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Parliamentary paper

# Annual Report 2006/07





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# Annual Report for the year ended 30 June 2007

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

September 2007

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Hon Margaret Wilson  
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 2007.

Yours faithfully

A handwritten signature in black ink, consisting of a horizontal line that curves upwards and loops back to the left, ending in a small flourish.

K B Brady  
Controller and Auditor-General

18 September 2007

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## Auditor-General's overview



During 2006/07, the work of my Office has continued to focus on achieving our 2004-09 strategic plan. This plan is based around three main strategies, within which are a number of specific organisational development intentions:

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

I am proud of the progress the Office has made since 2004, including:

- shaping our services in response to changing financial reporting and professional standards;
- increasing the number of performance audits we carry out;
- expanding our suite of good practice guides;
- setting up a research and development team;
- implementing the revised Controller function under the 2004 amendments to the Public Finance Act 1989;

- implementing a project management approach, which has improved the timeliness of performance audits and inquiries;
- developing new products (for example, the methodology for auditing Long-Term Council Community Plans (LTCCPs));
- achieving efficiencies through merging the corporate services teams of Audit New Zealand and the Office of the Auditor-General;
- improving workflow management in Audit New Zealand by bringing forward audit work traditionally completed during the July to October peak period; and
- improving recruitment and retention strategies, including a comprehensive professional development programme and an internship programme at Audit New Zealand.

## The external environment

Significant changes in the accounting and auditing profession and in the legislative and operating environments of public entities continued to have a major effect on our work in 2006/07, as they have done in the last couple of years. The effect of these changes is increasing complexity for those preparing and those auditing financial reports. This puts pressure on both the quality of the audit work carried out and the cost of performing the audit work. These changes also mean financial expertise and audit assurance expertise are in high demand.

In particular, in December 2002, the Accounting Standards Review Board decided that New Zealand entities producing general purpose financial statements would be required to apply new standards based on International Financial Reporting Standards (IFRS) for reporting periods beginning on or after 1 January 2007. Entities were given the option to apply the new standards from reporting periods beginning on or after 1 January 2005. This requirement applies to nearly all public entities audited by the Auditor-General and to the Auditor-General's own financial statements.

### Value of New Zealand equivalents to International Financial Reporting Standards for the public sector

Since the decision was announced, a significant amount of time and energy has been expended on preparing for the transition to the new standards. Within the Office, we set up a specific project with the primary objective of readying our auditors to audit according to the new standards. This project is ongoing.

I believe that the decision to base New Zealand standards on IFRS (which are written to be applied by large profit-oriented entities) acknowledged that the

needs of the public sector are different and would therefore require different treatment. In my view, the new standards will be credible only if they are seen to:

- specifically consider public sector issues;
- incorporate appropriate changes to IFRS so that the public sector is able to apply them sensibly; and
- incorporate appropriate guidance to assist the public sector to apply the standards.

As this is not happening in all cases, I am becoming increasingly concerned about the credibility of the new standards. In my view, if this continues, the public sector will become disenfranchised from the standard-setting process, which is likely to lead to financial information that fails to meet users' needs. There are already signs that this is happening.

### **Effect of the external environment for my Office – risk management and governance**

We continue to face challenges in recruiting and retaining suitably qualified and experienced senior staff because of industry and labour market shortages. This in turn adds pressure on salaries, audit charge-out rates, and ultimately audit fees paid by public entities.

We have identified our main strategic risks to be the loss of our independence, and audit failure. The changes in the public sector and the accounting and auditing professions, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff, mean that these risks remain.

During 2006/07, we maintained risk management systems around these core risks, including:

- the Auditor-General's independence standards – I set a high standard for independence for my employees and the auditors I appoint from chartered accounting firms. My standards are based on the independence standards issued by the New Zealand Institute of Chartered Accountants;
- monitoring the independence of statutory officers, employees, and all appointed auditors – the system includes regular declarations of interest and, where necessary, measures to manage conflicts of interest;
- adhering to professional auditing standards;
- external peer review and substantiation procedures – these include annual independent evaluation of our audit allocation and tendering processes, independent external review of two performance audits and of two inquiries each year, and our annual stakeholder feedback survey; and

- my independent Audit and Risk Management Committee, comprising three external members and the Deputy Controller and Auditor-General. The report from the Chairman of the Audit and Risk Management Committee is presented on pages 56-57.

In 2006/07 I commissioned an independent review of the governance arrangements and practice in my Office, at the request of the Audit and Risk Management Committee. David Smyth, a former public service chief executive, carried out the review.

The purpose of the review was to provide assurance that the governance of my Office is of high quality. Exercise of governance by the Auditor-General does not have all the checks and balances that are usual for public entities, because:

- the Auditor-General is a single statutory officer, so that governance and executive functions are vested in one person; and
- the Auditor-General is independent in exercising the powers and performing the functions and duties of the role.

The reviewer found the standard of governance in the Office to be high. His assessment was that the processes and practices in the Office work effectively to counterbalance the risks inherent in the independence of the Auditor-General and the concentration of the governance role vested in that position. The reviewer recommended a number of specific improvements that could be made to strengthen some aspects of governance, all of which have been implemented or are being addressed.

## Shaping our services – highlights for 2006/07

### Preparing for the adoption of standards based on International Financial Reporting Standards

A significant change in the accounting and auditing profession is the adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the public sector for periods starting on or after 1 January 2007. Earlier adoption is permitted. The local government sector decided to comply earlier, and will prepare financial statements in accordance with NZ IFRS for the year ended 30 June 2007. Most other entities within the public sector will follow a year later (that is, for the year ending 30 June 2008).

During 2006/07, we continued to focus on preparing our auditors to audit in an NZ IFRS environment. Our main priorities were further training and developing tools to assist auditors. In addition, we continued to assist the public sector to prepare for the transition to NZ IFRS with a range of initiatives, including

developing what we expect to be a series of model annual reports under NZ IFRS. The first model annual reports we released were for local authorities and council-controlled organisations. This was because the local authority sector adopted NZ IFRS one year earlier than the majority of the public sector.

## **Implementing new International Standards on Auditing and new quality control standard**

Another significant change in the accounting and auditing profession is the adoption of New Zealand equivalents to International Standards on Auditing. In time, this change will probably mean we will need to review and update the Auditor-General's auditing standards.

During 2006/07, we began implementing the NZ Institute of Chartered Accountants' revised quality control standard. The new quality control standard requires quality control processes to be in place throughout the operations of the Office (that is, the Office of the Auditor-General, Audit New Zealand, and other audit service providers).

While there has been good progress to date, various parts of the Office still have work to complete during 2007/08 to implement and monitor this very important standard.

This quality control standard is being applied not just to my annual audit work but to all the areas of the Office's outputs. This is so that I can be confident that the Office gives appropriate emphasis to quality for all my auditing and assurance work.

## **Auditing Long-Term Council Community Plans**

We completed our extensive work auditing the 2006-16 LTCCPs during 2006/07. Work toward these audits began in 2003, after the Local Government Act 2002 was passed.

One of the particular successes of this work has been the extensive liaison and collaborative work between the local government sector and my local government audit service providers.

We reported to Parliament on the results of the LTCCP audits (including the results of the audits of the LTCCP Statement of Proposal and of the final LTCCP adopted by each local authority). We also included the results of an external review by four experts in the areas of sustainable development, performance information, asset management information, and financial management and strategies.

Between the triennial LTCCP audits, I must also audit any amendments to these plans. It is already apparent that, although we have completed our first LTCCP audits, this will be a continuing stream of work beyond 2006/07. During 2006/07, we began an internal review of our audit methodology in preparation for the 2009-19 LTCCP audits.

### **Performance audits (including good practice guidelines)**

One of the main elements of our 2004-09 strategic plan is to increase the number of performance audits we carry out. Previously, this had been low relative to our international counterparts. The Office received additional funding from Parliament to increase our capacity to carry out performance audits and other studies.

I am pleased to report that in 2006/07 we completed the highest number of performance audits in the history of the Office. Overall, stakeholder satisfaction with performance audits has also increased. These performance audit reports included a small number of good practice publications, such as our guidelines on sensitive expenditure and reports on managing conflicts of interest.

As an Office we are aware that good practice expectations come from a range of other entities, such as the State Services Commission and the Treasury, which have a leading role in providing such guidance to the State sector. Therefore we carefully consider the circumstances under which we issue good practice advice, including whether:

- there is any other agency whose responsibility it is to provide the guidance – however, there is rarely another agency that covers the whole public sector; and
- the advice relates to issues and concerns our auditors are commonly raising with entities.

