

Annual Report for the year ended 30 June 2006

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

September 2006

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Hon Margaret Wilson MP
Speaker
House of Representatives
WELLINGTON

Madam Speaker

In accordance with section 37 of the Public Audit Act 2001, I am pleased to submit my Annual Report for the year ended 30 June 2006.

Yours sincerely

A handwritten signature in black ink, consisting of a long horizontal stroke followed by a large loop.

K B Brady
Controller and Auditor-General
29 September 2006

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Auditor-General's overview



I am delighted to present my Annual Report for the year ended 30 June 2006. This report sets out how my Office has performed – both financially and non-financially. It is part of my accountability as an Officer of Parliament.

In 2004, I produced my *Five-year Strategic Plan*. An important element of that Plan was the need to establish capability and capacity for research and development. I did so in response to a number of significant changes – in the accounting and auditing profession, in the legislative and operating environments of public entities, and in information and reporting requirements and methods.

Highlights for 2005-06

In 2005-06, my auditors started to implement the result of the design work completed throughout 2004-05 on our three major research and development projects:

- auditing long-term council community plans (LTCCPs);
- the audit implications of new legislation in central government; and
- introducing New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Our implementation of these projects is discussed further on pages 29-32.

In addition to marshalling our resources to deliver the large amount of audit fieldwork for these projects, we have made real progress towards achievement of the *Five-year Strategic Plan*. This includes:

- completing a record number of performance audits and good practice guides;
- strengthening our systems and processes for managing major inquiries, which is starting to result in improved timeliness of inquiries;
- enhancing our Corporate and Strategic Audit Planning processes to ensure integration, and to provide a clearer strategic perspective when setting

my discretionary work programme – both for audit work and for areas of management focus. I have shared this framework with members of Parliament and other stakeholders during the consultation process for my *Annual Plan 2006-07*, and I have received strong support for the enhancements we have made;

- aligning our corporate resources across my two business units – the Office of the Auditor-General and Audit New Zealand. This is resulting in greater consistency and efficiencies; and
- continuing to invest significantly in the professional and leadership development of our people, especially in the areas of emotional intelligence and conflict management.

The year ahead

My main objectives for the coming year are to continue to strengthen the capabilities of the people who work for and with the Office, and to make further progress in advancing my *Five-year Strategic Plan*. My *Annual Plan 2006-07* sets out the actions we intend to take to do this.

Summary

I am proud of the significant work we have done during the past year, particularly in responding to:

- the statutory requirement to audit LTCCPs;
- the new public sector management legislation; and
- the New Zealand equivalents to NZ IFRS.

I would like to thank my staff and all our contracted audit service providers for their contributions, and especially for their willingness to learn and adapt to the challenges in our environment. I am fortunate to have such competent and professional people working for and with the Office.



Kevin Brady
Controller and Auditor-General
29 September 2006

About the Auditor-General

Role and functions of the Auditor-General

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

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

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

This independent assurance is provided through the reporting set out under the Public Audit Act 2001 and other statutory requirements:

- annual audits and other audits of public entities;
- exercise of the Controller function including the appropriation audit;
- performance audits and other studies;
- responding to enquiries from ratepayers, taxpayers, and members of Parliament; and
- approvals under the Local Authorities (Members' Interests) Act 1968.

Annual audits, other audits of public entities, and the exercise of the Controller function are statutory requirements. The remainder are discretionary. To help us to perform this statutory reporting effectively, we also undertake a range of other services including:

- advice to Parliament;
- advice and liaison;
- working with the accounting and auditing profession;
- international liaison and involvement.

Our operating model

The Auditor-General's staff are organised into two business units – the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office").

The OAG undertakes strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reporting and advice to Parliament, and undertakes inquiries and other special studies.

Audit New Zealand is the operating arm of the Office, and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities, within the Auditor-General's mandate and in accordance with the Auditor-General's Auditing Standard on the independence of auditors.

The Auditor-General also engages private sector auditing firms (audit service providers) to carry out his statutory functions in relation to public entities, and to assist with other work of the Office.

Our current capability

As at 30 June 2006, the Auditor-General employed 260 staff, based in nine locations throughout New Zealand. He also engaged 60 audit service providers, as well as Audit New Zealand, to carry out annual audits of public entities.

In 2005-06, we generated revenue of \$51.840 million – \$9.103 million from Revenue Crown and \$42.737 million from audited entities.

Our strategic direction

The Auditor-General's internal operating vision for the Office is to "set the benchmark for design and delivery of independent assurance services".

We have three important business strategies to attain this vision:

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

Part 1

Our year's work in review

Introduction

In this Part, we describe:

- our annual and other statutory audit work;
- the performance audits and inquiries we reported on;
- the work we undertook as part of our research and development programme;
- our Controller function work; and
- our advice and liaison.

Full information about our performance against our targets is in Part 3: Statement of Objectives and Service Performance, pages 65-74.

Our annual planning, particularly our Strategic Audit Planning, identifies our work programme for the coming year. Our Annual Plan sets out our proposed work programme of performance audits and special studies, and our proposed research and development programme. We consult with Parliament to finalise our work programme.

The work of our auditors

Performing annual and other statutory audits

The Auditor-General has a statutory duty to conduct an annual audit of the financial reports of about 4000 public entities.¹ This work accounts for about 80% of our total budgeted expenditure and is non-discretionary. During 2005-06, we carried out 4063 annual audits of public entities.

The Auditor-General also carries out other audits required by various statutes. In 2005-06, we conducted for the first time the audit of local authorities' LTCCPs, which local authorities are required to produce and have audited every three years. In 2005-06, we audited 84 LTCCPs, before they were released for community consultation, and 79 final plans. A small number remained to be completed at 30 June 2006 because of delays on the part of the local authorities concerned.

The Auditor-General must also audit amendments to these plans. It is already apparent that this will be a continuing stream of work during 2006-07 and beyond.

Because the Auditor-General is responsible for auditing all public entities, it is important that the Office ensures that audits are performed effectively and efficiently:

- in accordance with relevant professional accounting and auditing standards, as well as the Auditor-General's own published auditing standards; and
- at a fair price – that is, that the cost of audit fees for public entities is in balance with the need for our audit service providers to be remunerated adequately so that we can continue to offer quality auditing services to the public sector.

Ensuring that quality audits are performed – setting standards

*The Auditor-General's Auditing Standards*² establish the minimum standards to be applied to audits, inquiries, and other auditing services conducted on behalf of the Auditor-General. Under section 23 of the Public Audit Act 2001, the Auditor-General must publish the Auditing Standards, by way of a report to the House of Representatives, "at least once every 3 years". Each annual report must include a description of any significant changes made to the standards during a financial year. The Auditing Standards consist of the ethical and professional standards of the New Zealand Institute of Chartered Accountants (NZICA), supplemented by the Auditor-General's Statements, and (where there is no NZICA standard) the Auditor-General's Specific Standards.

During the year, we made several minor technical enhancements to two Statements within the Auditing Standards – namely, AG-520: *Going Concern*, and

1 Under the Public Audit Act 2001, the Auditor-General is the auditor of every public entity and the entities they control.

2 Published most recently in May 2005. Available on our website www.oag.govt.nz.

AG-702: *The Audit Report on an Attest Audit*. The purpose of the enhancements was to improve the clarity of reporting by appointed auditors.

Ensuring that quality audits are performed – quality assurance

In addition to setting out the standards for the conduct of audits, the Office also undertakes an annual quality assurance programme to review the audit work performed. We aim to review the performance of each of our appointed auditors at least once every three years. We may do follow-up reviews if we identify a need for improvement.

In 2005-06, we met our target by undertaking 45 reviews. Consistent with previous years, the work we reviewed was, with only a few exceptions, of good quality. We followed up on the exceptions.

Ensuring that our auditors provide reasonably priced audits – allocation, tendering, and fee monitoring

The Auditor-General uses an “audit resourcing model” for selecting auditors to carry out annual audits of public entities, other than of school boards of trustees.

The Auditor-General established this approach in 2002-03, after a review of procedures to appoint auditors. The changes resulted in most audit contracts continuing to be reviewed every three years, and audit arrangements continuing to be made by direct allocation, with limited recourse to tendering.

In allocating annual audits to auditors, the Auditor-General chooses from a pool of audit service providers – which includes Audit New Zealand, the four major chartered accountancy firms, and a range of medium-sized and smaller audit firms. The Auditor-General uses competitive tendering for the audits of some entities that have a strong commercial focus.

During 2005-06, the Auditor-General reappointed existing auditors to conduct the audits of 162 public entities (other than schools) and their subsidiaries. A competitive tender was used to select the auditor of one public entity with a strong commercial focus (an energy company).

Of the 162 public entities where auditors were reappointed, 17 asked us to provide comparative fee information to help resolve concerns about the fee proposed by the appointed auditor. In all cases, the auditor and the entity resolved the matter based on that extra information.

During the year, we completed new audit arrangements for the audits of 2464 state schools for the 2005 financial year only. Normally, procedures would have been initiated in 2005-06 to appoint auditors for all state schools for a further three years. However, as a result of uncertainty about the timing and effect of changing accounting and auditing standards, the Auditor-General decided to make appointments for each school for a further year.

The auditors of 2272 schools were reappointed, after negotiation of audit fees with boards of trustees. Where any auditor could not be reappointed, the Auditor-General appointed another auditor, and set an audit fee in line with established market rates for the audits of comparable schools. There were 192 schools in that category, and in each case the OAG worked with a representative of the board of trustees to appoint a new auditor appropriate to the school's situation, and to establish a fair audit fee.

Arrangements are currently under way to appoint auditors for all state schools for the three financial years 2006-2008. All boards of trustees are being given the options of reappointment of their current auditor, appointment by the OAG of a new auditor, or selection of a new auditor through a tender process.

Since the establishment of the audit resourcing model in 2002-03, we have developed a range of techniques to monitor audit fees at the point of negotiation, and to provide a comparative analysis to help resolve concerns about proposed audit fees. Our overall objective is to ensure that audit fees are fair to the public entities subject to audit, and provide a level of return to the auditors commensurate with the auditing standards that public entities, the Auditor-General, and Parliament expect.

Now that those techniques have been refined to a significant degree, the Auditor-General has commissioned an external reviewer to report to him on:

- the robustness of our current fee monitoring and resolution processes, and how they might be improved; and
- other mechanisms and data sources that may be used to assure public sector entities and auditors that fees are set at fair and reasonable levels.

This report will be used to further improve the Office's fee monitoring and resolution processes in 2006-07.

We continued to examine and determine the status of several subsidiaries of public entities. In 2005-06, 142 new public entities were added to our audit portfolio. These included newly formed public entities, subsidiaries of existing public entities, and other entities controlled by more than one public entity.

An independent reviewer evaluates the integrity of the methods and systems we use to allocate and tender audits and monitor the reasonableness of audit fees. The report of the independent reviewer for 2005-06 is reproduced on pages 13-15.

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15 August 2006

Mr Kevin Brady
The Controller and Auditor-General
P O Box 3928
WELLINGTON

Dear Mr Brady

ANNUAL REPORT OF THE INDEPENDENT REVIEW OF AUDIT ALLOCATION AND TENDERING PROCESSES

1. You have retained me as an independent evaluator of the basis upon which auditors are appointed to act on your behalf. This is the fourth year in which I have been retained for that purpose.
2. This is my report on those processes for the financial year ended 30 June 2006. 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.
4. There are three distinct types of 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 following a contestable tender; and
 - (c) a re-appointment for a further term of an approved auditor's contract to audit a particular entity.
5. In the past financial year, extensive use has been made of the re-appointment of existing auditors. The preceding section of this annual report describes the position in part:
 - (a) For the reasons specified, the auditors of 2,272 state and integrated state schools were re-appointed for one year, with audit fees being agreed with each board of trustees. In the case of 192 state and integrated state schools, a new auditor was appointed. This was effectively an allocation, though the OAG worked with each board of trustees to establish agreement as to the new auditor and as to the level of the audit fee.

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- (b) At the end of May this year, the Auditor-General initiated a process for settling the arrangements as to state and integrated state school audits for the next three years. That process is an extensive one, and will not be concluded before December of this year.
 - (c) Apart from the audits for schools, the Auditor-General re-appointed existing auditors in respect of 162 public entities and their subsidiaries.
- 6. In the case of 17 of those 162 public entities, questions were raised by them about the appropriateness of the fee proposed by the appointed auditor:
 - (a) In every such case, the OAG provided the entity with an analysis of the fee proposed. Those analyses dealt with factors which were likely to have influenced the level of the fee proposed, and set out current market parameters for fees in comparable cases.
 - (b) The provision of information of this kind facilitated agreement on fees in all cases.
 - (c) The information that is now provided by the OAG to enable an informed appreciation of relevant fee levels and their appropriateness has become much more extensive and sophisticated. It has clearly been of considerable assistance both to the entities and to the auditors involved.
 - (d) The OAG is seeking to ensure that the scope, validity and usefulness of the information as to fee levels continue to improve. This process should help to provide an assurance to the auditors that there is a fair return for their services, and an assurance to the entities, and to the public generally, that a sufficient but not excessive level of resources is being committed to obtaining an effective audit.
- 7. The allocation of an auditor by way of competitive tender is now largely reserved for those public entities which have a strong commercial focus and where a change of auditor is required. In the past financial year, that process was used on only one occasion:
 - (a) The company was one which is involved in the energy sector. As is usual, a panel was established to advise the Auditor-General, with a representative of the entity, a representative of the Auditor-General and an experienced independent chair. The panel's recommendation as to the most suitable tender was unanimous, and was accepted by the Auditor-General.
 - (b) I did not monitor the meeting of the panel, but I did review the papers. I consider that the panel acted on a way that was robust, rational and appropriate.
- 8. During the course of the financial year, I have been supplied by the OAG with a range of information about the relevant processes. I have also sought additional information and have made particular enquiries. In all cases, my enquiries have been responded to fully and professionally.
- 9. I now state my overall conclusions. On the basis of the written material I have seen and the explanations I have been given, I consider that the processes adopted by you and by the OAG on your behalf in relation to the renewal, allocation and tendering of audits falling within your mandate during the financial year to 30 June 2006 have been appropriate for their purpose, and have been applied in a way which is consistently fair and appropriate, having regard to the rights, interests and obligations of the parties concerned.

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10. That observation applies both to the way in which auditors have been appointed or re-appointed, and to the way in which enquiries as to that process, or as to the appropriateness of a proposed audit fee, have been dealt with.
11. 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 2006 have been carried out with due probity and objectivity.

