees
- Home-based support services for older people
- New Zealand Customs Service: Providing assurance about revenue
- Inland Revenue Department: Making it easy to comply
- Central government: Cost-effectiveness and improving annual reports
- Annual Plan 2011/12
- 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

## Website

All these reports are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz).

Most of them can also be obtained in hard copy on request – [reports@oag.govt.nz](mailto:reports@oag.govt.nz).

## Mailing list for notification of new reports

We offer a facility for people to be notified by email when new reports and public statements are added to our website. The link to this service is in the Publications section of the website.

## Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General  
PO Box 3928, Wellington 6140

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

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)