In such circumstances, and where guidance does not currently exist, the communication of my expectations both to entities and to my auditors for use in conducting annual audit work helps to develop a common understanding of important issues facing the public sector.

### **Auditing performance information – implications of new public sector management legislation**

One of the significant areas of strategic focus we began work on in 2006/07 was around performance information prepared by public entities – particularly where the auditor is required to attest to entities' Statements of Service Performance. The work in this area is intended to enhance the effectiveness of annual audit work on service performance information – an area of particular interest to me.

These enhancements are needed to address issues arising as a result of statutory change (for example, the Crown Entities Act 2004 and the changes to the Public Finance Act 1989 and the Local Government Act 2002), as well as general improvements that I consider to be long overdue.

The work we carry out in this area will better place us to contribute to improving the quality of service performance information reported by public entities. It will also take account of our focus on sustainable development. There are two immediate areas of focus:

- reviewing 2007/08 Statements of Intent for government departments and most Crown entities, and incorporating lessons learned into our audit methodology; and
- developing a methodology to support auditors in reporting on annual reports under the LTCCP framework in the local authority sector.

As a result of this work, during 2006/07 my Office gave a great deal of consideration to my own Statement of Intent and Annual Report and the framework underlying these. We explored a range of ideas that appeared to have potential as better ways of assessing our own impact, effectiveness, and efficiency. These ideas included:

- We considered, in response to a request from the Officers of Parliament Committee, measures of efficiency around average time and average cost for each audit. We prepared a range of information for the Committee, including fee data, and commissioned a process review (conducted by Rutherford Sloan, management consultants). However, given the range of size and nature of public entities, these factors bear little relationship to the complexity of issues in any audit. Therefore we did not find much insight from taking an averaged approach to understanding audit costs and hours. Our approach to monitoring audit fees is discussed in Part 2.
- We looked at whether there are international or industry benchmarks to assess the efficiency of our strategic audit planning, the services we deliver to Parliament, and our performance audits. We liaised with our Australian counterparts, who had set up a working party to identify benchmarks. We intend to maintain our contact with the working party of Australian Auditors-General in anticipation of the development of relevant benchmarks in the future.

As a result of the considerable work to review the presentation of our own performance information, I changed the presentation of the *Annual Plan 2007/08* to better reflect what I consider to be good practice. The main change has been to put outcome information and measures in the Statement of service performance. This should make the flow of information more logical and understandable.

## Review of “five management aspects”

In the course of carrying out annual audits of government departments, most Crown entities, and State-owned enterprises (SOEs), our auditors make assessments of how these entities are performing in five aspects of financial and service performance management. These assessments are reported to the entity's Board and management, Ministers, and select committees.

During 2005/06, we decided to revise this assessment approach. During 2006/07, we undertook our review and developed the audit assessment approach and detailed guidance for auditors. We will begin reporting under the new approach from the 2006/07 annual audits.

The most substantive change from the previous approach is that the new assessment approach is deficiency based, in that the assessments and any corresponding recommendations for improvement will be based on deficiencies observed by auditors.

I expect the changes to improve the transparency, understandability, and usefulness of our reporting.

## Fostering relationships – highlights for 2006/07

None of our achievements over the last year would have been possible without the assistance of, and collaborative work with, others – whether internally across audit service providers and teams within the Office, with our international counterparts, or with others working to improve the public sector.

There is a range of ways in which fostering good relationships has contributed to our achievements in 2006/07.

### Internal office relationships

I have already remarked upon the exceptional collaborative working that occurred during our audits of the 2006-16 LTCCPs. The approach taken to the LTCCP audits has provided a “living” example of how my audit service providers – while coming from different accounting firms – can work together to create greater value for the public sector from their individual work. This has included developing shared audit methodology resources and guidance through shared databases of issues.

One element of our strategy is to improve our work planning so that we focus our performance audits and other studies on giving relevant and timely assurance to

Parliament over important issues. In 2006/07, we introduced a revised approach to our work planning that features:

- regularly providing assurance in core areas of interest about the activities of public entities that are large and complex, and/or where it is difficult to assess their performance. These core areas of interest include:
  - major public investment or liability management;
  - major public revenue management or generation;
  - major asset management or infrastructure spending or management;
  - major expenditure (including service delivery expenditure); and
  - local government.
- strategic areas of focus – an integrated programme of assurance work for the next three to five years on significant and “hard” issues and risks affecting the public sector. These are studies that consider multiple agencies and/or central and local government collaboration. They include areas where I want to “lift the bar” of public sector performance and emerging areas where I feel I should take a lead. The areas of focus are probity, fraud, sustainable development, stewardship and management of infrastructure assets, and performance information.
- entity- or sector-specific areas of focus – identification of areas within or across entities or sectors that warrant further examination by the Office.

Introducing this approach has allowed for stronger collaboration across the Office.

## New Zealand public sector relationships

We continue to strengthen our work on the new approach to the Controller function brought in by the 2004 changes to the Public Finance Act 1989. We have been greatly assisted by the Treasury's support.

We have also sought to ensure that, as relevant, where the Office is proposing to issue good practice guidance, relevant agencies such as the State Services Commission and the Treasury are involved with and endorse our guidance.

I have been pleased for my staff to participate in initiatives of central agencies, including current work on the Review of Accountability Documents and Capital Asset Management. This work is discussed in Part 2.

We also continued to refine our work to assist select committees to examine the Estimates of Appropriations and with their financial reviews of government departments and Offices of Parliament, State-owned enterprises, and Crown entities. In 2006/07 feedback from stakeholders was very positive about the Office's advice.

## Relationships with the main standard-setting bodies

My staff continue to participate on the major accounting and auditing standard-setting bodies in New Zealand. Although this is extremely time intensive, I am supportive of such involvement as long as the public sector voice is heard and standard-setters respond appropriately to the public sector issues identified. If I feel that this no longer happens, I will review the nature and extent of our involvement.

## International relationships

In view of the difficult labour market and the increasing “internationalisation” of accounting and auditing standards, the Office has been putting more effort into its relationships with our international counterparts. We have benefited from an increasing number of secondment arrangements and have been exploring the range of countries from which we may be able to second staff. Such secondments also contribute to the professional development of our staff.

We have continued participating in several of the international standard-setting bodies for the accounting and auditing professions, as these international standards will apply to New Zealand's public sector entities. I have concerns from time to time about the implications of these standards for the public sector, and I consider it important that my Office continues to work co-operatively with such bodies to ensure that public sector issues have international consideration.

## Building our capability – highlights for 2006/07

Despite the broader environment of a tight labour market, overall we have made good progress during 2006/07 on:

- ongoing leadership and capability development of our people;
- embedding our shared services model for corporate services;
- improving our systems and processes;
- improving recruitment and retention strategies to attract and retain good people;
- improving staff numbers in a difficult labour market;
- maintaining acceptable levels of organisational health; and
- implementing Audit New Zealand's national practice and its professional practices group.

Further commentary and discussion on our organisational health and capability is set out in Part 3.

## The year ahead

I was grateful for the feedback I received from Parliament on my 2007/08 draft work programme. I appreciate the opportunity to operate transparently in setting out my annual work programme, including seeking feedback from members of Parliament as part of our annual plan preparation. As a result of this feedback, I am confident that the work we intend to conduct in 2007/08 is relevant and likely to be useful to Parliament, public entities, and the public. Neither the Speaker nor any committee of the House requested any change to our work programme priorities. Their feedback:

- mainly supported the approach we have taken to determining our work programme; and
- gave us guidance on the scope and relative emphasis we should place on one or two important studies. I will ensure that this feedback is incorporated into our scoping of the respective studies.

In 2007/08, the Office will begin work on a new strategic plan.

I have also initiated a peer review of the Office by a team of our international counterparts. The Office's last peer review was in 2001. The results of this review will let us know whether we are operating effectively and efficiently, and in accordance with good practice. The reviewers have been asked to cover:

- The governance of the Office, including the respective roles of and relationship between the Office of the Auditor-General and Audit New Zealand;
- The conduct of financial audit engagements, including the audit of Long-term Council Community Plans and the Controller function;
- The conduct of performance audits, inquiries, and other work performed by the Office of the Auditor-General, including the support of select committees;
- General management of the Office, including the organisation of resources, the allocation of audits, and setting and monitoring of audit fees;
- The operation of the Office's quality control systems;
- The Office's relationships with its primary stakeholders, in particular Parliament; and
- Such other matters as the review team considers relevant.