Yours faithfully



David Gascoigne DCNZM CBE LLM

Audit New Zealand client survey

The Auditor-General expects audit service providers to seek feedback from the entities they audit about the audit services provided, and to incorporate this feedback into their own business improvement work. Audit New Zealand engages an independent firm to conduct an annual client survey of public entities for which it is the auditor. Chief Executives and Chief Financial Officers of a sample of these entities are invited, in face-to-face interviews, to provide comment on:

- the quality of the work of Audit New Zealand;
- the quality of their relationships with Audit New Zealand;
- the expertise of Audit New Zealand staff;
- their understanding of Audit New Zealand's services;
- their intention to buy additional assurance services; and
- their overall degree of satisfaction.

A client survey was not carried out in 2005-06. Instead, as a result of feedback received in 2004-05, Audit New Zealand undertook work to redevelop the survey in order to gain a better understanding of clients' needs and perceptions at a sector level. This redeveloped survey will be carried out in 2006-07.

As part of our strategy, we monitor the ratio of the time spent by senior audit staff to that of junior staff, with a view to increasing the proportion of senior time to address clients' desire for more constructive relationships with their auditors. In doing so, we are conscious that senior time has a greater impact on the cost of audits to entities. In 2005-06, 24% of the hours involved in annual audits undertaken by Audit New Zealand were performed by senior staff members, and 76% by junior staff. This is consistent with the previous year's ratio.

Performance audits and other studies

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 their management by the relevant public entity or entities. We also undertake 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.

Through our strategic planning process (which is outlined in our Annual Plans) we annually undertake an environmental scanning, issue identification and risk assessment, and assurance response identification process to help determine how we can use our discretionary resources for performance audits to best effect. This process includes consultation with Parliament on our draft Annual Plan each year.

Our Annual Plans describe the performance audits and other studies we intend to undertake each year. It is not always possible for us to complete the full range of work we propose because:

- in some cases, entities have initiated their own internal or independent reviews, or are undergoing legislative or structural change;
- when we undertake project scoping, it becomes clear that our initial proposal needs to be amended; and/or
- other events happen that change the Auditor-General's priorities.

A full list of our progress against the performance audits and other studies we proposed in our *Annual Plan 2005-06* is included in Figure 2 on pages 21-23

In his *Five-year Strategic Plan*, the Auditor-General indicated that members of Parliament had asked him to increase the number of performance audits and other studies undertaken. This year, we published reports on 15 performance audits and other studies, compared with 13 in 2004-05. (Together with the seven reports on major inquiries, described in Figure 3 on pages 25-27, this makes up the 22 reports referred to in the Statement of Objectives and Service Performance at page 65.)

The 15 reports on performance audits and other studies we published in 2005-06 are summarised in Figure 1 on pages 18-20. Full copies of each report can be found on our website: www.oag.govt.nz.

Figure 1
Summary of reports on performance audits and other studies published in 2005-06

Report	Description
<i>Ministry of Justice: Performance of the Collections Unit in collecting and enforcing fines</i> , July 2005	We examined the role of the Collections Unit of the Ministry of Justice in collecting and enforcing Court-imposed and infringement fines, the policies and procedures that govern the business of the Collections Unit, and its effectiveness and efficiency in collecting fines. Overall, we found that the Collections Unit has effective arrangements in place to collect and enforce fines. However, despite the achievements of the Collections Unit, supported by additional resources and legislative changes, the amount owed in unpaid fines is likely to continue to grow.
<i>Maritime Safety Authority: Progress in implementing recommendations of the Review of Safe Ship Management Systems</i> , December 2005	In 2002, the Maritime Safety Authority of New Zealand (MSA) commissioned an independent review of the Safe Ship Management System – a system aimed at making ship owners and operators responsible for the daily safe maintenance and operation of their vessels throughout the year. Our audit looked at the progress the MSA has made in implementing the recommendations from the review. We found that, overall, good progress has been made in implementing the recommendations from the review, particularly through the introduction of the New Zealand Code of Practice for Safe Ship Management.
<i>New Zealand Police: Dealing with dwelling burglary – follow-up audit</i> , February 2006	We conducted an audit that followed up our 2001 report, which looked at how the Police deal with dwelling burglary. The Police have considerably improved the way they deal with dwelling burglary, including more effective use of forensic and intelligence analysis, greater accountability for results, and increased sharing of good practice on how to investigate and prevent dwelling burglary.
<i>Achieving public sector outcomes with private sector partners</i> , February 2006	Our report provides guidance to leaders and decision-makers about the main issues they need to consider across the public sector and for individual partnering projects. The experience of other countries suggests that there is a need for clear government policy and direction if partnering is to be used to any great extent. Public entities choosing to use partnering will need a high level of expertise and a sound business case that shows how this approach will result in better value for money than other procurement options. They will also need to have robust internal arrangements for managing a partnering approach, including strong leadership to drive the process and ensure proper accountability and control, and adequate arrangements for public scrutiny under the contract.
<i>The Treasury: Capability to recognise and respond to issues for Māori</i> , March 2006	We audited the Treasury's effectiveness for Māori capability and response. We found that planning processes are appropriate for identifying significant issues for Māori, the Māori Responsiveness Policy Statement and Māori Responsiveness Plan (2000) have been implemented and are updated regularly, and initiatives to improve staff capability to recognise and respond to issues for Māori

	continue to mature. The Treasury relies on public service departments to identify emerging issues for Māori, and responds to these in its second-opinion fiscal and economic advice. We made recommendations about the need to ensure that employees are aware of the resources available to them to improve their capability to recognise and respond to issues for Māori, and to evaluate their competence to respond to Treaty of Waitangi and Māori issues.
<i>Progress with priorities for health information management and information technology, March 2006</i>	Our audit considered the progress made by the Ministry of Health, District Health Boards, and the health sector in implementing a report to the Ministry of Health by the Working to Add Value through E-information (WAVE) Advisory Board. We found that there has been less progress on the key initiatives than expected. We also found that action was not guided by a detailed plan with measurable objectives. However, using the Health Information Strategy for New Zealand as a basis, the sector is now in a better position to address health information priorities more quickly.
<i>Management of heritage collections in local museums and art galleries, April 2006</i>	We examined how well local museums and art galleries were managing heritage collections and fulfilling their stewardship obligations using public funds. We were generally satisfied that museums and galleries had in place the necessary components for sound collection management, but have suggested ways for museums and art galleries to work more effectively, both as individual institutions and collectively. Our report also contains important messages for local authorities about collection management, stewardship, and funding.
<i>Management of the West Coast Economic Development Funding Package, May 2006</i>	This audit examined how well the West Coast Development Trust and the four West Coast local authorities managed the use of the funding package to help the West Coast region's economy adjust to the Government's policies to end the logging of indigenous forest. We found that the West Coast Development Trust has good systems to manage the investment of its funds. However, we recommended several improvements to the decision-making process used to distribute the funds.
<i>Foundation for Research, Science and Technology: Administration of grant programmes, May 2006</i>	This audit is the second in a three-year series we are undertaking to examine how public entities administer grant programmes. Overall, we found that the Foundation is effectively administering its grant programmes.
<i>Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers, May 2006</i>	We assessed the Ministry of Agriculture and Forestry's identification, inspection, and clearance of those sea containers that pose the highest biosecurity risks. We found a number of areas for improvement, including compliance and enforcement with the sea container import health standard, information gathering for risk-profiling purposes, training and guidance for inspectors, checks of the effectiveness of decontamination, and guidance for the establishment of equivalent systems.

<i>Department of Conservation: Planning for and managing publicly owned land, May 2006</i>	We assessed the Department of Conservation's strategic planning for land, and the adequacy of its land management and land information systems for implementing that planning. In our view, while the Department has policies and objectives for land within statutory planning documents, and comprehensive land management and information systems, it needs a national strategic plan to co-ordinate its management and information systems to achieve long-term objectives. The Department also needs to prepare and review statutory planning documents within the period set by legalisation, and to provide stronger central oversight of its land management and information systems.
<i>Ministry of Education: Management of the school property portfolio, June 2006</i>	Following concerns raised in previous audits of school property management, we assessed the effectiveness of the Ministry of Education's organisational arrangements, systems, and processes for providing and maintaining school property, and for managing the school property portfolio in general. We found that, while the Ministry now has better controls than in 2001, it has only partly addressed our recommendations to improve its overview of the condition of school property and the maintenance undertaken by school boards. We were concerned that there is no strategic portfolio management plan and no documented processes for staff.
<i>Housing New Zealand Corporation: Effectiveness of programmes to buy and lease properties for state housing, June 2006</i>	Our audit examined the planning, acquisition, and monitoring and reporting processes for buying and leasing properties for state housing. Housing New Zealand Corporation met our performance expectations and we recommended that it provide more regional reporting in its public accountability documents.
<i>Local authority codes of conduct, June 2006</i>	Our audit looked at how local authorities have implemented the requirement to have a code of conduct, and how codes of conduct are being used. We hope it will enhance general understanding of codes, and assist councils in addressing conduct issues in the future.
<i>Principles to underpin management by public entities of funding to non-government organisations, June 2006</i>	This is a good practice guide to enhance public entities' existing practices in managing their funding arrangements with non-government organisations. It complements existing guidance by taking a principles and risk-based approach to guide public entities' decisions when they enter into such arrangements.

Progress against our *Annual Plan 2005-06* commitments

On pages 49-51 of our *Annual Plan 2005-06*, we listed a number of performance audits and other studies which we proposed to start and/or complete in 2005-06. We outlined on page 17 of this report the reasons why projects may not be completed or may not always proceed as intended. Eleven of the 15 reports published in 2005-06 were proposed in our Annual Plan for that year, and three had been proposed in earlier years' plans.

In addition, during 2005-06, the Auditor-General reviewed the way he identifies and prioritises his work programme. This resulted in changes to some work that had been previously proposed, and the publication of *Local authority codes of conduct*, which had not been proposed in any previous Annual Plan.

Figure 2 sets out our progress against each of the performance audits and studies we proposed to start or complete in 2005-06.

Figure 2

Progress against proposed performance audits and studies

(A) Proposed performance audits to be completed in 2005-06

Proposed performance audit	Progress
E-government – review progress against objectives and targets	To be presented to Parliament in the second quarter of the 2006-07 financial year
Management of heritage collections	Completed
Housing New Zealand Corporation – property portfolio management	Completed
Sea container surveillance	Completed
The Treasury – effectiveness for Māori	Completed
Health sector IT – progress against the WAVE report	Completed
Review of the New Zealand Qualifications Authority's quality assurance processes	Deferred – due for completion in 2006-07; the audit will focus on the quality assurance of education provided by polytechnics
Department of Conservation's land holding and purchasing policies	Completed
Overseas development assistance	Deferred – to be started in 2006-07
Review of Health Funding Package	To be presented to Parliament in the second quarter of the 2006-07 financial year
Dwelling burglary – follow-up performance audit	Completed

Economic development funding (West Coast)	Completed
Ministry of Defence – major acquisitions projects	Deferred – to be started in 2006-07
New Zealand Debt Management Office – Treasury management policies and practices	Started – due for completion in 2006-07
Resource Management Act 1991 consultation relating to major Crown capital developments	Started – due for completion in 2006-07
School property maintenance – follow-up performance audit	Completed – scope revised to management of school property portfolio
Annual performance audit of a grant programme	Completed (Foundation for Research, Science and Technology)

(B) Proposed performance audits to be started in 2005-06

Proposed performance audit	Progress
Prisoner mental health treatment	On hold, pending further consideration under the Auditor-General's revised planning framework
Youth at risk	Cancelled – to be further considered as part of the Auditor-General's revised planning framework
Primary health care	Started – scoping audit
Annual performance audit of a selected grant programme	Started – audit of Te Puni Kōkiri grant programmes
Call centres	Started – examines the operation of the Work and Income Contact Centre
Combating immigration fraud	Started – scoping audit
Disasters – the maintenance and capacity of flood protection assets	Cancelled – due to other government initiatives in this area
Local authority decision-making	Started – scoping audit
Management of diabetes	Started
Management of employee fraud	On hold – pending further consideration under the Auditor-General's revised planning framework
Ministry of Social Development – debt collection	On hold – pending further consideration as above
Revitalisation of Te Reo Māori	Deferred – to be started in 2006-07
Transit New Zealand – state highway maintenance	Started – revised audit being scoped (now an audit of collaboration in roading)
Sustainable development – implementation of the Programme of Action	Started – scoping audit

(C) Proposed “what we expect” studies and good practice guidance to be started in 2005-06

Proposed other study	Progress
Procurement guidelines update	Started
Rates postponement	Started
Sensitive expenditure guidelines	Started
Contracting of public services to non-government organisations (NGOs)	Completed

(D) Performance audits started in 2005-06 but not previously included in an Annual Plan

Performance audit	Progress
Effectiveness of the Department of Internal Affairs' administration of non-casino gaming machines (Class 4 gambling)	Started
Inland Revenue Department – performance of taxpayer audit (follow-up audit)	Started

Inquiries

The Auditor-General responds to enquiries from taxpayers, ratepayers, and members of Parliament – between 150 and 300 each year. Many such enquiries lead to inquiries under section 18 of the Public Audit Act 2001, and a few lead to major inquiries.

In 2005-06, we developed an Inquiries Strategy, to establish a common process for dealing with requests for inquiries, and for undertaking inquiries.

Each request is carefully considered to determine the most appropriate manner in which to proceed. Making this decision involves consideration of many factors, including whether the Auditor-General is the appropriate authority to consider the issues, whether we have the resources to do so, and the seriousness of the issues raised. We often undertake a considerable amount of preliminary work, such as reviewing documents and talking with the public entity, in deciding how to proceed with a request.

In some instances, although an enquiry does not raise issues that warrant a major inquiry, the Office will advise the public entity concerned of the matter.

In 2005-06, the OAG responded to 277 enquiries from taxpayers, ratepayers, and members of Parliament. In seven of those cases, the Auditor-General was sufficiently concerned by the issues raised that he initiated a major inquiry. Reports on five of the inquiries we carried out during 2005-06 were published and presented to Parliament. A brief summary of the seven major inquiries (including the five presented to Parliament) is provided in Figure 3.

The OAG also administers the provisions of the Local Authorities (Members' Interests) Act 1968. There were 49 applications and enquiries under the Act in 2005-06.

