



Summary of our report

Central government: Results of the 2014/15 audits



This report sets out the results of our audit of the *Financial Statements of the Government of New Zealand for the year ended 30 June 2015* (the Government's financial statements) and of carrying out the Controller function. Both are essential components of New Zealand's public financial management system.

We have issued an unmodified audit opinion on the Government's financial statements. The financial statements give an account of what the Government earns, spends, owns, and owes.

Our role is to provide assurance to Parliament that the way the Treasury has reported in the Government's financial statements fairly reflects the Government's financial performance and position. The Controller work complements that. As the Controller, we check

that government departments spend no more money than Parliament has approved and that they have spent money for its intended purposes.

These are not trivial matters. Establishing that the Government's books are trustworthy is fundamental to public accountability, as is the principle that the Government spend only what Parliament has approved.

This report draws on the many individual audits of central government organisations. Some of the matters that we highlight are of interest not only from a financial reporting perspective. They indicate the complexity of matters that concern many New Zealanders.

Investing in, and managing, the Crown's assets

The Government's financial statements record the Crown's assets, as at 30 June 2015, at \$278.7 billion. This is a \$21.9 billion (9%) increase on June 2014. Financial assets make up 49% of the Crown's assets. Property, plant, and equipment make up 45% of total assets.

One of the challenges in preparing and auditing the Government's financial statements involves deriving and verifying the values of property, plant, and equipment assets (fixed assets), many of which are large, complex, and specialised. Areas of focus in our 2014/15 audit included the valuations of the state highway network, Solid Energy's assets, railway network assets, and the Government's social housing stock.

We note the Treasury's work to improve investment decisions and asset management practices

Vital statistics:

- 39 pages
- Presented to Parliament on Thursday 3 December 2015
- Contact: reports@oag.govt.nz

throughout the public sector. Recent Treasury initiatives include its *Investment Statement, Thirty Year New Zealand Infrastructure Plan 2015*, and development of Cabinet Office Circular (15) 5 – *Investment Management and Asset Performance in the State Services* (see Part 1). The latter requires investment-intensive agencies to produce long-term investment plans and asset management performance measures.

We will play a complementary role in our audit work, which will be driven by our 2015/16 work programme theme, *Investment and asset management*. As part of this theme, we are looking at the Government's investment strategy and will look at the four-year plans of selected asset or investment-intensive agencies. We are taking a special interest in the extent and maturity of long-term asset planning and management practices, including financial forecasts.

Because of the significance of financial assets to the Crown's balance sheet, we will report on how the financial assets are managed, governed, and monitored.

Rebuilding Canterbury

The net annual operating costs that the Crown incurred for the Canterbury earthquake recovery continue to decline. Capital spending increases as the Government invests more heavily in rebuilding assets and infrastructure. Some challenges continue with how the costs are accounted for and reported.

Since 2011, our reports on the audits of the Government's financial statements have identified significant uncertainties with the estimated costs of the Canterbury rebuild. Our reports have given reassurance that the Treasury has reasonably estimated the total cost and associated liabilities. However, significant uncertainties remain, particularly for the valuation of liabilities and associated insurance recoveries. These uncertainties have challenged accounting and reporting practice.

Financial management and reporting

The preparation and audit of the Government's financial statements rely on a finely tuned financial management and reporting system, run by the Treasury. The public entities whose financial results are sent to the Treasury and included in the Government's financial statements must also present their annual statements to our auditors in a timely way. Our auditors provide assurance on both the financial statements of the individual reporting entities and the whole-of-government financial statements. We issued our audit report on the 2014/15 Government's financial statements on 30 September 2015, as required.

The Public Finance Act 1989 (section 45D) requires government departments to provide us with all information for audit by 31 August. Auditors face a lot of pressure when government entities are late in providing satisfactory draft financial and performance statements.

Some government departments gave our auditors 2014/15 annual report information that was late, incomplete, or inadequate. The lateness and poor quality of information and draft reports created more work for auditors and that work had to be done in a tighter time frame.

We want to see more attention being committed to good quality financial and performance reporting to ensure that entities provide a timely, good, and transparent account of themselves to Parliament and the public.