## Concluding remarks

I am pleased to present my annual report on the work of my Office for 2006/07. I would like to extend my thanks to the Deputy Controller and Auditor-General and my Audit and Risk Management Committee for their guidance and support, and to my staff and appointed auditors for their efforts and their achievements.

In 2007/08, we have a challenging year as an Office to continue to contribute to trust in the effectiveness and efficiency of the public sector. I am proud of our achievements in 2006/07, and am confident that we have a strong basis on which to continue to make our contribution.

A handwritten signature in black ink, consisting of a horizontal line that curves upwards and loops back to the left, ending in a small flourish.

K B Brady  
Controller and Auditor-General

18 September 2007



Part 1  
Background

## Role and functions of the Auditor-General

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament.

The Public Audit Act 2001 sets out his mandate and responsibilities.

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 because 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.

### Our operating model

The Auditor-General's staff are organised into two business units – the Office of the Auditor-General and Audit New Zealand.

The Office of the Auditor-General carries out strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and carries out inquiries and other special studies.

Audit New Zealand 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 audit partners from private sector accounting firms to carry out his statutory functions for some public entities. Figure 1 shows the Auditor-General's operating model.

**Figure 1**

The Auditor-General's operating model



For the majority of public entities, the Auditor-General allocates annual audits to auditors. He chooses from a pool of audit service providers that includes Audit New Zealand, the four major chartered accounting firms, and a range of smaller firms. Where the Auditor-General deems it appropriate, some public entities that have a strong commercial focus and schools are given the option of a contestable regime for appointing their auditor.

## Our current staff and contracted resource base

We employ 288 staff in eight locations throughout New Zealand. We also engage about 60 audit service providers, in addition to Audit New Zealand, to carry out annual audits of public entities.

## Working toward our desired outcome

Our desired overall outcome is trust in the effectiveness and efficiency of the public sector. A measure of this trust is that New Zealand's Transparency International Corruption Perception Index ranking is maintained or improved.

In 2006, New Zealand's score was 9.6 on a 10-point scale, meaning it ranked first equal on the index with Finland and Iceland. This is an improvement on the 2005/06 year, during which New Zealand was ranked second equal (with Finland and behind Iceland). In achieving the 2006 ranking, New Zealand's score of 9.6 was the same as that of 2005. The lowest country's score was 1.8.

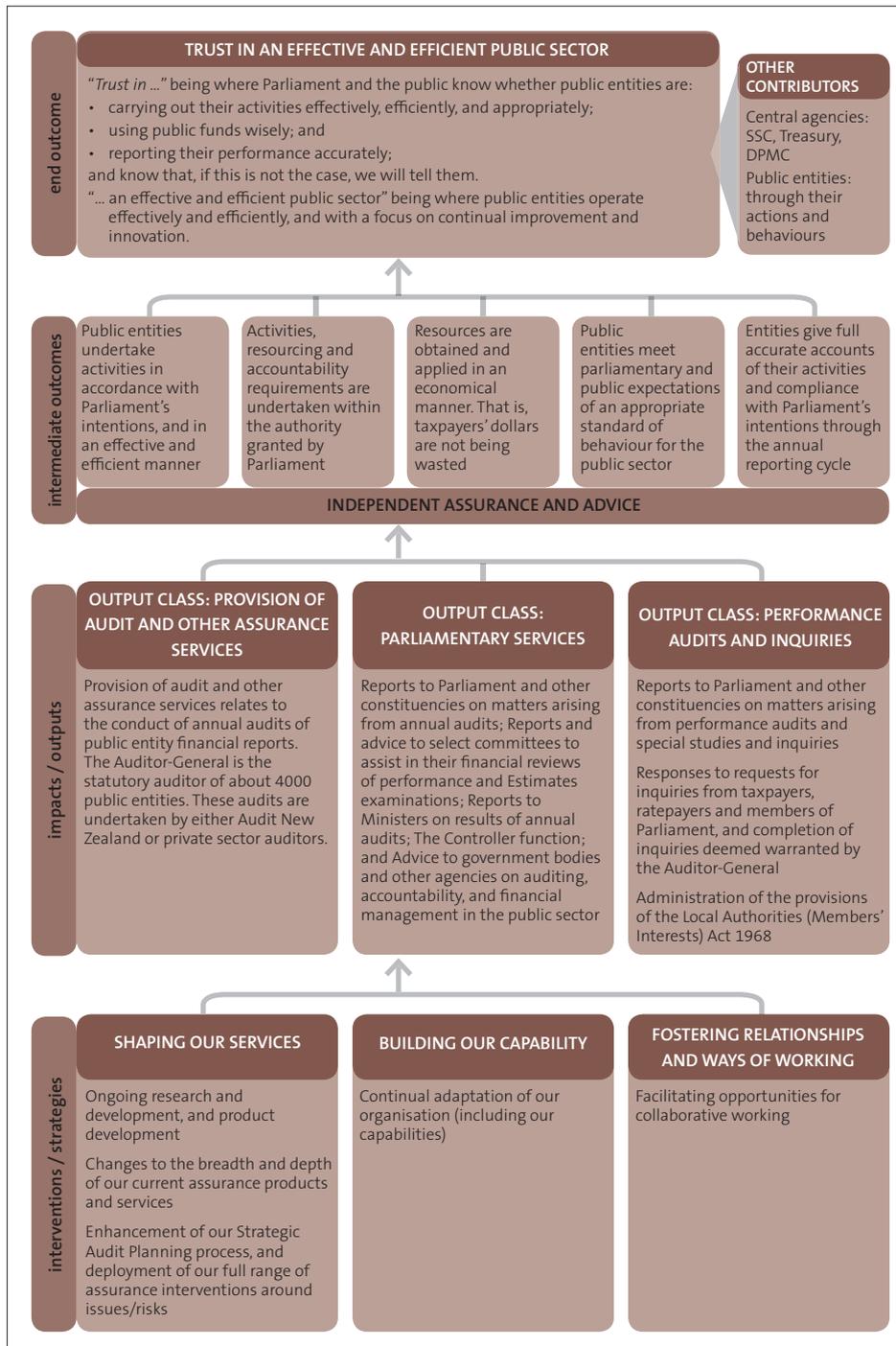
We measure how, as a result of our work, we contribute to our desired outcome of "maintaining and enhancing trust in an effective and efficient public sector". We do this by considering improvements over time in Parliament's and the public's perceptions of public sector performance and trustworthiness.

We set out the key performance measures and standards we use to measure the outcome and impact of our work for the output class areas they relate to in subsequent sections of this report. These output classes are:

- provision of audit and other assurance services;
- parliamentary services; and
- performance audits and inquiries.

Figure 2 shows the Auditor-General's outcome framework.

**Figure 2**  
The Auditor-General’s outcome framework



Part 2

**Our output classes, performance  
measures, and targets**

# Provision of audit and other assurance services

This output class relates to the Auditor-General's statutory duty to carry out annual audits of the financial reports of, and in some cases performance information for, public entities.

## Performing annual and other statutory audits

During 2006/07, we carried out 4090 annual audits of public entities. These were done on the Auditor-General's behalf by either Audit New Zealand or private sector auditors from chartered accounting firms. The output class is funded mainly by fees paid by the entities being audited. It made up 87% of our total expenditure.

The Auditor-General also carries out other audits required by various statutes. For example, in 2005/06, we audited for the first time Long-Term Council Community Plans (LTCCPs), which local authorities are required to produce and have audited every three years. In between the triennial LTCCP audits, the Auditor-General must also audit amendments to these plans. In 2006/07, we audited 47 amendments to LTCCPs, and it is already apparent that this will be a continuing stream of work beyond 2006/07.

## Annual audits

There are two main products from an annual audit:

- The audit report is addressed to readers of the financial statements and performance information. It provides the auditor's independent opinion on whether the financial statements and performance information fairly reflect the public entity's performance. In cases where the financial statements fairly reflect the public entity's financial and service performance position, the auditor issues an audit report with an unqualified opinion. However, where the auditor identifies a material<sup>1</sup> error or omission in the financial statements or performance information, the auditor issues an audit report with a qualified opinion (which we refer to as a non-standard audit report).
- The management report is addressed to the governing bodies and management of public entities. It sets out any significant issues identified by the auditor during the audit. The report provides recommendations for improving the public entity's controls, systems, and processes.