Figure 3
Summary of reports on major inquiries published in 2005-06

Inquiry	Description
<i>Electricity Commission: Contracting with service providers</i> , July 2005	We received a complaint that contract appointments of service providers made by the Electricity Commission and the Ministry of Economic Development that should have been contestable were not. We examined how the decision to use sole source procurement was reached. We found no evidence to suggest that the Ministry and the Commission had failed to comply with their statutory obligations in contracting with service providers, or that they showed any lack of probity or financial prudence. However, the documentation and procedures were not of the standard we would expect of public entities engaged in sole source procurement. We recommended that the Commission establish a procurement policy that could be used to guide its decisions when its service provider contracts come up for renewal.
<i>Cambridge High School's management of conflicts of interest in relation to Cambridge International College (NZ) Limited</i> , October 2005	Following a request from the Minister of Education, the Auditor-General decided to conduct an inquiry into how the Board of Trustees of Cambridge High School managed any conflicts of interest in relation to its arrangements with a private company, Cambridge International College (NZ) Limited. We concluded that there were conflicts of interest. In addition, in our view, the Board did not identify or manage these conflicts of interest properly. However, we considered that there were some mitigating factors. We also concluded that the School possibly suffered financial loss, but that recovery would be inappropriate. Our main recommendation arising from the inquiry was for the Ministry of Education to provide guidance to schools on managing conflicts of interest.
<i>Inquiry into the sale of Paraparaumu Aerodrome by the Ministry of Transport</i> , September 2005	The Government sold Paraparaumu Aerodrome in 1995. In May 2004, Parliament's Transport and Industrial Relations Committee reported on a petition asking "that Parliament legislate to safeguard the long-term viability of Paraparaumu Airport as a full operational facility". The Committee recommended an inquiry into the sale process, which the Minister of Transport invited the Auditor-General to undertake. Our inquiry covered consultation with Māori and former owners of aerodrome land, and the sale of the aerodrome by a restricted tender process. We concluded that the approaches taken to the consultation process were consistent with both legislation and practice at the time, and reflected a genuine attempt at consultation. However, the Ministry could have done more to consider whether the concerns raised by Māori during the consultation process could have been accommodated. In relation to the sale process, we found that the Ministry used a process that was standard for managing asset sales at the time. However, the process used to evaluate and make decisions on the tenders did not meet our

	<p>expectations. The project governance arrangements were unclear. In addition, the standard of documentation for some parts of the sale process was poor.</p>
<p><i>Inquiry into certain aspects of Te Wānanga o Aotearoa, December 2005</i></p>	<p>We began an audit and inquiry into Te Wānanga o Aotearoa (TWOA) after receiving a request for assurance from the then Associate Minister of Education (Tertiary Education) in September 2004. There were concerns about possible conflicts of interest in transactions worth large sums of money. Other issues emerged as we began our inquiry. In February 2005, the then MP the Hon Ken Shirley and the media made certain allegations. The then Minister of Education asked us to look into more matters. We reconsidered the scope of our work, released wider terms of reference in March 2005, and continued with our inquiry. We found practices that are unacceptable for a public entity, including: poor decision-making practices for significant expenditure; inadequate identification and management of conflicts of interest; and unacceptable practices in senior management expenses. In response to our inquiry, TWOA has developed an action plan against each of the recommendations made in our report. Progress made against this action plan is reported by TWOA management to the TWOA Council. As part of our ongoing role as the auditor of TWOA's annual financial statements, we will consider the progress TWOA has made against the issues raised in our inquiry report.</p>
<p><i>Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited, December 2005</i></p>	<p>The Auditor-General decided in April 2005 to inquire into issues raised by the Hon Murray McCully MP about the contracting policies and procedures of the Ministry of Health. In particular, the inquiry examined the Ministry's contracting with two former employees and the company of which they were the principals (Allen & Clarke). However, during the course of our inquiry, we found deficiencies in the Ministry's procurement and contract management practices that extended beyond the contracts with Allen & Clarke, and in a number of the Ministry's directorates. We found no evidence in the Ministry's award of contracts to Allen & Clarke of any inappropriate relationships between the principals of the company and staff of the Ministry. However, we found that the Ministry's management of contracts was not consistent with good practice in significant respects.</p>
<p><i>Inquiry into funding arrangements for Green Party liaison roles, April 2006</i></p>	<p>The Auditor-General initiated an inquiry into the funding arrangements for the Green Party ministerial liaison and relationship roles after concerns were raised about the lawfulness of funding the liaison roles under the Vote: Ministerial Services appropriations. We had no concerns about advisers funded under Vote: Ministerial Services providing support to Ministers in giving effect to co-operation agreements from the Government's perspective. However, in our view, management of the supporting party's side of the agreement is a matter of parliamentary business, and resources for the staff</p>

	<p>employed to assist in managing this relationship are those available under the Vote: Parliamentary Service appropriations. We concluded that the job profiles for the liaison roles included elements that were outside the scope of the Vote: Ministerial Services appropriations and that, even if the extent of the liaison roles were narrowed, controls would need to be put in place to ensure that the performance of these jobs did not fall outside the scope of the appropriations for Vote: Ministerial Services.</p>
<p><i>Inquiry into certain allegations made about Housing New Zealand Corporation,</i> June 2006</p>	<p>The Auditor-General initiated an inquiry into certain allegations made about Housing New Zealand Corporation by one of its former contractors, after a request from the Chair of the Corporation's Board. These allegations concerned various issues, including accounting and reporting practices, a procurement process, and bullying. We looked into these allegations, as well as the Corporation's handling of events leading up to a settlement agreement that was reached with the contractor (which included a payment, and prohibited the contractor from discussing his concerns with anyone). We found that the Corporation made an immediate and genuine effort to investigate the contractor's concerns, but was hampered by his reluctance to provide any detailed information. We found that the decision to enter into a settlement agreement and make a payment to the contractor was a pragmatic solution in the circumstances, although the rationale for doing so could have been better documented. We had difficulty investigating the contractor's allegations because many of them lacked specific detail. Overall, our inquiry did not give rise to any significant concerns about the Corporation's financial accounting practices. However, we did have some concerns about the management reporting practices within the Corporation's National Property Improvement Team. We found a lack of suitable accounting resource at the operational level, a lack of ownership over programme accounting, a need for improved documentation, and a need for better alignment between management reporting and financial accounting records.</p>

Our research and development programme

The Office undertakes research and development that is primarily driven by the desire to enhance our existing products and to establish new or improved products. The focus of our research and development programme is on testing thoughts and ideas about possible enhancements to existing or possible new products and developing ideas to implementation into our ongoing audit work.

Our research and development work is undertaken to help us deliver on our three important business strategies to attain the wider vision set out in our strategy:

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

Over the last two years, our research and development work has been dominated by the need to ensure that our annual and other audits respond to changes in accounting standards and legislation governing the planning, financial management, and accountability of public entities.

We set up a core team to help identify, establish, and complete research and development work. This team has been able to properly scope and refine our research and development programme. This means that some of the work we proposed in our *Annual Plan 2005-06* has not proceeded – specifically, legal compliance issues and work to consider our audit response to contracting with non-government organisations. This response awaited the release of our report *Principles to underpin management by public entities of funding to non-government organisations* (which occurred in June 2006).

During 2005-06, we continued our existing research and development programme activities into:

- the audits of LTCCPs;
- the audit implications of the new public sector management legislation; and
- auditor readiness for the adoption of standards based on International Financial Reporting Standards.

Each of these legislative and professional changes came into effect in some form during 2005-06. The focus of our research and development therefore shifted to implementation management, and providing guidance, support, and quality assurance as this implementation occurred. This shift signals a significant

milestone in our research and development work, as these large and demanding projects can now begin to move into the "business as usual" work of our annual and other audits. Our continued progress in each of these three areas is outlined below.

Audits of long-term council community plans

A new audit reporting responsibility, created by the Local Government Act 2002 (the 2002 Act), came into effect from 2006. This required the Auditor-General to issue opinions on the statements of proposal (SOPs) and LTCCPs to be adopted by regional and territorial local authorities after community consultation.

This new responsibility has been demanding for the Office and its local authority audit service providers in 2005-06, because of both the newness of the requirement and the nature and scope of the audit, which covers 10-year prospective information.

Performing the LTCCP audits has required the Office to:

- develop a methodology for conducting the audit work (which was substantively completed in 2004-05), including extensive consultation with the local government sector and auditors of local authorities; and
- provide significant review and support to auditors to ensure consistency in our approach and reporting in giving such opinions for the first time.

Our work in 2005-06 focused on providing support to auditors as they began work to audit LTCCPs. The requirements relating to the preparation and information contained in LTCCPs are generally not prescriptive; therefore we needed to develop a basis on which we could provide consistency, while accommodating the large range in the size, scale, and environment of local authorities in New Zealand, in our expectations, approach, and audit reporting. To do this, we undertook two significant initiatives:

- We asked local authorities to provide us with information about how they addressed non-prescriptive areas of the 2002 Act, such as decision-making, outcomes development, and consultation. We assessed and used this information to develop a size and scale approach based on groups of relevant peer local authorities. These peer groups of local authorities were then used to help us moderate our decisions in reaching opinions.

- We operated an issues-based hotline and a "hot review team" to support our auditors. The hot review team's focus was to review the draft LTCCP SOP and the adopted LTCCP and our auditors' observations on these documents. The team provided a 48-hour turnaround of feedback for auditors on each LTCCP SOP from the time a full set of draft LTCCP SOP papers was received. The team also assisted auditors, where serious concerns were identified, with analysis and their discussions with local authorities to allow opinion issues to be resolved. We could not be rigidly or absolutely consistent because we could not assess all LTCCPs together as each local authority had different dates at which they needed feedback so they could start public consultation on and adoption of their LTCCP. However, because the hot review team reviewed all SOPs and adopted LTCCPs, this team was an important component of our strategy for achieving consistency in the audit reporting phase of our work.

We intend to review the process we undertook for the audit of the 2006 LTCCPs when our audit work is complete in 2006-07. We will provide information on this in a report to Parliament on the results of our LTCCP audits, and expect that this will cover issues such as lessons learned, feedback from the local government sector, and our progress towards audit of the next LTCCPs.

Audit implications of new public sector management legislation

In December 2004, Parliament passed four new pieces of public sector management legislation:

- the Public Finance Amendment Act 2004;
- the State Sector Amendment Act (No. 2) 2004;
- the Crown Entities Act 2004; and
- the State-Owned Enterprises Amendment Act 2004.

Many of the changes arising from this new legislation came into effect after 30 June 2005.

In our March 2006 report *Central government: Results of the 2004-05 audits*, we surveyed compliance with the new legislative requirements by departments and Crown entities in 2004-05.³ We found that:

- Crown entities needed to ensure that they develop non-financial outcome performance measures, in accordance with guidance issued by the Treasury and the State Services Commission; and

3 Parliamentary paper B.29[06a], pages 41-50.

- departments needed to ensure that they have met the requirements for description of the appropriations and for including performance measures and standards in the statement of intent.

We are carrying out a further survey of compliance by departments and Crown entities in 2006-07 during the current annual audits. We have:

- established regular communication with the central agencies on issues arising from the new legislative requirements; and
- issued guidance to auditors on the requirements of the legislation, generally, and on specific requirements, such as those for appropriations descriptions and reporting.

Auditor readiness for the adoption of standards based on International Financial Reporting Standards

The public sector is moving to report in accordance with the New Zealand equivalents of International Financial Reporting Standards (NZ IFRS). Local authorities are adopting NZ IFRS from 1 July 2006, whereas most of the central government sector is adopting NZ IFRS from 1 July 2007.

The process for transition to NZ IFRS requires the first NZ IFRS annual report to contain comparative figures compliant with NZ IFRS. This requires entities to produce an "NZ IFRS opening balance sheet" at the start of the comparative period (1 July 2005 for local government entities and 1 July 2006 for central government entities).

During 2005-06, we:

- continued to prepare our auditors, and support sector readiness, for adopting NZ IFRS;
- started auditing NZ IFRS opening balance sheets in the local government sector as part of auditing LTCCPs;
- carried out further detailed training in NZ IFRS for our auditors;
- prepared resources to support Audit New Zealand in the audit of NZ IFRS opening balance sheets;
- prepared a policy on the audit of preliminary NZ IFRS accounting policies, opening balance sheets, and comparative figures;
- worked with the Treasury on planning for the transition to NZ IFRS for the Government's financial statements and the Crown sector;

- worked with the Society of Local Government Managers on planning for the transition to NZ IFRS in the local government sector;
- engaged with other sector groups on their planning for the transition to NZ IFRS (for example, District Health Boards and tertiary education institutions);
- provided guidance to our auditors on some key technical issues relevant to the adoption of NZ IFRS, particularly where they apply across the public sector; and
- reported to Parliament on the progress on the transition to NZ IFRS in the central government and local government sectors in our reports on the results of the 2004-05 audits.

Progress with other Annual Plan intentions

As the three projects undertaken to respond to statutory and accounting standard changes have moved toward being incorporated within our regular audit work, we have started on other research and development work signalled in our Annual Plan. Progress with these other areas of our intended research and development work is outlined below.

The five management aspects

In the course of carrying out the annual audits of public entities that are subject to financial review by select committees, our auditors make assessments of how those entities are performing in respect of five particular aspects of financial and service performance management. Select committees tell us that our assessments of these five management aspects are of high value to them.

For some time, we have signalled our intention to review our assessment of the five management aspects, and also to consider the possibility of applying them to other entities.

During 2005-06, we evaluated the way in which our assessments are determined. As a result of our evaluation, we are concerned that the scope and basis of the audit work on which our assessments are based, and therefore the uses and limitations of the assessments, are not as well understood as we would like.

We have begun consultation with our audit service providers about our proposals to review the five management aspects. During 2006-07, we will communicate with the entities assessed, select committees, and other agencies. We will then prepare for the transition to implementing any changes agreed as a result of our review.

Enhanced annual audits

Our strategy signals that we will extend our work in annual audits in the areas of waste, probity, governance, and accountability.

During 2005-06, we began work to review the way we access, share, and respond to information about risks for public sector entities that we become aware of through our audit work. Because we interact with all public entities every year, we want to use our audit work to increase the likelihood that we can better identify risks and determine action that may be required to prevent entities from realising these risks. We intend to do this by:

- considering and addressing entity risks in our own audit work so we can make relevant corrective or mitigating recommendations to the entity; and
- ensuring that, where appropriate, concerns we have are reported to other agencies responsible for monitoring and overseeing entities, either directly or through their administration of relevant legislation, to allow these agencies to decide what supportive action might be required.

This work has so far involved considering indicators of risk. In 2006-07, we will be considering how these indicators can help our auditors to better identify a broad range of risks, how risk information can be collected more efficiently, and how to determine the risk exposure and the nature of our response.

Controller function

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

The Public Finance Amendment Act 2004 made a number of significant changes to the Controller function to modernise and strengthen the function. These changes took effect from 1 July 2005 and are explained in our report *Central Government: Results of the 2003-04 audits*.⁴

The Controller function and the Auditor-General's auditing functions have been intertwined for many years. Each year appointed auditors must carry out an appropriation audit as part of the annual financial audit of departments and Offices of Parliament.