1 "Material" is defined in AS-702: *The Audit Report on an Attest Audit* as "A statement, fact, or item that is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the written assertion or set of assertions is completed, has the potential to influence users of the audit subject matter in making decisions or assessments."

## Auditor appointments and fee monitoring of annual audits

The Auditor-General appoints auditors to carry out the annual audits of public entities. Auditors are appointed from a pool of audit service providers that includes Audit New Zealand and private sector accounting firms, ranging from the four major chartered accountancy firms to sole practitioners. Most audits are allocated directly to an auditor, but auditors may also be appointed to an audit after winning a competitive tender. This is normally restricted to public entities that have a strong commercial focus and schools where appropriate.

Because we principally use an allocation approach, we monitor audit fees during negotiation between auditor and public entity, and provide a comparative analysis to help resolve any concerns about proposed fees. Our objectives are to ensure that audit fees are fair to the public entities subject to audit, and also provide a fair return to the auditors for the work required by them to meet the Auditor-General's auditing standards.

During 2006/07, the Auditor-General reappointed the existing auditors to conduct the audits of 160 public entities (other than schools) and their subsidiaries. No tenders were conducted during the year for these entities.

Of the 160 public entities where auditors were reappointed, 13 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 also completed new audit arrangements for the audits of 2460 state schools for the three financial years ending 31 December 2006 to 2008.

All boards of trustees were given the options of reappointment of their current auditor, appointment by the Auditor-General of a new auditor, or selection of a new auditor through a tender process. The auditors of 2260 schools were reappointed after negotiation of audit fees with boards of trustees. Twenty of these schools sought comparative audit fee information to assist them in reaching agreement with their auditors. One hundred and eighty schools asked us to manage the auditor selection (in conjunction with a board member nominated by the board of trustees) and to set a fair fee, having regard to the audit fees set for comparable schools by tender and negotiation and to fair market hourly rates for auditors. The remaining 20 schools elected to manage a tender process using the mandatory procedure we required.

We continued to examine and determine the status of several subsidiaries of public entities. In 2006/07, 38 new public entities were added to our audit

portfolio. These included newly formed public entities, new subsidiaries of existing public entities, and other entities controlled by more than one public entity.

In 2006/07, the Auditor-General commissioned an external reviewer (Rutherford Sloan) 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.

Rutherford Sloan concluded that “we are of the view that the fee monitoring mechanisms, while capable of some modest enhancement and refinement, are performing their function in an appropriate manner and delivery against the objective of fair and reasonable audit fees.”

Rutherford Sloan also identified some areas for further development. Their recommendations identified the following work streams:

- improving the documentation of the current fee monitoring processes of the Office;
- enhancing the tracking of the main drivers of audit costs (for example, auditor salaries); and
- continuing and expanding many of the processes already in place (for example, comparing audit fees by sector using size proxies to identify fee outliers).

We made good progress in 2006/07 on implementing these recommendations, but expect to continue this work in 2007/08 and beyond.

Each year, 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 2006/07 follows.

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8 August 2007

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.
2. This is my report on those processes for the financial year ended 30 June 2007. 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, the Auditor-General appointed auditors for 38 new entities. The "audit allocation model" under which those appointments were made has been the principal method of allocation since 2003. There is a well-established set of criteria for those appointments. There has been no evident dissatisfaction expressed either with the method or with the terms of any of the appointments effected during the year.
6. During the financial year, existing auditors were re-appointed to audit 160 public entities and their subsidiaries for a further term. Of the entities affected, 13 queried the fees payable following the re-appointment. In every case, the OAG provided the entity concerned with an analysis of the fee proposed. Those analyses dealt with factors which were likely to have influenced the fee proposed. They also set out

current market parameters for fees in comparable cases. In all 13 instances, the explanations given assisted in a resolution of the issue, and contracts of re-appointment were duly signed.

7. During the financial year, new audit arrangements started in the preceding financial year were completed for the audits of 2460 state schools. The auditors of 2260 schools were reappointed and new auditors were appointed for 180 schools by your office (the remaining 20 schools are referred to in paragraph 8). Twenty schools queried the levels of audit fees payable. In every case the OAG provided the school with comparative information that enabled the matter to be resolved between the school and the auditor.
8. Appointment of auditors for public entities through a contestable process is now reserved for large entities, generally with a commercial focus, and for schools. No appointments of auditors for large public entities were made from tenders during the financial year. There was one such tender in the preceding year, and a contestable audit tender is due to take place early in the coming financial year. The Boards of Trustees of 20 schools conducted audit tenders using detailed instructions and auditor lists provided by the OAG, and made recommendations for appointment to you.
9. 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.
10. During the year, the OAG has continued its efforts to improve the scope, quality and usefulness of the financial analyses that it makes available to entities and to their approved auditors. In addition, you are having a consultative review undertaken of the effectiveness of the now widely used audit allocation model. Both those initiatives are important and should assist in the refinement of the processes approved by you and implemented by the OAG.
11. 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 allocation and renewal of audits falling within your mandate during the financial year to 30 June 2007 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.
12. 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.
13. 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 2007 have been carried out with due probity and objectivity.

Yours faithfully



David Gascoigne DCNZM CBE LLM

## Updates to the Auditor-General's auditing standards since 1 July 2006

There was only one update to the Auditor-General's auditing standards since 1 July 2006 and that was to AG-1: Reporting to the OAG, which was carried out in October 2006. That update was mainly to the "intermediate reporting" table (on pages 3-2005 and 3-2006) to make it consistent with the requirements in the Auditor-General's auditing statements. The update also included material on using the Audit Status Database online.

## Auditors' independence

During the year, we identified three instances where concerns were raised about whether the Auditor-General's standard on independence had been breached. All instances identified were resolved to the satisfaction of the Auditor-General.

## Annual audit outcomes and impacts

To assess the effectiveness of our annual audit work, we considered the trend in the quality of public sector financial reporting and management by public sector entities in the results of:

- our annual audit opinions;
- the response by public entities to management report recommendations; and
- our management aspect gradings reported to Ministers and select committees.<sup>2</sup>

The information set out relates to audit opinions, entities' responses, and management aspect gradings issued during the year in review rather than the financial year to which the audit relates.

Overall, this information suggests that the standard of public sector reporting and management is good. Results show high levels of achievement in annual audit opinions and management aspect gradings, and that the response to audit recommendations has been maintained or slightly improved.

## Results of our annual audit opinions

A "non-standard audit report" is issued in accordance with the New Zealand Institute of Chartered Accountants Auditing Standard No. 702: The Audit Report on an Attest Audit (AS-702). It contains:

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

<sup>2</sup> We are making changes to this reporting system that mean this is the last year we will report ratings for public entities under the five management aspects. We have reported under the current framework for 13 years.

A full definition of a “non-standard audit report” is set out in our report *Central Government: Results of the 2005/06 Audits* (parliamentary paper B.29[07a], 2007, pages 31-34). Figure 3 provides an analysis of all non-standard audit reports issued in 2006/07. Information for the previous year is provided for comparison.

**Figure 3**  
**Non-standard audit reports issued in 2006/07 compared to 2005/06**

Type of non-standard audit report	Schools		Other		Total	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
<b>Unqualified opinion</b>						
With explanatory paragraph or reference to a breach of law	154	214	38	62	192	276
<b>Qualified audit opinion</b>						
Disclaimer of opinion	0	0	5	1	5	1
Partial disclaimer of opinion	0	0	5	1	5	1
Adverse opinion	0	0	4	7	4	7
Partial adverse opinion	0	0	2	6	2	6
Except-for opinion	30	38	50	42	80	80
<b>Total</b>	<b>184</b>	<b>252</b>	<b>104</b>	<b>119</b>	<b>288</b>	<b>371</b>
Total of all audit reports	2635	2633	1455	1430	4090	4063

There was an improvement in the proportion of non-standard audit reports issued compared to all audit reports issued during the year – a decrease from 9.6% in 2005/06 to 7.0% in 2006/07.

There were a number of reasons for this decrease:

- There was a decrease in the number of school audit reports containing breaches of law paragraphs outlining that schools had not complied with aspects of the Education Act 1989. The decrease was mainly because more schools were complying with the Education Act by meeting their statutory reporting deadline and other requirements, and more schools were voluntarily disclosing such breaches in their financial statements.
- There was a decrease in the number of audit reports containing explanatory paragraphs outlining that the financial statements been appropriately prepared on a disestablishment basis. The decrease was because a small number of schools and other non-school entities were being closed or wound up in 2006/07.

On the other hand:

- There was an increase in the number of non-school audit reports containing qualified opinions. This increase was because more entities came under the Auditor-General's mandate and were audited for the first time. The qualifications related to situations where the Office was unable to form an opinion on the comparative figures in the financial statements because they had not previously been audited.

**Figure 4**

**Acceptance of our formal recommendations (Audit New Zealand only – sample of 30 public entities)**

	2006/07		2005/06		2004/05	
	Number		Number		Number	
Recommendations accepted	148	64%	132	53%	163	75%
Recommendations rejected	3	1%	19	8%	18	8%
Recommendations noted or under consideration by management	68	29%	56	22%	23	11%
Client made no response	14	6%	43	17%	14	6%
<b>Total recommendations</b>	<b>233</b>	<b>100%</b>	<b>250</b>	<b>100%</b>	<b>218</b>	<b>100%</b>

Figure 4 shows that the acceptance of our recommendations has increased for 2006/07 compared to 2005/06. We consider the main reason for this to be that in 2005/06 many of our management report recommendations related to preparation for the adoption of NZ IFRS, at which stage many entities had not considered the implications of the transition.

### Improvements in aspects of entity financial and service performance management (as measured by our assessments)

In the central government sector, we have, since 1994, analysed trends in the assessments our auditors make every year for five particular aspects of financial and service performance management. These ratings are reported to entities, Ministers, and select committees. They are known as “the five management aspects”.

Figures 5 and 6 show changes in assessments of the five management aspects for 2005/06 compared with 2004/05, and for 2004/5 compared with 2003/04. (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 5**  
Changes in management aspect assessments 2005/06 compared with 2004/05

Entity type	Unit of measure	Higher	Same	Lower	Total
Government departments	Number	7	188	10	205
	%	3.4	91.7	4.9	100.0
District health boards	Number	8	87	10	105
	%	7.6	82.9	9.5	100.0
Crown Research Institutes	Number	0	43	2	45
	%	0.0	95.6	4.4	100.0
State-owned enterprises	Number	1	72	3	76
	%	1.3	94.7	3.9	100.0
Totals	Number	16	390	25	431
	%	3.7	90.5	5.8	100.0

**Figure 6**  
Changes in management aspect assessments 2004/05 compared with 2003/04

Entity type	Unit of measure	Higher	Same	Lower	Total
Government departments	Number	4	192	4	200
	%	2.0	96.0	2.0	100.0
District health boards	Number	10	89	6	105
	%	9.5	84.8	5.7	100.0
Crown Research Institutes	Number	0	44	1	45
	%	0.0	97.8	2.2	100.0
State-owned enterprises	Number	4	69	3	76
	%	5.3	90.8	3.9	100
Totals	Number	18	394	14	426
	%	4.2	92.5	3.3	100.0

Overall, there has been some net deterioration in our assessments of the five management aspects (that is, there were 16 higher assessments in 2005/06 compared with 2004/05, and 25 lower). However, a high proportion of ratings (90.5%) remained unchanged from the previous year.

Within each class of entity, we observe:

- Government departments showed a net deterioration from last year, with 10 lower assessments and 7 higher assessments.
- District health boards showed a slight deterioration, with 10 lower assessments and 8 higher assessments.
- Crown Research Institutes remained at almost identical levels to the previous year, with only 2 lower assessments.
- State-owned enterprises also showed a slight deterioration from last year, with three lower assessments and one higher one, but with assessments being mainly the same as last year (94.7%).

This is the last year we will be reporting these assessments under this framework. In future, we will report under a new assessment framework that is designed to be simpler and, in our view, clearer and easier to understand. Our new reporting will address the same subject matter as the previous framework – the areas of the management control environment, information systems, and controls necessary to produce the audited financial statements, including service performance statements.

Performance against measures and targets 2006/07<sup>3</sup>

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Output</b>	Annual audits conducted and audit reports issued:			
	• Total audit completions <sup>4</sup>	4090	3865	4063
	• Total number of audits in arrears as at 30 June 2007 <sup>5</sup>	360	310	315
<b>Timeliness</b>	Audits will be completed and audited financial statements available within the statutory deadline or within five months of balance date			
	• Miscellaneous public bodies and audits for which no fee is charged	55% (misc) 36% (no fee)	75%	59% (misc) 33% (no fee)
	• School boards of trustees	91%	75%	19%
	• All other entities	85%	100%	82%
<b>Quality</b>	• Quality assurance review carried out to gain enough assurance that the Office's policies, procedures, and standards for annual audits have been applied appropriately	Achieved	QA carried out	Achieved
	• Audit New Zealand client satisfaction survey	On a scale of 1 to 10, 68% of respondents gave overall satisfaction ratings of 7 or greater	75% of respondents satisfied	Not undertaken

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Output</b>	Management reports issued:			
<b>Timeliness</b>	• within 6 weeks of issuing the audit report	95%	100%	96%

3 This is the Statement of Service Performance on which our auditor reports under section 45D(1)(a) and (2).

4 We will continue to report our performance in this output class at a group level as well as at an overall level. The groups of entities we report on are government departments and Offices of Parliament; major statutory bodies (comprising State-owned enterprises, tertiary education institutions, producer boards, district health boards, Crown Research Institutes, and major Crown entities); regional, city, and district councils; other local authorities (comprising licensing trusts, airports, council-controlled organisations, energy companies, port companies, and sinking fund commissioners); school boards of trustees; miscellaneous public bodies (mainly comprising Māori trust boards, smaller Crown entities, and subsidiaries of major Crown entities); and those entities for which fees are not directly charged (That is, those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities include cemetery trustees, hall and reserve boards, racecourse trustees, and patriotic funds).

5 The number of audits to be completed during the year will fluctuate according to the readiness of each entity to present its financial statements for audit. The number of audits actually finished during the year will relate mainly to those financial statements due in a year, plus some presented for audit that relate to earlier years. Where entities have not presented their financial statements for audit in previous years, we use the term "audit arrears" to describe the outstanding audits. Most arrears are from small bodies such as school boards of trustees, cemetery trustees, or minor subsidiaries of a parent body. Because an entity might have arrears for a number of years, the number of audit entities with arrears is lower than the total arrears numbers shown.

## Comments on performance against measures and targets

### Annual audits conducted and audit reports issued

The increase in the number of audits in arrears from 315 at 30 June 2006 to 360 at 30 June 2007 has been caused by priority being given to other audit work at the expense of smaller audits such as cemeteries, school subsidiaries, and hall boards. We have introduced a new performance measure for the 2007/08 audits: “ensure that fewer than 10% of the arrears at 30 June are because of inaction on our part.”

The reason for the increase in the number of school audits completed on time from 19% in 2005/06 to 91% in 2006/07 is a change in legislation. Previously, school audits were required to be completed within 30 days of receipt of the draft accounts. Legislative changes have increased the time available. School audits now need to be completed by 31 May.

### Quality assurance of annual audits

Because the Auditor-General is responsible for auditing all public entities, it is important that we ensure that audits are performed effectively and efficiently. We carry out quality assurance reviews of all appointed auditors to ensure that they have complied with the relevant professional accounting and auditing standards, as well as the Auditor-General’s own published auditing standards.

We aim to review the performance of each of our appointed auditors at least once every three years. If we identify any concerns, we carry out more frequent follow-up reviews. In 2006/07, we met our target by carrying out 43 reviews. Consistent with previous years, the majority of the work we reviewed was of a good standard. Of the 43 reviews completed, we have identified the need to perform follow-up reviews of seven of the appointed auditors, which is consistent with the number of follow-up reviews identified in the previous year.

### 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 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. Representatives of a sample of these entities are invited to participate in a telephone interview to provide comment on:

- Audit New Zealand’s core audit ability;
- Audit New Zealand’s staff knowledge (technical and sector knowledge) and general skills;
- the way Audit New Zealand staff work with entities, including with governing bodies and audit committees where relevant;
- the value that Audit New Zealand adds and the usefulness of the advice given;
- the contribution that Audit New Zealand made as part of the LTCCP process, where relevant;
- the contribution that Audit New Zealand made as entities prepared for the adoption of NZ IFRS; and
- their overall degree of satisfaction with the service received from Audit New Zealand.

Although the majority of clients remain largely satisfied with Audit New Zealand’s performance, there has been a drop in perceptions of the levels of service provided since the last survey in 2004/05. The overall service rating has decreased from 7.6 to 6.8.