During 2005-06:

- The Auditor-General signed a memorandum of understanding with the Secretary to the Treasury that sets out the joint understanding and expectations of the OAG and the Treasury of the roles and procedures associated with the Controller function.
- We prepared standard operating procedures that the OAG and appointed auditors are required to carry out to give effect to the Controller function.
- We carried out work in accordance with these standard operating procedures, including reviewing the monthly reports provided by the Treasury and advising Treasury of the issues arising and the action to be taken.
- We reported on the main issues that arose in the operation of the Controller function from 1 July to 31 December 2005 in our report *Central government: Results of the 2004-05 audits*.⁵

The nature of the issues that have come to our attention through the operation of the reformed Controller function already show the value of the changes made. We intend to continue to report annually to Parliament on the significant issues arising from the operation of the function.

⁴ Parliamentary paper B.29[05a].

⁵ Parliamentary paper B.29[06a].

Advice and liaison

Advice to Parliament

We report on the results of audits to members of Parliament – in select committees, or as Ministers or individual MPs. Most of this work is done through the briefings we provide to Select Committees on financial reviews and Estimates examinations.

We continued to note an increased demand for our services in 2005-06. The OAG provided 81 reports for financial reviews of entities, 42 for Estimates examinations, and 146 reports on the results of annual financial report audits.

We also:

- commented on draft legislation, and assisted with the review of regulations and policy proposals; and
- assisted the Registrar of Pecuniary Interests of Members of Parliament with the implementation of the Register of Pecuniary Interests of Members of Parliament, and conducted the first annual review of members' returns.

International liaison and involvement

We maintain a strong involvement with our international counterparts and actively participate in a number of working groups that have been established internationally.

During 2005-06, we:

- participated in the Global Working Group meeting of Auditors-General of Canada, Denmark, France, India, Ireland, Italy, Mexico, Morocco, the Netherlands, New Zealand, Norway, South Africa, Sweden, the United Kingdom, and the United States;
- participated in a policy forum in Vietnam on parliamentary oversight of public finance, at the invitation of the Vietnamese Government and the United Nations Development Programme;
- continued our work as Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI);
- represented SPASAI on the Professional Standards Committee Steering Group of the International Organisation of Supreme Audit Institutions (INTOSAI), which is responsible for monitoring and directing all work by INTOSAI on professional standards in such areas as auditor independence;
- hosted a range of visitors from our international counterparts and other public sector bodies; and
- while auditing in Apia, Samoa, organised a workshop for all SPASAI members on Dealing with Fraud and Corruption (funded by the INTOSAI Development Initiative).

Part 2

Progress with our management and business strategies

Introduction

In this Part, we report on our progress in implementing our management and business strategies, and their effect on our outcomes, governance, risk, and capability objectives.

Our aim is to demonstrate good practice in these areas of reporting, and to provide Parliament and the public with a fuller description of our non-financial performance.

The sections in this Part are:

- Outcome report;
- Governance report;
- Report of the Audit and Risk Management Committee;
- Risk report;
- Capability report;
- Progress with management actions for 2005-06; and
- International financial reporting standards.

Outcome report

We seek to create, through our work, trust in an effective and efficient public sector. We do this by providing independent assurance and advice, and control over parliamentary expenditure.

We assess our contribution to these outcomes through performance measures that consider:

- the extent of improvements over time in parliamentary and public perceptions of public sector performance and trustworthiness;
- whether real change and improvement is happening as a result of our work; and
- whether the Auditor-General is perceived by stakeholders as an essential part of the system.

Given the changes to the Controller function arising from the Public Finance Amendment Act 2004, we undertook to redesign our performance measures during 2005-06. Revised performance measures are in place for 2006-07.

Results for 2005-06

Measure 1: New Zealand maintaining or improving its Transparency International rating

In 2005, New Zealand was rated second equal (with Finland and behind Iceland) on the Transparency International Corruption Perceptions Index. This is the same as the result for 2004. New Zealand's score was 9.6 (the same as the previous year), while the top score was 9.7 and the lowest 1.7.

The index rates countries by the degree to which corruption is perceived to exist among public officials and politicians. In 2005, 159 countries were rated, drawing on 16 surveys and assessments carried out among business people and country analysts, including residents.

Measure 2: The actions others take as a result of our work

We measure the actions others take because of our work in two ways:

- feedback from select committee Chairs as to the usefulness of our advice; and
- the extent to which public entities accept the recommendations we make in annual audits conducted by Audit New Zealand.

Our annual audit work provides assurance to Parliament and the public that public sector entities are operating, and accounting for their performance, in

accordance with Parliament's intentions in respect of their financial reporting responsibilities. The independent and public assurance we provide about the performance of public entities contributes to public trust in government.

Indicators such as entity adoption of our recommendations and reducing numbers of non-standard audit reports may therefore provide indications suggesting improved public sector performance. As with any indicator, there is not a direct or immediate relationship with the indicator and the desired situation. A range of factors may affect opinions in any year, including general environmental changes (such as in the statutory or financial reporting environment) and entity-specific changes (such as management change).

Feedback from select committee Chairpersons

The Auditor-General or the Deputy Auditor-General met formally with the Chairpersons of five select committees to get their feedback on the usefulness of our advice. (The Chairpersons of another six select committees contributed to our stakeholder survey discussed under Measure 3.)

Chairpersons advised that they continue to find our advice highly valuable, and that our proposed lines of inquiry are adopted in most circumstances.

Entity adoption of our recommendations (Audit New Zealand only)

We assess whether public entities accept our recommendations by reviewing, by region and sector, a sample of the entities audited by Audit New Zealand. We review the responses made by the entities to assess what action has been taken, if any, as a result of our recommendations.

Figure 4 sets out the data for 2005-06, and shows comparable data for the previous two years.

Figure 4

Acceptance of our formal recommendations by a sample of 30 public entities

	2005-06		2004-05		2003-04	
Recommendations accepted	132	53%	163	75%	110	48%
Recommendations rejected	19	8%	18	8%	17	8%
Recommendations noted or under consideration by management	56	22%	23	11%	60	26%
Client made no response	43	17%	14	6%	41	18%
Total recommendations	250	100%	218	100%	228	100%

The nature and volume of Audit New Zealand's recommendations vary from year to year. However, it is still useful to observe trends. In 2005-06, fewer recommendations were accepted, with increases in the numbers of recommendations under consideration or not responded to by clients, and the overall number of recommendations has increased. While we will monitor this trend, this result is likely to be a reflection of the impending move to International Financial Reporting Standards, which is a focus for auditors and is generating work for entities. We note that the number of recommendations rejected has remained constant.

Observations about the quality of financial reporting by public sector entities from our audit opinions

Non-standard audit reports issued

A "non-standard audit report" is an audit report that is issued in accordance with NZICA Auditing Standard No. 702: *The Audit Report on an Attest Audit* (AS-702) and the associated Auditor-General's Statement AG-702, and which contains:

- a qualified audit opinion (a "disclaimer of opinion", an "adverse" opinion, or an "except-for" opinion); and/or
- an explanatory paragraph.

A full definition of a non-standard audit report is set out in our report *Central government: Results of the 2004-05 audits* (parliamentary paper B.29[06a], 2006, pages 29-32).

An analysis of all non-standard audit reports issued in 2005-06 is provided in Figure 5, and comparative information for the previous year is provided in Figure 6.

Figure 5
Non-standard audit reports issued, 2005-06

Type of non-standard audit report

	Schools	Other	Total
Unqualified opinion			
With explanatory paragraph or reference to a breach of law	214	62	276
Qualified audit opinion	0		
Disclaimer of opinion	0	1	1
Partial disclaimer of opinion	0	1	1
Adverse opinion	0	7	7
Partial adverse opinion	0	6	6
Except-for opinion	38	42	80
Total	252	119	371
(Total of all audit reports)	2633	1430	4063

Figure 6
Non-standard audit reports issued, 2004-05

Type of non-standard audit report

	Schools	Other	Total
Unqualified opinion			
With explanatory paragraph or reference to a breach of law	148	62	210
Qualified audit opinion			
Disclaimer of opinion	2	6	8
Partial disclaimer of opinion	0	4	4
Adverse opinion	1	9	10
Partial adverse opinion	0	7	7
Except-for opinion	44	33	77
Total	195	121	316
(Total of all audit reports)	2645	1476	4121

There has been an increase in non-standard audit reports issued as a proportion of all audit reports issued during the year – from 7.7% in 2004-05 to 9.1% in 2005-06. However, there were a number of reasons for this increase:

- There has been an increase in the number of school audit reports containing breach of law paragraphs referring to schools having not complied with aspects of the Education Act 1989. The increase in breach of law paragraphs is due partly to changes to the Education Act 1989 that schools may not have

fully taken into account. In addition, for some breaches, we have specified that disclosure should be in the audit report rather than in the financial statements.

- There has been an increase in the number of other audit reports containing a qualification on performance information. This increase has been significant in the local government sector where some council-controlled organisations did not produce a statement of intent and, as a result, were unable to report performance information against the targets that should have been in the statement of intent.

On the other hand:

- There has been a decrease in the number of school audit reports containing explanatory paragraphs referring to the financial statements having been appropriately prepared on a disestablishment basis. The decrease was due to a smaller number of schools being closed or wound up in the 2005-06 financial year than in the previous year.

These factors suggest that the number of non-standard opinions, while increasing in 2005-06, should decline when statutory changes have been embedded and assuming that no other external changes affect audit opinions.

Measure 3: Stakeholder assessment of our relevance and timeliness, and the value we add

We ask an independent assessor to carry out a rolling annual study to gather feedback from our main stakeholders – primarily Parliament, central agencies, and sector organisations. During 2005-06, interviews were conducted with representatives from:

- Local Government New Zealand;
- Department of Internal Affairs;
- Law and Order Committee;
- Education and Science Committee;
- Commerce Committee;
- Finance and Expenditure Committee;
- Social Services Committee; and
- Health Committee.

On a scale from 1 (“strongly disagree”) to 5 (“strongly agree”), the average results were:

- We focus on issues of importance – 4.25.
- We are responsive to our stakeholders – 4.42.

- Our staff have an excellent sector understanding – 4.25.
- Our staff work effectively with our stakeholders – 4.50.

This was the first time that our stakeholder study was undertaken fully. In 2004-05, we conducted a pilot study only. The 2005-06 results will therefore form the benchmark for future years.

Measure 4: Reduction over time in the recurrence of key themes in enquiries we receive

We responded to 228 enquiries from taxpayers, ratepayers, and MPs in 2005-06, and 49 matters under the Local Authorities (Members' Interests) Act 1968.

These enquiries concerned various issues, such as:

- consultation and decision-making processes of local authorities;
- the appropriateness of expenditure;
- the sale and purchase of assets;
- accountability arrangements for grants and funding; and
- the legality and adequacy of processes and procedures generally.

Two common themes emerged from our review of all enquiries received:

- procurement practices; and
- parliamentary advertising.

Advertising was also a common theme in the previous two years. In 2004-05, we published a report on Government and parliamentary publicity and advertising. We have recently finished undertaking a review of publicity funded from parliamentary appropriations in the period before last year's General Election, and have reported our findings to Parliament.

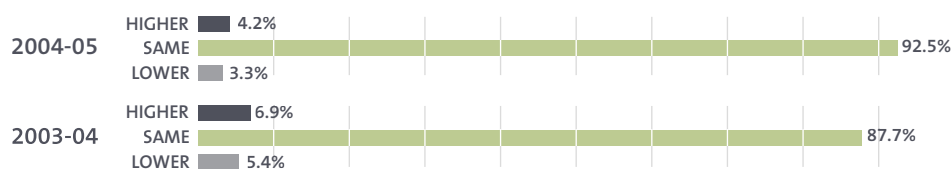
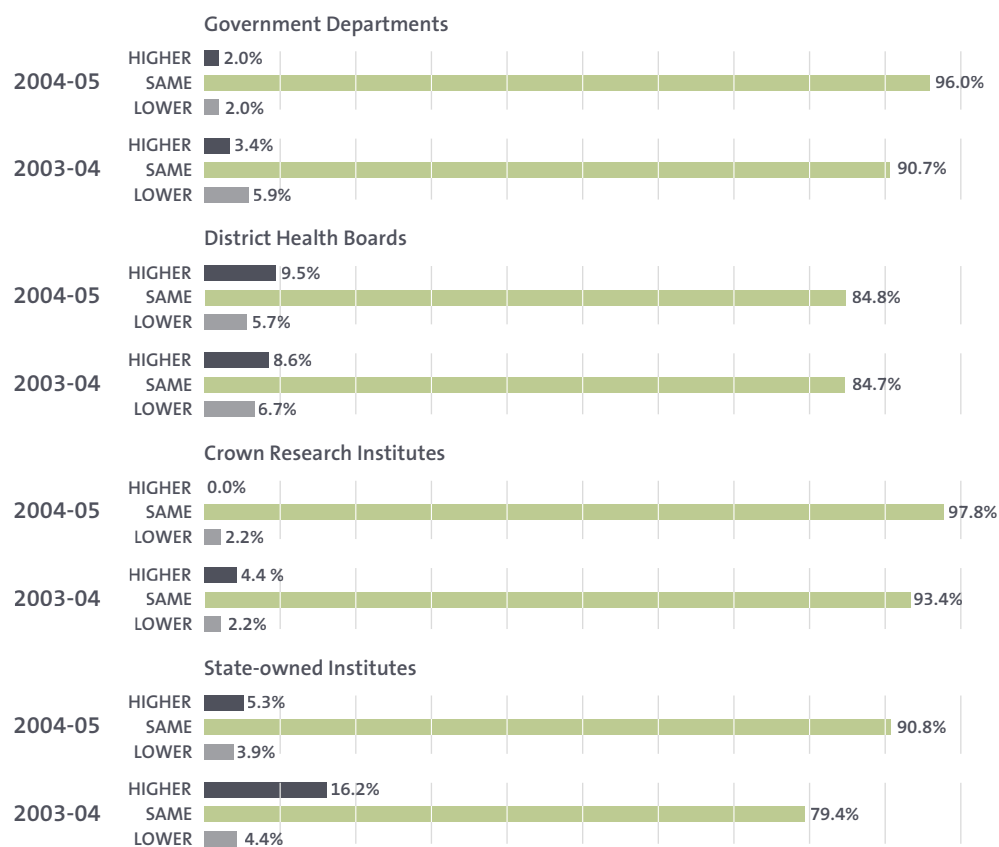
We are developing a good practice guide on sensitive expenditure, and are updating our guidance on procurement practices. We hope to see fewer enquiries on these topics in the future, once our guidance becomes embedded in the practices of public entities.

We continued to receive enquiries about conflicts of interest, which were common in the previous years.

Measure 5: Improvements in aspects of entity management (as measured through our assessments)

In the central government sector we have, since 1994, analysed trends in the assessments our auditors make about certain aspects of financial and service performance management – known as “the five management aspects”.

Figures 7 and 8 show changes in assessments of the five management aspects for 2004-05 compared with 2003-04, and for 2003-04 compared with 2002-03. (The data is always one year behind the year of our annual report.) We looked at this data in terms of net changes (that is, the number of higher assessments compared with the number of lower assessments).