The survey firm that conducted the 2006/07 survey noted that “for many of the questions the drop had been slight, and that an overwhelming majority of clients continued to rate the ability, professionalism and quality of staff highly”. The survey firm also noted that “an exceptional amount of clients commented positively on Audit New Zealand’s openness and honesty”.

In 2006/07, Audit New Zealand staff faced a number of additional pressures after the introduction of LTCCP audits and NZ IFRS. Based on comments provided during the survey, both these pressures appear to have had a large effect on Audit New Zealand’s resources and on the service provided. The majority of clients recognised these pressures, and a number of lower ratings were qualified with this recognition.

Audit New Zealand will continue to focus on client service delivery. It is investigating moving to rolling sector surveys as a means of receiving feedback in a more timely manner after opinions are issued, and also to help gain a deeper understanding of the issues facing individual sectors, so that it can improve the service provided.

## Audit fee movements

Figure 7 shows the movement of audit fees from 2004/05 to 2006/07.

**Figure 7**  
**Analysis of movements in audit fees from 2004/05 to 2006/07**

Entity type	Sample size	2004/05 to 2005/06			2005/06 to 2006/07		
		Total fee increase	Due to hours	Due to charge out rate	Total fee increase	Due to hours	Due to charge out rate
Government departments	45	6.9%	2.2%	4.7%	5.4%	5.2%	0.2%
State-owned enterprises	16	12.4%	6.3%	6.1%	9.8%	5.9%	3.9%
Crown entities	51	3.8%	0.6%	3.2%	19.0%	8.5%	10.5%
District health boards	36	23.4%	8.9%	14.5%	4.0%	-0.8%	4.9%
Crown Research Institutes	10	5.2%	3.7%	1.5%	14.8%	7.5%	7.3%
Tertiary education institutions	28	13.2%	6.4%	6.8%	1.7%	0.1%	1.6%
Energy companies	27	15.5%	5.2%	10.3%	4.6%	3.7%	0.9%
Local authorities	58	4.7%	-0.6%	5.2%	10.4%	2.9%	7.6%
Local government subsidiaries	96	6.9%	-1.4%	8.4%	19.6%	26.2%	-6.6%
Port companies	8	3.0%	-1.0%	4.0%	0.7%	-6.0%	6.7%
Licensing and community trusts	15	7.7%	8.1%	-0.4%	8.3%	0.8%	7.4%
Māori trust boards	5	4.5%	8.7%	-4.2%	46.9%	28.7%	18.2%
Schools	2445	20.6%	4.6%	16.0%	6.8%	2.8%	4.0%
Other	37	7.9%	0.7%	7.2%	6.3%	3.0%	3.2%
<b>Total</b>	<b>2877</b>	<b>11.2%</b>	<b>3.2%</b>	<b>8.0%</b>	<b>8.4%</b>	<b>4.5%</b>	<b>3.9%</b>

**Note:** Fee movements are based on a sample of entities within each sector with balance dates falling within the financial year of the Office (for example, the 31 December 2006 audits of schools are included as fees in the 2006/07 year).

Internationally, there have been significant changes to audit fees in both the public and private sectors since 2003. The two main underlying causes for these changes, which both arise from reactions to well-publicised international accounting and auditing failures, are:

- changes to international accounting and auditing standards that have led to auditors spending more time completing audits; and
- increased competition for accounting and auditing staff that has driven salary rates up well in excess of inflation.

These changes have affected audit fees for public entities in New Zealand when audit contracts have been renewed, normally every three years.

In addition, as contracts are renegotiated, auditors have reviewed the response of public entities to the audit process, and increased their estimate of audit hours for entities with a consistent history of time and cost overruns because of poor performance by the entity. In the face of escalating salary rates and pressure on scarce staff resources, these overruns are no longer being written off so readily by auditors.

Auditors continue to work with public entities to minimise the audit's time and cost by improving both the auditor's performance and the entity's preparation for, and response to, the audit.

#### Financial performance of Output Class: Provision of audit and assurance services

	2006/07 actual \$000	2006/07 forecast \$000	2005/06 actual \$000
<b>Revenue</b>			
Crown funding	150	150	190
Audit fees and other revenue	58,339	59,696	42,729
<b>Expenditure</b>	(58,582)	(59,840)	(42,981)
<b>Surplus/(Deficit)</b>	(93)	6	(62)

## Parliamentary services

This output class includes two main activities:

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

### Advice and assistance

Because of our annual audit, performance audit, and inquiry work, the Auditor-General has a broad overview of public entities both individually and throughout sectors. We provide advice and assistance to select committees, Ministers, and individual members of Parliament, as well as to central agencies and other public sector representative groups, to assist them in their work to improve the performance and accountability of public entities.

The main ways in which we provide this advice and assistance is through:

- reports to select committees to assist their financial reviews of government departments and Offices of Parliament, State-owned enterprises, and Crown entities;
- reports to select committees to assist their examination of the Estimates of Appropriations; and
- reports to responsible Ministers on the results of our annual audits.

We also provide advice and assistance through:

- reports to Parliament and other stakeholder representatives on matters arising from our annual audits;
- responding to requests and participating in working parties on matters related to financial management and accountability with other stakeholders, including government departments, central agencies, local authorities, professional bodies, sector organisations, and other public entities; and
- working with other Auditors-General to encourage, promote, and advance co-operation in the field of public audit.

This output class also involves our commissioning a history of the Audit Office. This project is to be delivered over four years.

### Controller function

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

The Office of the Auditor-General and appointed auditors carried out standard procedures to give effect to the Controller function in keeping with the Auditor-General's auditing standards and the Memorandum of Understanding with the Treasury. The appointed auditor carries out an appropriation audit as part of the annual audit of a government department.

## Outcomes and impacts

### Advice and assistance

To assess the relevance, value, and timeliness of our advice and assistance to select committees, Ministers, and other stakeholders, we conduct an independent stakeholder survey. In 2006/07, feedback from stakeholders (including select committee chairpersons and deputy chairpersons) was very positive about the Office's advice. One hundred percent of stakeholders said they were satisfied with the quality of advice to select committees, and 86% were satisfied with the usefulness of this advice. This is the same level of satisfaction with the quality of advice as that for 2005/06. The question about the usefulness of advice was asked for the first time in the 2006/07 survey.

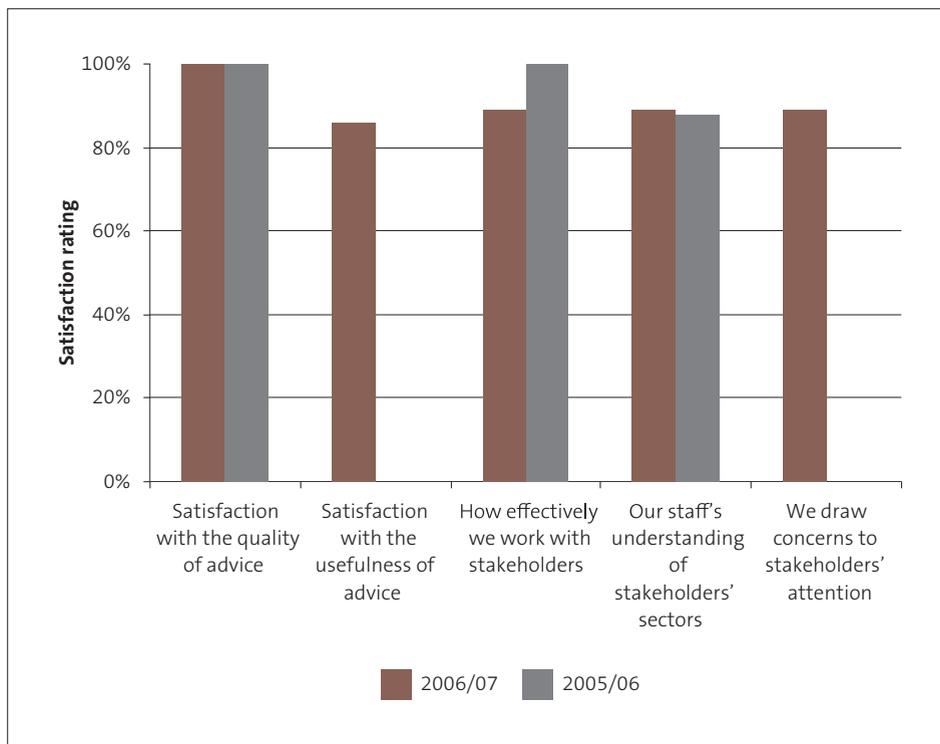
However, stakeholders' views on how effectively we work with them had fallen from 100% in 2005/06 to 89% in 2006/07. The main comment in this regard was concern about the effect of staff turnover. (We discuss our work in capability management in Part 3 of this report.)