Figure 7**Changes in assessments of the five management aspects, overall****Figure 8****Changes in assessments of the five management aspects, class-by-class**

Overall, there has been some net improvement in our assessments of the five management aspects (that is, there were 18 higher and 14 lower assessments in 2004-05 compared with 2003-04). This indicates continuing improvement in the management of public sector entities generally, although the extent of improvement is lessening each year.

Within each class of entity, we observe:

- Government departments showed an almost unchanged position, with the small number of assessments rated higher compared with the previous year being balanced by the same number of lower ratings.
- District Health Boards showed a net overall improvement, with 10 higher assessments among the 21 entities in this class and 6 lower assessments.
- Crown Research Institutes remain at almost identical levels to the previous year.
- State-owned Enterprises were similar to government departments, with a small number of higher assessments being almost the same as those that were lower.

Did our work maintain or improve our desired outcomes?

We consider that, because of our work in 2005-06, our desired outcomes have been maintained at existing levels:

- New Zealand maintained its ranking on the Transparency International Corruption Perceptions Index.
- Our stakeholders indicated that our work is considered relevant and timely.
- We expect the work we have performed on enquiries during the year is meeting our outcome of reducing the occurrence of certain themes, although new themes inevitably arise.
- Overall, the management of entities stayed at similar levels (measured through our assessments of the five management aspects).

Governance report

Our governance framework was set out in our *Annual Plan 2005-06* on pages 26-29. During the year, the Auditor-General reviewed that framework, and disestablished the Strategy Governance Team. Responsibility for strategy development and implementation now lies with the combined OAG and Audit New Zealand management group.

Measuring governance

We continue to work on designing suitable measures for governance. For 2005-06, we have used the following measures to assess the effectiveness, adequacy, and quality of our governance framework:

- In the staff survey, we sought staff perceptions on ethics, values, and clarity of performance expectations.
- The Audit and Risk Management Committee commissioned an independent review of our governance framework, due to be completed in September 2006.

Results for 2005-06

The average rating for governance-related questions in the staff survey, for both the OAG and Audit New Zealand, were:

- ethics – 4.5 out of 6 (4.6 last year);
- values – 4.4 out of 6 (4.5); and
- performance expectations – 3.7 out of 6 (4.1).

Overall, these ratings are comparable with previous years. However, we recognise that internal frameworks and capability will need to be built to ensure that ratings improve in future.

Did we maintain or improve our governance objectives?

We consider that, through our work in 2005-06, we at least maintained our governance objectives. We acknowledge there is still further work to be done in this area, and we will implement the main recommendations from the independent reviewer in 2006-07.

Report of the Audit and Risk Management Committee

for the year ended 30 June 2006

Members:

Anthony N Frankham FCA, FAMINZ, FIOD (Chairman), *professional director and specialist investigating accountant*

Brigid McArthur BA, LLB (Hons), *Partner, Chapman Tripp, Barristers & Solicitors*

Ross Tanner MA (Hons), MPA (Harvard), *Director, Ross Tanner Consulting Limited*

Phillippa Smith BA, LLB, MPP (from 2 December 2005), *Deputy Controller and Auditor-General*

Robert Buchanan LLB (Hons) (to 2 December 2005), *Assistant Auditor-General, Legal*

The Audit and Risk Management 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 management 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;
- compliance with legislation, policies and procedures.

The Committee has no management functions.

During the past year, the Committee:

- met on four 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 risks facing the Office are being appropriately addressed;
- reviewed the Office's risk management and quarterly reports on the status of risks facing the Office;
- recommended, for the Auditor-General's endorsement, the internal audit programme for the year and monitored both the implementation of the programme and the timely implementation of endorsed recommendations;

- discussed with the external auditors their audit plan for the year and findings from their audit work;
- monitored the implementation of recommendations made by the external auditors;
- 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 judgemental areas, and compliance with legislation and relevant standards;
- commenced a review of the governance framework of the Office.

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 which the Committee has brought to the attention of the Auditor-General.

Anthony N Frankham
Chairman

for the Audit and Risk Management Committee

4 August 2006

Risk report

We set out our framework for risk management on pages 20-21 of our Annual Plan 2005-06. During 2005-06, we reviewed our key strategic risks and our associated risk mitigation strategies to ensure that they remained relevant.

Measuring risk

In our *Annual Plan 2005-06*, we set out the measures we would use to assess how widely we have implemented our risk mitigation strategies, and the quality of those strategies. Our results are reported below.

Results for 2005-06

Strategic risk 1: Serious product failure

Measure: Our risk mitigation strategies are substantially implemented (90% completed).

The key risk mitigation actions for this risk include the implementation of appropriate standards and quality assurance regimes, ensuring the quality and ongoing training of our staff, and enhancement of our audits as part of our research and development programme.

We worked on five particular mitigation strategies for this risk during the year:

- ensuring auditor readiness for the adoption of the New Zealand equivalents to international financial reporting standards (NZ IFRS);
- developing a methodology for, and providing support to auditors carrying out, the audits of long-term council community plans;
- continuing our work on the audit implications of the public sector legislation passed at the end of 2004;
- continuing our ongoing research and development on the enhancement of our annual audits; and
- assessing the implications of the new standard based on the international standard for quality control (PS1-Quality Control (Revised)).

The first four areas of work are described in the section on our research and development programme on pages 28-33.

While much of the work for these strategies is completed, work on the implementation of three of them will continue in 2006-07. NZ IFRS and the standard on quality control are not yet fully in force, and the work on audit enhancement is ongoing.

Strategic risk 2: Not maintaining our credibility and reputation

We manage this risk by ensuring that we have appropriate policies and procedures in place throughout the Office, and through our internal audit activity.

Measure 1: There are no instances where our credibility/reputation is badly damaged or litigation action is taken against the Office.

There were no instances where our credibility or reputation was badly damaged, and no litigation was taken against the Auditor-General. However, the question of audit quality arose in relation to the 2003 and 2004 audits of Te Wānanga o Aotearoa.

Measure 2: Sample stakeholders' assessment of perceptions of the Office's credibility and reputation.

Our stakeholder feedback study indicated that our stakeholders continue to see the organisation as credible and reputable (average rating: 5 out of 5).

Strategic risk 3: Not meeting our stakeholders' expectations

We undertake a range of activities to ensure adequate communication with our stakeholders and to manage our relationships with them.

Measure: Sample stakeholders' assessment of the value we add, our timeliness, and our relevance.

We received the following average ratings in relation to this strategic risk:

- the Office focuses on issues of importance – 4.25 out of 5; and
- the Office is responsive to our needs – 4.42 out of 5.

Strategic risk 4: Not maintaining and building our capability

Our key mitigations for this risk relate to the recruitment, management, and development of our staff.

Measure: Assessed through our capability measures – see pages 52-57.

Strategic risk 5: Failure to successfully implement our *Five-year Strategic Plan*

Measure: Implementation of our Strategic Plan is substantially on target (90%).

Our proposed management actions for 2005-06 (set out on pages 69-70 of our *Annual Plan 2005-06*) are the specific actions we intended to take to implement our *Strategic Plan*. We successfully implemented more than 80% of these management actions. Our progress in all of the actions is described on page 58.

Strategic risk 6: Not maintaining our independence

Measure 1: There are no breaches of the Auditor-General's auditing standard on independence, or, if any breaches are identified, they are resolved promptly.

During the year, several instances were identified that would have resulted in a breach of the Auditor-General's Statement on Independence, had appropriate interventions not been put in place. All situations were resolved to the satisfaction of the Auditor-General.

Measure 2: Independence declarations for all OAG and Audit New Zealand staff are completed every six months.

This measure was reviewed during the year. Each OAG and Audit New Zealand staff member now completes an independence declaration once every 12 months, and a statement of compliance every six months. This new process is consistent with professional requirements on independence.

All OAG and Audit New Zealand staff completed independence declarations, most recently at 31 May 2006. The declarations were reviewed, and strategies were put in place to manage any conflicts of interest identified.

Capability report

Our *Annual Plan 2005-06* set out the measures we intended to use to assess our current capability, specifically:

- base information – the number of staff, and the distribution of our staff by function, gender, and ethnicity;
- other information on our current capability – particularly related to “supply” characteristics; and
- information on how we have maintained and enhanced our capability – including how much we spent on training and development, turnover levels, experience levels, sick leave taken, and staff satisfaction.

Based on this information, as we did last year, we also make some tentative conclusions about the adequacy, quality, and effectiveness of our current capability.

Results for 2005-06

Base information

Overall, staff numbers increased slightly on the previous year across both the OAG and Audit New Zealand. The distribution of staff by function, gender, and ethnicity (see Figure 9) remained largely the same as in previous years. However, recruitment and retention of key staff was an issue.

Figure 9

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

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

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

Contracted resources

The implementation of LTCCP audits in 2005-06 made a significant demand on Audit New Zealand's resources. As part of meeting this demand, Audit New Zealand seconded 43 staff from our audit service providers and international peer organisations.

On the other hand, during the year, we provided three staff to other audit offices, audit service providers, or government departments.

Other information

While we were generally able to attract applicants for operationally important vacancies, we continue to struggle in some locations and for some technical positions.

We also had an increased focus on building our internal management capability, with an increased number of staff promoted to management positions within the organisation. This included one promotion to Director and one to Associate Director.

Working capital and scale of information technology systems

As at 30 June 2006, the Office's working capital was \$1.5 million.

The Office is highly dependent on information technology (IT) to complete its work. Audit New Zealand is especially dependent – its field audit staff need to have remote access to deliver services to entities (that is, off-site access to its technical audit and accounting databases and its electronic audit management tool "TeamMate").

All staff have access – both network and dial-up – to the operational systems required for their jobs.

There continue to be different IT systems in use within the OAG and Audit New Zealand. The Office will begin work in 2006-07 to align these systems.

Maintaining and enhancing our capability

Data on the experience and training of our staff is presented in Figure 10.

Figure 10

Staff experience and training

		2005-06	2004-05
Experience			
Average "time in job"	OAG	5.6 years	4.3 years
	Audit NZ	5.0 years	3.5 years
Training and development			
Average spent on formal training (each employee)	OAG	\$1,754	\$2,356
	Audit NZ	\$2,298	\$2,087*
Average hours spent on upgrading skills (each employee)	OAG	47.8	57.3
	Audit NZ	87.0	102
Pass rate of staff undertaking NZICA accreditation		97%	100%

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

Training and development

“Developing our people” was our main business objective for 2005-06.

We reviewed our professional development programmes within the organisation. Audit New Zealand adopted a national approach to professional development, and enhanced its graduate and technical programmes. Our Performance Audit Group reviewed its professional development approach, in conjunction with our Australian counterparts.

In addition, we continued to provide specific training around our three research and development projects: auditing LTCCPs, the audit implications of new public sector management legislation, and introducing NZ IFRS.

In relation to personal and leadership development, we implemented:

- three workshops for senior staff, with an emphasis on emotional intelligence and conflict management;
- an accelerated development programme for selected “high potential” staff below manager level;
- two applicant development programmes to prepare internal candidates for senior vacancies; and
- individual development plans for all senior staff, incorporating emotional-intelligence-based 360-degree feedback for some.

Within the organisation, a number of senior staff also participated in local and international leadership programmes.

We continued to provide other courses, including presentation skills, media handling skills, writing skills, and health and safety.

Organisational health and staff satisfaction

Overall, the organisational health is at an acceptable level. The increase in turnover at the OAG was predominantly due to a restructuring of the Corporate Services Team. The previously separate corporate services teams of the OAG and Audit New Zealand were merged in 2005-06, and this resulted in a number of staff changes. Figure 11 shows various indicators of our organisational health and staff satisfaction.

Figure 11
Organisational health and staff satisfaction

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

Equal Employment Opportunities (EEO) and Effectiveness for Māori (EFM)

We continued to implement our existing EEO and EFM programmes. The main initiatives in 2005-06 were:

- We implemented an applicant development programme in Audit New Zealand, particularly to assist the preparedness of female staff applying for senior roles. Two women were appointed to senior roles in Audit New Zealand (out of a total of six successful applicants).
- We conducted a pilot seminar to raise staff awareness of aspects of tikanga Māori and kaupapa Māori, including basic language skills, basic understanding of the Treaty of Waitangi, and general cultural awareness.
- We continued to broaden our recruitment advertising, and ensured that the language in our advertisements was appropriate for diverse audiences.

Did we maintain or improve our capability outcomes?

As we did last year, we have formed some tentative conclusions (based on the information provided on the previous pages of this capability report) about the adequacy, quality, and effectiveness of our current capability.

Adequate staff numbers

During 2005-06, our staff numbers increased slightly in both the OAG and Audit New Zealand. However, it remained difficult to attract suitably qualified staff in tight labour market conditions. In addition, Audit New Zealand required significant extra resources for its audits of LTCCPs.

As part of the staff survey, we asked whether people felt there were enough skilled people to do the work. Audit New Zealand staff rated this as 3.6 out of 6, while OAG staff rated this more positively – 4.1 out of 6. Audit New Zealand's result reflects the staff shortages and resource implications described above.

In our view, we generally have, or have access to, the staff we need to meet our needs. However, we continue to experience some difficulty recruiting suitably qualified staff in some locations, and for some specialist positions.

Effectiveness of our staff and systems

The results from our stakeholder study, and Audit New Zealand's client survey, indicated continuing high levels of satisfaction with the expertise of our senior staff and the quality of our relationships with our stakeholders.

In our staff survey, we asked about the perceptions of staff on the availability and usefulness of our internal systems and processes, and access to the information they need to do their jobs. Staff rated this on average as 4.0 out of 6 (compared with 4.4 out of 6 last year).

Overall, therefore, we consider that we have maintained the effectiveness of our staff and systems.

Progress with our management actions for 2005-06

On pages 69-70 of our *Annual Plan 2005-06*, we set out a summary of the management actions we intended to take in 2005-06 to advance our *Five-year Strategic Plan*.

During 2005-06, we have:

Development of our people

- implemented a broad range of leadership development initiatives for senior staff (see pages 54-55);
- reviewed our professional development programme for performance auditors, in conjunction with some of our international counterparts (we now jointly run a performance audit training course in Australia each year);
- designed and implemented a new graduate recruitment campaign for Audit New Zealand, and continued to explore options for secondments with our international counterparts – to help us fill difficult-to-recruit positions;

Development of our products and services

- piloted a new approach to performance auditing, modelled on the UK National Audit Office methodology – this is now being progressively introduced;
- reviewed and increased our staff resources for quality assurance, and started to implement our independent quality assurance reviews across all our products;
- implemented a new strategy for considering requests for inquiries, and strengthened our systems and processes for managing inquiries;
- enhanced our Corporate and Strategic Audit Planning processes to ensure integration, and to provide a clearer strategic perspective in the identification of the Auditor-General's work programme – both for audit work and for areas of management focus;

Other

- restructured our corporate services teams, resulting in a single team supporting both the OAG and Audit New Zealand;
- reviewed, within Audit New Zealand, the links between the *Strategic Plan*, performance management, and remuneration systems, and designed an innovative new framework for assessing rewards and recognition;
- reviewed our key strategic risks and the associated risk mitigation strategies, and confirmed our leadership roles for risk management;
- completed the implementation of our agreed impact evaluation process for performance audits;
- developed an evaluation framework to assess the effect of the implementation of our *Strategic Plan*;
- successfully completed the first full cycle of our stakeholder feedback study;
- initiated an independent review of our governance;
- started to implement a customised legislative compliance monitoring system; and
- continued to implement our five-year Information Systems Technology Plan.