Other results were also positive, with 89% of stakeholders agreeing that:

- our staff have an excellent understanding of their sectors (2005/06: 88%); and
- where we identify concerns with public entities within the public sector, or with the sector as a whole, we draw these issues to their attention (new question asked in 2006/07).
- Feedback suggested that stakeholders would like the Office to:
- provide more analysis of financial trends from year to year, and alert the select committees to future capital risks; and
- focus more keenly on misuse of public money and encourage more consistent reporting to select committees on issues such as fraud.

Figure 8 summarises our stakeholder feedback. We are considering this feedback for ongoing work.

**Figure 8**  
Stakeholder feedback



"Satisfaction with the usefulness of advice" and "We draw concerns to stakeholders' attention" were new measures surveyed for 2006/07.

### Controller function

We have considered the nature of the issues that have arisen through the operation of the Controller function in 2006/07. The nature of the issues we have had to consider reinforces the value of the changes made to the Controller function from 1 July 2005 to modernise and enhance that function.

The monthly reporting process identifies breaches of appropriation earlier, and has improved accountability by reinforcing the need for departments to ensure that there is appropriate authority for all expenses and capital expenditure that they incur, and all departmental net assets that they hold.

We have worked closely with the Treasury in resolving issues as they have arisen. Further issues may arise as the full effects of the new legislation continue to emerge.

## Parliamentary Services output class performance against measures and targets<sup>6</sup>

### Reports to Parliament and other constituencies on matters arising from annual audits

Measure		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Quantity</b>	Reports on matters arising from annual audits	2	2	3
<b>Timeliness</b>	By 30 June 2007	Achieved	Achieved	Achieved
<b>Quality</b>	Stakeholder survey assessing quality of our reports	Achieved (Results are set out in comments below)	Stakeholder survey undertaken	Achieved

In 2006/07, we provided two reports to Parliament on matters arising from 2005/06 annual audits in central and local government. One hundred percent of our stakeholders were satisfied with our reports to Parliament on the results of annual audits (new question in 2006/07).

### Reports and advice to select committees and Ministers

Measure		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Quantity</b>	Reports and advice to select committees and Ministers on:			
	• financial reviews	91	80-90	81
	• Estimates examinations	46	40-50	42
	• reports to portfolio Ministers on the results of annual financial report audits	149	120-130	146
	• other reports as requested*	6	5-10	5
<b>Timeliness</b>	At least two days before an examination, unless otherwise agreed	100%	100%	100%
	*According to the terms of reference for other reports	100%	100%	100%
<b>Quality</b>	Stakeholder survey assessing quality of our reports	Achieved (Results are set out in the Outcomes and impacts section above)	Stakeholder survey undertaken	Achieved
	Internal quality assurance undertaken to gain assurance that the Office's policies, procedures, and standards in relation to Financial reviews and Estimates examinations have been applied appropriately	Achieved	-	-

<sup>6</sup> This is the Statement of Service Performance on which our auditor reports under section 45D(1)(a) and (2).

Although 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 forecast and actual number of reports provided in 2006/07, and the actual number in 2005/06.

Although 49 Votes were subjected to full examination by select committees in 2006/07, we provided reports on 46 Votes. For three Vote examinations, there was not enough time available before examination to allow reports of requisite quality to be prepared for the examining select committees. The Auditor-General therefore agreed with the Finance and Expenditure Committee that reports on these three Votes could not be provided.

#### Advice to government bodies and other agencies

Measure		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Quantity</b>	Advice to government bodies and other agencies as requested	*	*	*
<b>Timeliness</b>	According to any terms of reference	Achieved	As agreed	Achieved
<b>Quality</b>	Stakeholder survey assessing quality of our reports	Achieved (Results are set out in the Outcomes and impacts section above)	Stakeholder survey undertaken	Achieved

\* This is a demand-driven activity for which there are no wholly satisfactory quantity measures. The nature of work involved varies according to issues and needs of stakeholders arising each year.

During 2006/07, we carried out significant work in this activity both domestically and internationally.

Domestically, we responded to requests on matters related to financial management and accountability from central agencies, departments, local authorities, sector organisations, professional bodies, and other public entities. We provided comments on draft legislation, Cabinet papers, policy proposals, and other matters.

All reasonable requests for information and participation were met. In particular, we:

- provided input into the Treasury capital asset management work programme and its review of accountability documents;
- provided comments on central agency guidance for preparing departmental and Crown entity statements of intent and annual reports;

- continued to be represented on a range of committees of the New Zealand Institute of Chartered Accountants, including the Financial Reporting Standards Board and the Professional Standards Board; and
- began providing substantial comment to the Society of Local Government Managers on “Towards 2009” to improve the local government sector’s response to preparing the 2009-19 LTCCPs.
- Internationally, we worked with other Auditors-General to encourage, promote, and advance co-operation in the field of public audit. In particular, we:
- continued our role as Secretariat of the South Pacific Association of Supreme Audit Institutions (SPASAI), including acting as executing agent for the Pacific Regional Audit Initiative;
- continued our membership of various committees of the International Organisation of Supreme Audit Institutions (INTOSAI), including the INTOSAI Working Group on Environmental Auditing and the INTOSAI Professional Standards Steering Committee, as well as acting as co-ordinator of the Australasian Council of Auditors-General/SPASAI Regional Working Group on Environmental Auditing;
- 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;
- attended regular meetings with our counterparts in Australia; and
- hosted a range of visitors from our international counterparts and other public sector bodies.

### Audit Office history

Measure		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Quantity</b>	Audit Office history commissioned	On track for publication by 30 December 2007	1 written history <sup>7</sup>	-
<b>Timeliness</b>	The agreed project milestone will be achieved	On track for publication by 30 December 2007	30 June 2007 <sup>8</sup>	100%
<b>Quality</b>	Ministry of Culture and Heritage confirm use of skilled personnel	Achieved	Confirmed	Achieved

During the year, drafts of chapters two (the late nineteenth century), eight (the Tyler era), nine (the 1990s), and the conclusion were written. Considerable research was done for the remaining chapters, and the preparation of chapter three (the early twentieth century) was well advanced. The transcriptions of the oral history interviews were edited, and tapes of the interviews were deposited in

<sup>7</sup> Delivered over four years.

<sup>8</sup> The Audit Office history is a four-year project. The timeframe for completion of the history was adjusted to 30 December 2007 by the Officers of Parliament Committee.

the Oral History Centre at the Alexander Turnbull Library. The project is on track to complete a full draft text in December 2007.

### Controller function

Measure		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Quantity</b>	Monthly statements provided by the Treasury examined for the period September 2006 to June 2007	Achieved	Achieved	Achieved
<b>Timeliness</b>	<ul style="list-style-type: none"> <li>Reviewed and response provided to the Treasury within five working days of receipt of statement</li> <li>Reviewed and provided to the appointed auditor within five working days of receipt of statement</li> <li>Where a breach has occurred or may occur, the relevant Minister is informed in accordance with the Memorandum of Understanding with the Treasury</li> </ul>	100%	100%	100%
<b>Quality</b>	<ul style="list-style-type: none"> <li>Where there is a breach or suspected breach of appropriation, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury</li> <li>Internal quality assurance undertaken to gain assurance that the Office's policies, procedures, and standards in relation to the Controller function and appropriation audits have been applied appropriately.</li> </ul>	Actions taken	Actions taken	Actions taken
		Achieved	QA undertaken	-

We examined the monthly reports provided by the Treasury for the period September 2006 to June 2007 and advised the Treasury of any issues arising and the action to be taken. We reported to Parliament on the notable matters we have had to consider in the operation of the Controller function in Central Government: Results of 2005/06 audits.

A review of the Memorandum of Understanding (MOU) with the Treasury has been initiated, and a revised MOU is expected to be in the first quarter of 2007/08 before the first monthly report is due.

## Financial performance of Output Class: Parliamentary services

For 2006/07, a new multi-class output appropriation was established that includes the output classes Parliamentary services and Performance audits and enquiries. Appropriations were transferred to these output classes from the former output classes Reports and advice arising from the function of the legislative auditor, and Certification of authority to release funds from the Crown Bank Account. To more clearly show comparative figures, the financial performance of both of these output classes is shown on page 54.