These management actions have further advanced the implementation of our *Strategic Plan*.

International financial reporting standards

The Accounting Standards Review Board announced in December 2002 that reporting entities must adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for periods beginning after 1 January 2007, with earlier adoption optional. The Minister of Finance announced in 2003 that the Crown will first adopt NZ IFRS for its financial year beginning 1 July 2007.

The Treasury is managing the adoption of NZ IFRS for the consolidated financial statements of the Government reporting entity. Individual entities included within the consolidated financial statements of the Government reporting entity are responsible for ensuring their own NZ IFRS preparedness. The Treasury provides guidance to these entities, and facilitates implementation on common issues.

As part of the Government reporting entity, we are adopting the Treasury timetable to implement NZ IFRS, with comparative figures required to be restated for the prior year on initial adoption.

We expect little impact on our financial statements, having identified employee entitlements as the one area where NZ IFRS accounting policies significantly differ. Currently sick leave is not recognised until the period in which it is taken. Under NZ IFRS, sick leave is accrued when it is earned, as a liability in the Statement of Financial Position. The Office has not yet completed an exercise to quantify the effect of this change, and is therefore unable to reliably quantify impacts on the financial statements that will arise from the transition to NZ IFRS. Additionally, the potential areas of impact from adoption of NZ IFRS may change materially as implementation occurs.

Part 3
Financial Statements 2005-06

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Audit Report



AUDIT REPORT

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

We have been appointed by the House of Representatives to carry out the audit of the financial statements of the Controller and Auditor-General for the year ended 30 June 2006.

Unqualified Opinion

In our opinion the financial statements of the Controller and Auditor-General on pages 65 to 96:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Controller and Auditor-General's financial position as at 30 June 2006;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 29 September 2006, and is the date at which our opinion is expressed.

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 New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.



Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Controller and Auditor-General;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Controller and Auditor-General and the Auditor

The Controller and Auditor-General is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Controller and Auditor-General as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. This responsibility arises from sections 45A, 45B, and 45F of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This 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 audit assignments on behalf of the Controller and Auditor-General. The level of work from these assignments is no greater than the level of work prior to our appointment as auditor. Other than the audit and these assignments, 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

As Controller and Auditor-General, I am responsible for the accuracy and judgements used in the preparation of the Financial Statements, and the establishment and maintenance of 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 organisation are properly safeguarded.

In my opinion, the information set out in the Financial Statements and attached notes to those statements fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2006, and our financial position as at that date.



K B Brady
Controller and Auditor-General

29 September 2006



(Countersigned)
M J Reid
Assistant Auditor-General
Corporate Business Services
(Chief Financial Officer)

29 September 2006

Statement of Objectives and Service Performance

for the year ended 30 June 2006

65

We set out our statement of objectives and service performance for each output class in our *Annual Plan 2005-06*. Our performance during 2005-06 in each output class is set out below:

Output class D1 – Reports and advice arising from the exercise of the function of legislative auditor

Description

- Reports to Parliament and other constituencies on matters arising from annual audits, performance audits and special studies, and inquiries.
- Reports and advice to select committees – to assist in their reviews of performance, Estimates examinations, or other inquiries for which our assistance is sought.
- Reports to portfolio Ministers on the results of annual financial report audits.
- Responses to enquiries from taxpayers, ratepayers, and members of Parliament.
- Advice to government bodies and other agencies – on auditing, accountability, and financial management in the public sector.
- Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.
- Development of a written history of the Audit Office.

1 Reports to Parliament and other constituencies (reports on the results of annual audits, performance audits, major inquiries, and other activities)

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Reports on the results of annual audits	3	At least 2	2
Other reports (performance audits, major inquiries, other)	22	19 to 21	15
Hours undertaking performance audits	22,441	At least 20,500	17,159
Cost (\$000)	4,261	5,331	3,914
Timeliness			
All reports provided within the deadlines agreed in the terms of reference for inquiries or performance audit plans	Partly achieved	Achieve measure	Partly achieved
Quality			
Complete two independent reviews of performance audits and special studies	Completed	Complete review	Completed
Conduct a stakeholder feedback study to ascertain the quality, relevance, and responsiveness of our reporting and advice (see pages 42-43)	Study undertaken	Undertake sample study	Pilot survey undertaken

Comments

We produced reports on 22 performance audits and inquiries. A full list is presented in Appendix 3 on pages 99-100. Some performance audits took longer to complete than initially planned. This was primarily due to staff movement within the Performance Audit Group, and because in some instances it took longer than anticipated to receive comments from entities on draft reports. However, on average, it took us 11.5 months to produce each performance audit (compared to 12.3 months last year). The improvement in timeliness is due to better scoping and planning of performance audits, and an increased focus on timeliness.

External reviews of two performance audit reports were carried out by Marilyn Waring, Alex Matheson, and the Office of the Canadian Auditor-General. Generally, the reviews made favourable comments about the two reports.

2 Reports and advice to select committees and Ministers (on financial reviews, Estimates examinations, annual financial audits, and other matters)

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Financial reviews	81	80-90	70
Estimates examinations	42	40-50	49
Reports to portfolio Ministers	146	120-130	128
Other reports	5	20-30	6
Cost (\$000)	1,129	874	794
Timeliness			
All reports provided at least two days before an examination, unless otherwise agreed with a committee	100%	100%	97%
All reports provided to Ministers before select committee scrutiny of departmental and Crown entity performance	100%	100%	100%
All other reports provided in accordance with the terms of reference	100%	100%	100%
Quality			
Conduct a stakeholder feedback study to ascertain the quality, relevance, and responsiveness of our reporting and advice	Study undertaken (see pages 42-43)	Undertake sample study	Pilot survey undertaken

Comments

Two factors have contributed to the variances between forecast and actual performance in 2005-06, and between actual performance in 2004-05 and that in 2005-06.

While select committees consider all the entities and Votes allocated to them, only a selection are subjected to a full financial review or Estimates examination each year. The select committees decide which, and how many, entities and Votes receive such scrutiny, and therefore how many reports we have to prepare. The yearly variation that arises from this approach contributes to the difference between the number of reports provided in 2005-06, and the target number of reports for that year. The variation is also reflected in the difference between the number of reports provided in 2005-06, and the number provided in 2004-05.

Secondly, while 44 Votes were subjected to full examination by select committees in 2005-06, we provided reports on 42 Votes. Votes Education and Māori Affairs were examined the week after the Estimates were tabled. The time available before examination – three days – was not sufficient to allow reports of requisite quality to be prepared for use by the examining select committees. The Auditor-General therefore advised the Finance and Expenditure Committee that reports on these Votes could not be provided.

Under the code of practice for the provision of assistance by the Auditor-General to select committees and members of Parliament, the Auditor-General (unless otherwise directed by a select committee) is to provide a written brief for every financial review conducted, and every Vote examined, as directed by a select committee.

In 2005-06, we met this expectation, with the exception of the two instances discussed above.

3 Responses to enquiries from taxpayers, ratepayers, and members of Parliament

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Taxpayer enquiries	70	60	59
Ratepayer enquiries	144	180	157
Member of Parliament enquiries	14	30	22
Cost (\$000)	1,734	1,216	1,315
Timeliness			
Provide initial response within 5 working days	81%	100%	82%
Complete within 30 working days	72%	80%	57%
Advise if the response will take longer than 30 working days	73%	100%	95%
Quality			
Conduct a stakeholder feedback study to ascertain the quality, relevance, and responsiveness of our reporting and advice	Study undertaken (see pages 42-43)	Undertake sample study	Pilot survey undertaken

Comments

The overall number of enquiries that we received was slightly down from last year, although we received more enquiries from taxpayers than the previous year.

We completed a response to substantially more enquiries within the measure of 30 days than in the previous year, although we advised less where the response was to take more than 30 working days. During the year, we reviewed how we manage enquiries, and recruited additional staff to better facilitate the management, conduct, and timeliness of our response to enquiries.

As part of implementing the inquiries strategy, we have revised the performance measures that we will be reporting against for the 2006-07 year.

4 Advice to government bodies and other agencies

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Provide advice on demand	*	*	*
Cost (\$000)	1,446	1,221	1,351
Timeliness			
We will deliver the advice in accordance with any terms of reference agreed, and meet the deadline in the terms of reference	Achieved	Achieve measure	Substantially achieved
Quality			
Conduct a stakeholder feedback study to ascertain the quality, relevance, and responsiveness of our reporting and advice (see pages 42-43)	Study undertaken	Undertake sample study	Pilot survey undertaken

* This is a demand-driven activity for which there are no wholly satisfactory quantity measures. All reasonable requests for information and participation were met, including requests from:

- the State Services Commission and the Treasury;
- local government sector groups;
- the Financial Reporting Standards Board, and various other committees;
- the International Federation of Accountants – International Public Sector Accounting Standards Board;
- delegations from other countries; and
- INTOSAI – Working Group on Environmental Auditing
– Professional Standards Committee (Steering Committee).

Comments

During 2005-06, we undertook significant work in this activity both domestically and internationally. We acted as advisors to select committees, provided comments on draft legislation and policy proposals, and worked with various sector groups on improvements to public sector accountability and reporting. In addition, the Performance Audit Group conducted two international peer reviews – one on two reports of the Australian National Audit Office and the other on four reports of the New South Wales Performance Audit Group.

A full description of the activities is detailed on page 35. We intend to maintain our future involvement at similar levels.

5 Administration of the provisions of the Local Authorities (Members' Interests) Act 1968

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Enquiries	49	80	106
Cost (\$000)	52	99	70
Timeliness			
Provide initial response within 5 working days	81%	100%	92%
Complete within 30 working days	86%	80%	96%
Advise if the response will take longer than 30 working days	57%	100%	100%
Quality			
Conduct a stakeholder feedback study to ascertain the quality, relevance, and responsiveness of our reporting and advice	Study undertaken (see pages 42-43)	Undertake sample study	Pilot survey undertaken

Comments

The number of enquiries was significantly lower than in previous years. We consider that elected members' overall levels of awareness and understanding of the statutory rules about pecuniary interests are increasing. We believe that our published guidance about the Act, and training seminars that we have undertaken in recent years, have contributed to this.

We are pleased to report that we did not become aware of any significant breaches of the Act during the year, and did not have to undertake any formal investigations with a view to prosecution.

6 History of the Audit Office

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Produce a written history of the Audit Office, in conjunction with the Ministry for Culture and Heritage	-	-	-
Cost (\$000)	44	44	25
Timeliness			
Project milestones achieved	100%	100%	100%
Quality			
Use people with appropriate professional skills	Achieved	Achieved	Achieved

Comments

We have made good progress in preparing a written history of the Audit Office. While we had originally intended to complete the project over a three-year period, we have extended it to five years after discussions with the Ministry for Culture and Heritage. Phase two of the project has been completed according to schedule during 2005-06, including:

- completing draft chapters one (1840 to 1866) and seven (the Shailles era);
- researching chapter two (1866 to the 1890s);
- starting to draft chapter eight (the Tyler era);
- undertaking further oral interviews of former Audit Office staff; and
- completing transcripts of all oral interviews previously undertaken.

Financial performance of Output Class D1

Measure	2005-06 actual \$000	2005-06 forecast \$000	2004-05 actual \$000
Revenue			
Crown	8,822	8,822	7,914
Other	8	-	2
Expenditure	(8,666)	(8,785)	(7,469)
Surplus	164	37	447

Comments

Our expenditure is largely consistent with forecast levels. The small variance from forecast relates to general savings in operational overheads, including staff vacancies.

Output Class D2 – The Controller function

Description

This output class relates to the Controller function under sections 65Y to 65ZA of the Public Finance Act 1989.

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

Performance against Output Class D2 Targets

Measure	2005-06 actual	2005-06 forecast	2004-05 actual
Quantity			
Monthly statements examined	10	12	-
Quality			
The Controller and Auditor-General will examine monthly statements from the Treasury to ensure that expenses or capital expenditure have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other statutory authority	100%	100%	-
Where there is reason to believe that a breach of appropriation or unlawful action has or may occur, drawn the matter to the attention of the Vote Minister, or considered exercising his powers under the Act	100%	100%	-
Timeliness			
Monthly statements reviewed and provided to the Approved Auditor within five days	100%	100%	-
Where a breach has occurred or may occur, the relevant Minister informed within two days of it being verified	100%	100%	-
Cost (\$000)			
Value of resources applied	53	91	83

Comments

The measures under this output class were new for 2005-06 because of the changes to the Controller function arising from the Public Finance Amendment Act 2004. No comparisons to previous years are therefore possible.

We carried out our work in accordance with our statutory responsibilities under the Public Finance Act 1989, the Auditor-General's auditing standards, and the memorandum of understanding with the Treasury.

We examined the monthly statements provided by the Treasury for the period September 2005 to June 2006. Under the Public Finance Act 1989, the Treasury does not have to provide statements for the months of July and August. We provided advice to the Treasury of the issues arising, including actual or potential breaches of appropriation, and the action required to address the issues identified.

Financial performance of Output Class D2

Measure	2005-06 actual \$000	2005-06 forecast \$000	2004-05 actual \$000
Revenue			
Crown	91	91	83
Expenditure	(53)	(91)	(83)
Surplus	38	Nil	Nil

Output Class D3 – Provision of audit and assurance services

Description

This output class relates to the conduct of the annual audits of public entity financial reports. These audits are undertaken by either Audit New Zealand or private sector auditors. Output class D3 is funded mainly by fees paid by the entities being audited or to which assurance services are being provided.

Annual audits result in:

- *audit reports* – on whether the financial statements fairly reflect the financial and non-financial performance of these entities; and
- *management reports* – to the management and governing bodies of these entities, on issues arising from the audit.

From 1 July 2005, two output classes (previously D3 and D4) were merged. The comparative figures for 2004-05 in the table following are the combined figures for the two previous classes.

Performance – in quantity and timeliness – against Output Class D3 targets

Group	Entities in group ¹	Audit status		Timely issue of audit reports		Timely issue of management reports	
		Audits carried out	Arrears at year end	Target ²	Actual	Target ³	Actual
Government departments and Offices of Parliament	44	45	0	100%	98%	100%	100%
2004-05	45	45	0	100%	100%	100%	100%
Major statutory bodies ⁴	112	113	6	100%	93%	100%	90%
2004-05	115	118	6	100%	91%	100%	93%
Regional, City, and District Councils	86	85	1	100%	98%	100%	80%
2004-05	86	86	0	100%	98%	100%	95%
Other local authorities ⁵	436	426	73	100%	74%	100%	83%
2004-05	441	462	44	100%	74%	100%	90%
School Boards of Trustees	2474	2633	94	50%	19%	100%	99%
2004-05	2548	2645	155	50%	20%	100%	98%
Miscellaneous public bodies ⁶	573	607	90	75%	59%	100%	92%
2004-05	575	605	89	75%	58%	100%	95%
Audits for which fees will not be charged ⁷	145	154	51	75%	33%	100%	98%
2004-05	146	160	49	75%	33%	100%	100%
Totals	3870	4063	315				
2004-05	3956	4121	343				

- Figures may not balance exactly, or may vary from those presented in the *Annual Plan 2005-06*, because of in-year changes to the audit portfolio.
- Audits will be completed and audited financial statements will be available within statutory deadlines or within five months of balance date.
- Management reports and letters will be issued within six weeks of the date of the audit report.
- State-owned enterprises, tertiary education institutions, producer boards, District Health Boards, Crown Research Institutes, and other major Crown entities.
- Licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners.
- Mainly Māori Trust Boards, smaller Crown entities, and subsidiaries of major Crown entities.
- Entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee – Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees, and Patriotic Funds. (From 2004-05, the Crown funded up to \$190,000 of the cost of these audits.)

Performance – in quality – against Output Class D3 targets

Measure		2005-06 actual	2005-06 forecast	2004-05 actual
Quality				
Audit reports	Work will be conducted with due professional care, ensuring adherence to standards of appropriateness, quality, efficiency, and independence as set out in the NZICA standards and other standards which the Auditor-General deems appropriate for the public sector	Achieved	Achieve measure	Achieved
Management reports		Achieved	Achieve measure	Achieved
Quality assurance reviews	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Reviewed work of 45 auditors (see page 11)	Review work of 40-50 auditors	Programme undertaken
Stakeholder satisfaction	Audit New Zealand will survey a range of its clients to ascertain satisfaction with the quality of work completed	Not undertaken (see page 16)	Undertake and report on survey	Completed
Effectiveness	We will report on the trend in non-standard audit reports issued up to and including the current year	9.1% (see pages 40-42)	Report on trend	7.7% (see pages 11-12 of the <i>Annual Report 2004-05</i>)

Financial performance of Output Class D3

	2005-06 actual \$000	2005-06 forecast \$000	2004-05 actual \$000
Revenue			
Crown	190	190	186
Other	42,729	44,115	35,300
Expenditure	(42,981)	(44,098)	(35,157)
Surplus/(Deficit)	(62)	207	329

Comments

From 1 July 2005, two output classes (previously D3 and D4) were merged. Comparative results for the previous year are therefore the combined figures for the two previous classes.

The variances to forecast revenue and expenditure largely relate to less audit fees being accounted for by contracted audit service providers (excluding Audit New Zealand). This audit service provider revenue is matched by expenditure of the same amount.

Financial performance indicators for the year ended 30 June 2006

Details of our performance against measures established in the *Annual Plan 2005-06* are summarised below.

Measure	2005-06 actual \$000	2005-06 forecast \$000	Annual Plan 2005-06 \$000	2004-05 actual \$000
Operating results				
Revenue: other than Crown	42,737	44,115	34,849	35,302
Output expenses	51,700	52,974	43,510	42,709
Surplus before capital charge	263	354	531	863
Surplus	140	244	244	776
Working capital management				
Current assets less current liabilities	1,538	1,782	2,443	1,693
Current ratio	123%	130%	154%	124%
Average receivables and work in progress	42 days	35 days	57 days	42 days
Resource use				
Physical assets:				
Total physical assets at year-end	2,505	2,304	2,089	2,347
Additions as % of physical assets	60%	58%	64%	65%
Taxpayers' funds				
Level at year-end	3,586	3,586	3,586	3,586
Net cash flows				
Surplus/(Deficit) on operating activities	984	1,031	(326)	3,005
Surplus/(Deficit) on investing activities	(1,368)	(1,170)	(1,170)	(1,310)
Surplus/(Deficit) on financing activities	(937)	(938)	(947)	(422)
Net increase/(decrease) in cash held	(1,321)	(1,077)	(2,443)	1,273

Statement of Accounting Policies for the year ended 30 June 2006

Reporting entity

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

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

The Controller and Auditor-General's activities include work undertaken by the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office"), and contracted audit service providers.

Measurement base

The financial statements have been prepared on a historical cost basis.

Accounting policies

Revenue

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

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

Audit fee revenue from audits carried out by contracted audit service providers is recognised in the period that the OAG is notified of the audits' completion. Contracted audit service providers invoice and collect audit fees directly from public entities.

Expenses

The remuneration of the Auditor-General and the Deputy Auditor-General, which is a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, is recognised as an expense of the Office.

Revenue in advance

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

Output cost allocation

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

Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contracted audit service providers is charged directly to Output Class D3.

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

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

Receivables and work in progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.

Leases

Leases which effectively transfer to the Office substantially all the risks and benefits incidental to ownership of the leased items are classified as **finance leases**. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the Statement of Financial Position. Each lease payment is allocated between the liability and the finance expense, and the leased assets are depreciated on the same basis as other assets.

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as **operating leases**. Operating lease costs are expensed on a systematic basis over the period of the lease.

Physical assets

Physical assets are recorded at cost, which is the value of the consideration given to acquire or create the asset, plus any directly attributable costs of bringing the asset into working condition for its intended use.

All physical assets costing more than \$500 are capitalised.

Depreciation

Depreciation of physical assets is provided on a straight-line basis to allocate the cost of the assets, less their residual value, over their expected useful lives. The estimated useful lives are:

Furniture and fittings	4 years
Office equipment	2.5-5 years
IT hardware	2.5-5 years
IT software	2.5-5 years
Motor vehicles	3-4 years

Provision for employee entitlements

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees, based on current rates of pay. Long service leave and retiring or resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

Statement of Cash Flows

Cash means cash balances on hand, held in bank accounts, and deposits with the New Zealand Debt Management Office.

Operating activities include cash received from all income sources, and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

Foreign currency

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

Financial instruments

Financial instruments primarily comprise bank balances, receivables, and payables, which are recognised in the Statement of Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST, except for:

- payables and receivables in the Statement of Financial Position, which include GST; and
- figures in the Statement of Appropriations, which include GST unless noted.

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

Income tax

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

Commitments

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

Contingent liabilities

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

Changes in accounting policies

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

Statement of Financial Performance

for the year ended 30 June 2006

This statement reports the revenue and expenses relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are on pages 70, 72, and 74.

	Notes	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
<i>Continuing activities</i>				
Revenue				
Crown	2	9,103	9,103	8,183
Other	3	42,737	44,115	35,302
Total revenue		51,840	53,218	43,485
Expenses				
Personnel costs		26,401	26,409	20,143
Operating costs	4	23,956	25,242	21,357
Depreciation	5	1,220	1,213	1,122
Capital charge	6	123	110	87
Total expenses		51,700	52,974	42,709
Surplus		140	244	776

* See Note 1 on page 88.

Statement of Movements in Taxpayers' Funds (Equity)

for the year ended 30 June 2006

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

	Notes	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Taxpayers' funds brought forward at 1 July		3,586	3,586	3,586
Movements during the year				
Surplus		140	244	776
Total recognised revenues and expenses for the year		140	244	776
Flows to and from the Crown				
Surplus payment due to the Crown	7	(140)	(244)	(776)
Taxpayers' funds at 30 June		3,586	3,586	3,586

* See Note 1 on page 88.

Statement of Financial Position

as at 30 June 2006

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

	Notes	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Taxpayers' funds				
General funds		3,586	3,586	3,586
Total taxpayers' funds		3,586	3,586	3,586
Represented by:				
Current assets				
Cash and bank balances	8	2,992	3,236	4,313
Prepayments		362	290	388
Work in progress		1,378	550	430
Receivables	9	3,510	3,650	3,633
Total current assets		8,242	7,726	8,764
Non-current assets				
Physical assets	10	2,505	2,304	2,347
Total non-current assets		2,505	2,304	2,347
Total assets		10,747	10,030	11,111
Current liabilities				
Payables and accruals	11	3,613	3,200	3,531
Surplus payment due to the Crown	7	140	244	776
Provision for employee entitlements	12	2,951	2,500	2,491
Property lease liabilities	13	-	-	111
Finance lease liabilities	14	-	-	162
Total current liabilities		6,704	5,944	7,071
Term liabilities				
Provision for employee entitlements	12	457	500	454
Property lease liabilities	13	-	-	-
Finance lease liabilities	14	-	-	-
Total term liabilities		457	500	454
Total liabilities		7,161	6,444	7,525
Net assets		3,586	3,586	3,586

* See Note 1 on page 88.

The accounting policies on pages 76-79 and notes on pages 88-96 form part of these statements.

Statement of Cash Flows

for the year ended 30 June 2006

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 Financial Performance.

	Notes	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Operating activities				
Cash received from:				
The Crown		9,208	9,063	8,077
Others**		27,145	28,546	22,589
Cash disbursed on:				
Production of outputs**		(32,181)	(33,323)	(24,900)
Net GST paid		(3,056)	(3,145)	(2,572)
Finance charges		(9)	-	(102)
Capital charge		(123)	(110)	(87)
Net cash flow from operating activities	15	984	1,031	3,005
Investing activities				
Cash received from:				
Sale of physical assets		142	170	209
Cash disbursed on:				
Purchase of physical assets		(1,510)	(1,340)	(1,519)
Net cash flow from investing activities		(1,368)	(1,170)	(1,310)
Financing activities				
Cash disbursed on:				
Surplus payment to the Crown		(775)	(776)	(158)
Repayment of finance lease		(162)	(162)	(264)
Net cash flow from financing activities		(937)	(938)	(422)
Total net increase in cash held		(1,321)	(1,077)	1,273
Add opening cash balance at 1 July		4,313	4,313	3,040
Closing cash balance at 30 June		2,992	3,236	4,313

* See Note 1 on page 88.

** The Statement of Cash Flows does not include the contracted audit service provider audit fees, as these do not involve any cash transactions within the Office.

The accounting policies on pages 76-79 and notes on pages 88-96 form part of these statements.

Statement of Commitments

as at 30 June 2006

This statement records those expenditures to which the Office is contractually committed at 30 June 2006, and which will become liabilities if and when the terms of the contracts are met.

The Office has long-term 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, facsimile machines, and photocopiers.

	30 June 2006 actual \$000	30 June 2005 actual \$000
Capital commitments		
Less than one year	-	-
Total capital commitments	<u>-</u>	<u>-</u>
Operating lease commitments		
Property lease commitments		
Less than one year	1,670	1,600
One to 2 years	1,096	966
2 to 5 years	1,786	704
More than 5 years	472	-
Total property lease commitments	<u>5,024</u>	<u>3,270</u>
Equipment lease commitments		
Less than one year	273	278
One to 2 years	220	257
2 to 5 years	18	54
Total equipment lease commitments	<u>511</u>	<u>589</u>
Total operating lease commitments	<u>5,535</u>	<u>3,859</u>

The accounting policies on pages 76-79 and notes on pages 88-96 form part of these statements.

Statement of Contingent Liabilities

as at 30 June 2006

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This statement discloses situations that existed at 30 June 2006, 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.

The Office did not have any contingent liabilities as at 30 June 2006 (nil as at 30 June 2005). There is potential for claims to arise against the Office because of defalcations and other losses within entities of which the Auditor-General is the auditor. No demands for compensation have been made by any party as at the date of these financial statements. It is therefore impracticable to estimate any potential financial effect. The Office has professional indemnity insurance.

There were no contingent assets as at 30 June 2006 (nil as at 30 June 2005).

Statement of Appropriations for the year ended 30 June 2006

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

Operating flows	Output Expenses GST exclusive \$000	Appropriations GST exclusive \$000
Annual appropriations		
Mode B Gross		
D1 Reports and advice to Parliament	8,030	8,149
D2 Controller function	53	91
D3 Provision of audit and assurance services	42,981	44,098
Total annual appropriations	51,064	52,338
Other appropriations		
Mode B Gross		
D1 Reports and advice to Parliament ¹	636	636
Total other appropriations	636	636
Total output expenses as reported in the Statement of Financial Performance	51,700	
Capital flows		
Non-departmental annual appropriation		
Repayment of debt		
Overdraft repayment ²		
Total appropriations		52,974

1 Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

2 Provides for the repayment of principal on an overdraft facility.

Statement of Unappropriated Expenditure for the year ended 30 June 2006

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The Office incurred no unappropriated expenditure during the year ended 30 June 2006 (nil for the year ended 30 June 2005).

Statement of Trust Money for the year ended 30 June 2006

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

A trust account records the financial transactions the Office undertakes on behalf of SPASAI. All trust money transactions are recorded on a cash basis.

None of the transactions associated with the SPASAI trust account are recorded within the Statement of Financial Performance or the Statement of Financial Position.

	2005-06 actual \$000	2004-05 actual \$000
Opening balance at 1 July	25	36
Receipts	385	124
	410	160
Payments	382	(135)
Closing balance at 30 June	28	25

Notes to the Financial Statements

for the year ended 30 June 2006

Note 1: Budget estimates

The estimate and forecast information for the year is extracted from the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the aggregate budget estimates, all of which are unaudited.

	2005-06 Main budget estimates \$000	2005-06 Supplementary estimate changes \$000	2005-06 Final forecast estimates \$000	2005-06 Estimated actuals (forecast) \$000
Revenue				
Crown	8,905	198	9,103	9,103
Other	34,849	9,266	44,115	44,115
Total revenue	43,754	9,464	53,218	53,218
Expenses				
Personnel costs	21,211	5,198	26,409	26,409
Operating costs	20,782	4,460	25,242	25,242
Depreciation	1,230	(17)	1,213	1,213
Capital charge	287	(177)	110	110
Total expenses	43,510	9,464	52,974	52,974
Surplus	244	-	244	244

Forecasts represent the estimated actuals prepared in March 2006 as part of the 2006-07 Central Government budget process.

Note 2: Revenue Crown

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 and other agencies, administering the provisions of the Local Authorities (Members' Interests) Act 1968, and writing a history of the Audit Office.

Note 3: Revenue Other

	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Audit fees - departments	7,685	6,947	7,841
Audit fees - other	35,044	37,168	27,459
Miscellaneous	8	-	2
Total revenue other	42,737	44,115	35,302

* See Note 1 on page 88.

Note 4: Operating costs

Operating costs include:

	2005-06 actual \$000	2005-06 forecast * \$000	2004-05 actual \$000
Loss on sale of physical assets	(10)	-	61
Write-off of physical assets	-	-	-
Increase in provision for doubtful receivables	(102)	-	89
Fees to auditors for the audit of the Office's financial statements	79	80	73
Fees to auditors for other services provided to the Office	19	-	2
Finance lease costs	9	-	102
Equipment lease costs	63	204	69
Property lease costs	1,600	1,700	1,588
Fees paid to contracted auditors for audits of public entities	14,619	15,372	13,223

* See Note 1 on page 88.

Note 5: Depreciation charge

	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Furniture and fittings	261	185	147
Office equipment	79	123	98
IT hardware	300	246	314
IT software	333	517	365
Motor vehicles	247	142	198
Total depreciation charge	1,220	1,213	1,122

* See Note 1 on page 88.

Note 6: Capital charge

The Office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2006 was 8.0% (in 2005, it was 8.0%).

During the financial year, the Office continued to participate in a pilot differential capital charge scheme. Under the scheme, interest earned on cash bank balances and term deposits (at 4.8%) was offset against the capital charge. For the year ended 30 June 2006, the capital charge reduced by \$157,070 (in 2005, it reduced by \$206,366) because of the scheme.

Note 7: 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 \$140,000 is repayable to the Crown.

	30 June 2006 actual \$000	30 June 2005 actual \$000
Surplus	140	776
Total provision for payment to the Crown	140	776

Note 8: 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 2004-05).

Note 9: Receivables

	30 June 2006 actual \$000	30 June 2005 actual \$000
Trade receivables	3,821	3,937
Provision for doubtful receivables	(320)	(422)
Net trade receivables	3,501	3,515
Crown debtor	1	106
Other receivables	8	12
Total receivables	3,510	3,633

Note 10: Physical assets

	30 June 2006 actual \$000	30 June 2005 actual \$000
Freehold assets		
Furniture and fittings		
At cost	2,678	2,543
Accumulated depreciation	(1,718)	(1,811)
<i>Furniture and fittings at net carrying value</i>	960	732
Office equipment		
At cost	1,066	1,067
Accumulated depreciation	(966)	(899)
<i>Office equipment at net carrying value</i>	100	168
IT hardware		
At cost	1,711	1,428
Accumulated depreciation	(1,264)	(1,062)
<i>IT hardware at net carrying value</i>	447	366
IT software		
At cost	2,693	2,529
Accumulated depreciation	(2,430)	(2,096)
<i>IT software at net carrying value</i>	263	433
Motor vehicles		
At cost	1,061	826
Accumulated depreciation	(326)	(225)
<i>Motor vehicles at net carrying value</i>	735	601
Leased assets		
IT hardware		
At cost	-	426
Provision for write-down	-	(259)
At cost less write-down	-	167
Accumulated depreciation	-	(120)
<i>Leasehold office equipment at net carrying value</i>	-	47
Total physical assets at net carrying value	2,505	2,347

Note 11: Payables and accruals

	30 June 2006 actual \$000	30 June 2005 actual \$000
Trade payables	1,977	1,964
Revenue in advance	1,240	1,282
Accruals	396	285
Total payables and accruals	3,613	3,531

Note 12: Provision for employee entitlements

	30 June 2006 actual \$000	30 June 2005 actual \$000
Current liabilities		
Annual leave	1,292	1,237
Long service leave	58	52
Time off in lieu of overtime worked	61	63
Salary and other accruals	1,164	836
Retiring leave	376	303
<i>Total current liabilities</i>	2,951	2,491
Non-current liabilities		
Long service leave	80	75
Retiring/resigning leave	377	379
<i>Total non-current liabilities</i>	457	454
Total provision for employee entitlements	3,408	2,945

Note 13: Property lease liabilities

Property lease liabilities consist of the unamortised value of lease inducements received.

	30 June 2006 actual \$000	30 June 2005 actual \$000
Current liabilities (payables and accruals)	-	111
Non-current liabilities	-	-
Total property lease liabilities	-	111

Note 14: Finance lease liabilities

	30 June 2006 actual \$000	30 June 2005 actual \$000
Finance leases		
Current	-	162
Non-current	-	-
Total	-	162
Repayable as follows		
One to 2 years	-	171
2 to 5 years	-	-
	-	171
Future finance charges	-	(9)
Recognised as a liability	-	162

During the 2005-06 financial year, the Office's leases of laptop computers expired. The effective interest rate was 6.5%, and ownership of the asset remained with the lessor.

Under the Public Finance Act 1989, entering into financing lease arrangements is deemed to be raising a loan, which requires the approval of the Minister of Finance under the Public Audit Act 2001. The Office had received the Minister's approval for these leases.

Note 15: 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 Financial Performance on page 80, to arrive at the net cash flow from operating activities disclosed in the Statement of Cash Flows on page 83.

	2005-06 actual \$000	2005-06 forecast* \$000	2004-05 actual \$000
Surplus	140	244	776
Non-cash items			
Depreciation	1,220	1,213	1,122
Write-off of physical assets	-	-	-
Write-down of leased assets	-	-	-
<i>Total net non-cash items</i>	1,220	1,213	1,122
Working capital movements			
(Increase)/decrease in prepayments	26	98	147
(Increase)/decrease in receivables	123	(17)	(569)
(Increase)/decrease in work in progress	(948)	(120)	842
(Decrease)/increase in payables	81	(331)	659
(Decrease)/increase in employee entitlements	460	9	415
(Decrease)/increase in property lease liabilities	(111)	(111)	3
<i>Total net working capital movements</i>	(369)	(472)	1,497
Investing activity items			
Loss/(profit) on sale of physical assets	(10)	-	61
<i>Total investing activity items</i>	(10)	-	61
Other items			
Increase/(decrease) in non-current employee entitlements	3	46	(341)
Increase/(decrease) in non-current property lease liabilities	-	-	(110)
<i>Total other items</i>	3	46	(451)
Net cash flow from operating activities	984	1,031	3,005

* See Note 1 on page 88.

Note 16: Financial instruments

The Office is a party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, receivables, and payables.

Credit risk

In the normal course of its business, the Office incurs credit risk from receivables and from transactions with financial institutions and the New Zealand Debt Management Office of the Treasury.

The Office has no significant concentrations of credit risk. No collateral or security is held or given to support financial instruments.

Interest rate risk

The Office has no interest rate risk, as all cash funds that earn interest are managed as part of the Crown's banking arrangements.

Currency risk

The Office has no exposure to currency risk, as all financial instruments are in New Zealand dollars.

Fair values

The estimated fair values of all financial assets and liabilities are equivalent to the carrying amounts disclosed in the Statement of Financial Position.

Note 17: Related party information

The Crown provides 17.6% of the Office's revenue directly (see Note 2 on page 88), and a further 14.8% is provided indirectly through fees for the audit of Government departments (see Note 3 on page 89). Also, the Office obtains revenue through fees for the audit of other public entities included in the financial statements of the Government of New Zealand.

The revenue provided by the Crown is for the operation of the Office, including the provision of outputs to Parliament, which is provided within a normal supplier/recipient relationship.

Fees for the audit of public entities, including Government departments, are charged on a commercial basis at "arm's-length".

There are numerous other transactions the Office enters into with entities controlled by the Crown – for example, travel with Air New Zealand and postage with New Zealand Post. All of these other transactions are carried out on a commercial basis at "arm's-length".

Note 18: 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.

	30 June 2006 actual	30 June 2005 actual
Area	6283m ²	6522m ²
Number of staff	263	244
Space allocation per person	24m ²	27m ²
Total costs of leased office accommodation	\$1,600,154	\$1,707,863
Rent costs per person	\$5,709	\$5,907
Utility costs per person	\$375	\$376
Vacant accommodation	-	-

Appendix 1

Senior management

Controller and Auditor-General

Kevin Brady

Deputy Controller and Auditor-General

Phillippa Smith
(from August 2005)

OAG Leadership Team

Assistant Auditor-General, Accounting & Auditing Policy

Greg Schollum

Assistant Auditor-General, Corporate Business Services

Gary Lewis
(until August 2005)
Matt Reid
(from December 2005)

Assistant Auditor-General, Legal

Robert Buchanan
(until June 2006)

Assistant Auditor-General, Local Government

Bruce Robertson

Assistant Auditor-General, Parliamentary Group

Wendy Venter

Assistant Auditor-General, Performance Audit Group

Craig Neil

Assistant Auditor-General, Research and Development

Ann Webster

Assistant Auditor-General, Strategy

Denise Cosgrove
(until June 2006)

Audit New Zealand Executive Leadership Team

Executive Director, Audit New Zealand

Terry McLaughlin

General Manager, Operations

Chris Fabling

General Manager, Professional Practices

Chong Lim

General Manager, Corporate Business Services

Grahame Muir
(until January 2006)

Appendix 2

Directory of offices

Office of the Auditor-General

Level 5
Revera Building
48 Mulgrave Street
Private Box 3928
Wellington 6011
Telephone: (04) 917 1500
Facsimile: (04) 917 1549
Website: www.oag.govt.nz

Audit New Zealand

National Office

Level 8
St Paul's Square
45 Pipitea Street
Private Box 99
Wellington 6011
Telephone: (04) 496 3099
Facsimile: (04) 496 3095
Website: www.auditnz.govt.nz

Auckland

Level 10
Wollongong University College House
155 Queen Street
Private Box 1165
Auckland 1010
Telephone: (09) 373 5457
Facsimile: (09) 366 0215

Hamilton

17 Clifton Road
Private Box 256
Hamilton 3204
Telephone: (07) 839 3349
Facsimile: (07) 838 0508

Tauranga

745 Cameron Road
Private Box 621
Tauranga 3112
Telephone: (07) 578 8400
Facsimile: (07) 577 9321

Palmerston North

49 Victoria Avenue
Private Box 149
Palmerston North 4440
Telephone: (06) 354 9702
Facsimile: (06) 356 7794

Wellington

Level 8
St Paul's Square
45 Pipitea Street
Private Box 99
Wellington 6011
Telephone: (04) 496 3099
Facsimile: (04) 496 3195

Christchurch

Level 2
Charles Luney House
250 Oxford Terrace
Private Box 2
Christchurch 8011
Telephone: (03) 379 8774
Facsimile: (03) 377 0167

Dunedin

Level 1
399 Moray Place
Private Box 232
Dunedin 9016
Telephone: (03) 477 0657
Facsimile: (03) 479 0447

Appendix 3

Reports published in 2005-06

26 July 2005	<i>Local Government: Results of the 2003-04 Audits – parliamentary paper B.29[05b]</i>
26 July 2005	<i>Ministry of Justice: Performance of the Collections Unit in collecting and enforcing fines</i>
26 July 2005	<i>Electricity Commission: Contracting with service providers</i>
21 October 2005	<i>Annual Report 2004-05 – parliamentary paper B.28</i>
15 November 2005	<i>Inquiry into the sale of Paraparaumu Aerodrome by the Ministry of Transport</i>
15 November 2005	<i>Cambridge High School's management of conflicts of interest in relation to Cambridge International College (NZ) Limited</i>
6 December 2005	<i>Inquiry into certain aspects of Te Wānanga o Aotearoa</i>
13 December 2005	<i>Maritime Safety Authority: Progress in implementing recommendations of the Review of Safe Ship Management Systems</i>
19 December 2005	<i>Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited</i>
15 February 2006	<i>New Zealand Police: Dealing with dwelling burglary – follow-up audit</i>
15 February 2006	<i>Achieving public sector outcomes with private sector partners</i>
14 March 2006	<i>The Treasury: Capability to recognise and respond to issues for Māori</i>
21 March 2006	<i>Progress with priorities for health information management and information technology</i>
4 April 2006	<i>Draft Annual Plan 2006-07</i>
4 April 2006	<i>Inquiry into funding arrangements for Green Party ministerial liaison roles</i>
6 April 2006	<i>Central Government: Results of the 2004-05 audits – parliamentary paper B.29[06a]</i>
19 April 2006	<i>Management of heritage collections in local museums and art galleries</i>
10 May 2006	<i>Management of the West Coast Economic Development Funding Package</i>

16 May 2006	<i>Foundation for Research, Science and Technology: Administration of grant programmes</i>
18 May 2006	<i>Annual Plan 2006-07 – parliamentary paper B.28AP(06)</i>
24 May 2006	<i>Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers</i>
25 May 2006	<i>Department of Conservation; Planning for and managing publicly owned land</i>
9 June 2006	<i>Inquiry into certain allegations made about Housing New Zealand Corporation</i>
13 June 2006	<i>Local Government: Results of the 2004-05 audits – parliamentary paper B.29[06b]</i>
27 June 2006	<i>Local authority codes of conduct</i>
27 June 2006	<i>Housing New Zealand Corporation: Effectiveness of programmes to buy and lease properties for state housing</i>
29 June 2006	<i>Ministry of Education: Management of the school property portfolio</i>
29 June 2006	<i>Principles to underpin management by public entities of funding to non-government organisations</i>

Accessing our reports

Most of these reports and publications can be viewed on our website – www.oag.govt.nz.

Copies may be ordered from:

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Appendix 4

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.

As this report was published, arrangements had been entered into for audits of the following entities:

- Antarctic Institute
- Australasian Study of Parliament Group
- Business Development Centre (formerly Enterprise Hamilton Trust Board)
- Campus Services Limited
- Chatham Islands Enterprise Trust
- Colonial Arms Tavern Joint Venture
- Corporate Property Investment Limited
- France Trust
- Hutt Minoh House Friendship Trust
- Kahungunu Executive Charitable Trust
- Kaipara Community Health Board
- Literacy Aotearoa
- Māori Education Trust
- Matawiwi Tauatoru Limited
- Ngāti Whatua o Orakei Corporate Limited
- Ngāti Whatua o Orakei Health and Social Needs Limited
- Ngāti Whatua o Orakei Health Clinic Limited
- Northern Region Health Consortium Limited
- NZ Sports Foundation Charitable Trust
- Orakei Retirement Care Limited
- Orakei Management Services Limited
- Punawai Tavern Joint Venture
- Te Runanga O Kirikiriroa Trust
- Te Runanga o Ngāti Awa
- Te Runanga O Ngāti Awa – Mataatua Wharenui
- Te Runanga o Ngāti Awa Research and Archives Trust
- Te Wheke Atawhai Limited

Appendix 4

Entities audited under section 19 of the Public Audit Act 2001

- The Quit Group
- Tokelau International Trust Fund
- Treaty Relationship Limited
- TROK Building Limited
- Unipol Recreation Limited
- University Union Limited
- Waikato Polytechnic Student Residence Trust Board