# Performance audits and other studies, and inquiries

This output class includes two main activities:

- reports to Parliament and other constituencies on matters arising from performance audits and special studies; and
- carrying out and reporting on inquiries relating to central and local government entities.

We published 18 reports on performance audits (including good practice guidance publications) in 2006/07, one major inquiry report, and a report on the audits of local authorities' LTCCPs. By comparison, in 2005/06, we published 15 performance audit reports and seven reports on major inquiries.

Appendix 1 on pages 91-97 summarises these reports. A copy of each published report can be found on our website: [www.oag.govt.nz](http://www.oag.govt.nz).

## 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 carry out 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.

To select performance audits and studies, each year we scan the environment, identify issues, assess risk, and identify what assurance responses are needed. This helps determine how we can use our discretionary resources to best effect.

In deciding the discretionary work programme, the Auditor-General considers that – regardless of any other work he might do – he has a responsibility to Parliament and the public to regularly provide assurance about the activities of public entities that are large and complex, and/or where it is difficult to assess their performance.

We also identified areas within and throughout entities and sectors that warranted further examination based on our assessment of the severity and significance of the issue, benefit to the public, extent to which the performance of the public entity or sector could be improved, and fit with the Auditor-General's role and mandate.

We consulted with Parliament and other stakeholders on our draft annual plan (and in particular our proposed discretionary work programme) to ensure that stakeholders agreed we were addressing issues of greatest relevance.

Our annual plans describe the performance audits and other studies we intend to carry out each year. It is not always possible for us to complete the full range of work we propose, because:

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

We describe our progress on the performance audits and other studies we proposed in our *Annual Plan 2006-07* on pages 49-51.

## Inquiries

The Auditor-General has a separate statutory role of inquiring into the way in which public entities use their resources. The Auditor-General can carry out inquiries at his own initiative or when correspondence draws attention to potential issues. We also administer the Local Authorities (Members' Interests) Act 1968, which governs the financial interests of members of local authorities, and manage correspondence about that Act under the same processes as our general inquiries work.

We receive a large number of requests for inquiries each year. We are able to deal with most of these reasonably simply. Occasionally, an issue will lead to a major inquiry attracting significant public attention.

We carefully consider each request to determine whether to carry out a formal inquiry. Factors in the decision include 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 carry out a considerable amount of preliminary work, such as reviewing documents and talking with the public entity, before deciding how to proceed.

If we conclude that the issues raised with us do not warrant a separate formal inquiry, we:

- advise the correspondent of our decision not to carry out an inquiry, and the reasons for our decision; and
- in some instances, advise the public entity of the matter.

If we do decide to carry out an inquiry, it is classified into one of three categories – routine, sensitive, or major. A routine inquiry involves straight-forward issues, is often able to be completed through correspondence with the public entity, and

does not usually result in any published reports. Sensitive and major inquiries involve more complex issues and arrangements, and will often include formal interviews with people as well as reviewing documents. Major inquiries will usually result in publication of a formal report.

## Outcomes and impacts

### Performance audits and other studies

To assess the effectiveness of our performance audits and other studies, we consider the feedback from stakeholders collected by an independent stakeholder survey. In 2006/07, feedback from stakeholders (including select committee chairpersons and deputy chairpersons) was very positive about the Office's performance audits. All stakeholders said they were satisfied with the quality of these audits (2005/06: 100%). The stakeholder survey uses a scale of 1 to -5. Our mean score on this scale improved from 4.25 in 2005/06 to 4.43 in 2006/07 for satisfaction with performance audits.

Eighty-six percent said they were satisfied with the usefulness of performance audits. This was a new question in 2006/07.

Comments for potential improvement in our performance audit work were that we:

- show more clearly what has happened in areas that we monitor and provide better year-to-year comparisons in terms of classifications; and
- provide deeper insight into capital flows within departments.

We also internally reviewed three performance audit reports published in the previous year to assess whether entities accept or respond to recommendations made in reports. Our independent Audit and Risk Management Committee selected these three reports. The results were presented to the Officers of Parliament Committee.

For 2006/07 the results of these reviews showed that two of the three audited entities had incorporated our audit recommendations into an internal work programme. The remaining entity had implemented some of our audit recommendations. We reported to the Officers of Parliament Committee that the Office would be following up the implementation of the audit recommendations.

## Inquiries

In summary, in 2006/07 we received:

- 250 general requests for inquiries; and
- 47 enquiries under the Local Authorities (Members' Interests) Act 1968.

We also carried forward 38 general requests from the previous year, and three Members' Interests Act enquiries.

We log general requests by the sector to which the request relates and the type of person making the request. Thus, requests from members of the public relating to local authorities are termed "ratepayer requests", and requests from members of the public relating to central government entities are termed "taxpayer requests". We separately log requests from members of Parliament. Of the 250 general requests we received, 72 were logged as taxpayer requests and 169 as ratepayer requests. Nine came from members of Parliament.

We carried out a formal inquiry in 77 cases. Seventy-six of these were classified as routine. By contrast, in 2005/06, we carried out seven major inquiries. As this part of our work is largely reactive, as issues emerge, this variability is not something that we can predict or control.

The overall number of general requests that we received was slightly up from last year (250 for 2006/07 compared to 228 for 2005/06). Most of this increase was requests from ratepayers about the activities of local authorities. This may reflect the increased interest associated with the local body elections later in 2007. We have observed in the past that there are generally increases in ratepayer requests closer to elections.

The number of requests relating to the Members' Interests Act was significantly lower than forecast, which may reflect the level of effort this Office and local authorities have put into providing training and guidance material for elected members. Once again, we did not become aware of any significant breaches of the Members' Interests Act during the year, and did not have to carry out any formal investigations with a view to prosecution.

We are carrying forward into the next year 22 general requests for inquiries and seven Members' Interests Act enquiries.

Figure 9 summarises the number of requests we dealt with during 2006/07.

**Figure 9**  
Summary of number of requests dealt with during 2006/07

	Carried forward from 2005/06	Received and completed during 2006/07	Carried forward to 2007/08
Ratepayer requests	19	169	15
Taxpayer requests	13	72	3
MP requests	6	9	2
Total general requests for inquiries	38	250	20
Members' Interests Act enquiries	3	47	7

## Output class performance against measures and targets 2006/07<sup>9</sup>

### Performance audits and other studies

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Output</b>	Reports to Parliament and other constituencies on matters arising from performance audits and special studies, and inquiries	20	19-21	22
<b>Timeliness</b>	Within the timelines agreed in each proposal	Largely achieved	Achieved	Partly achieved
<b>Quality</b>	<ul style="list-style-type: none"> <li>Stakeholder survey assessing quality of our reports</li> </ul>	Undertaken (Results are set out in the Outcomes and Impacts section above)	Stakeholder survey undertaken	Undertaken
	<ul style="list-style-type: none"> <li>Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures, and standards in relation to performance audits and special studies have been applied appropriately</li> </ul>	Achieved (Results are set out in comments below)	QA undertaken	Not recorded

## Comments on performance against measures and targets

Because we assess how entities carry out activities and make recommendations for improvement, it is important that we conduct our performance audits in keeping with sound audit methodology, and that we effectively manage how we carry out and report audit work.

### Quality of reports

- Performance audits published by the Office are subject to three regular internal and external review mechanisms. Each review focuses on a different aspect of the performance audit process. In total, the internal and external reviewers looked at 10 different performance audits.

<sup>9</sup> This is the Statement of service performance on which our auditor reports under section 45D(1)(a) and (2).

- In 2006/07 the Office's internal quality assurance team conducted a review of the audit files of the Performance Audit Group (PAG). The overall conclusion of the review was that PAG had appropriate systems and controls in place. However, the review made recommendations to improve the way PAG documents the operation of important controls. These recommendations were incorporated in the current review of compliance with audit standards due to be completed by 31 August 2007.
- In addition to the QA review, the Office commissioned external reviews of two performance audit reports. These reviews were carried out by Alex Matheson (consultant and advisor on public governance management) and the Canadian Auditor-General. The reviewers made favourable comments about the reports, but also identified opportunities for improvement.
- The Office and the Australian National Audit Office (ANAO) have a standing arrangement to provide reciprocal peer review of each Office's performance audits. In 2006/07 the ANAO reviewed two audits. The review looked at all aspects of the audit process, and endorsed the quality of the two audits. It was also able to highlight some useful lessons for PAG.
- From 2007/08, each of the reviews described above will be included as performance measures in the Auditor-General's Annual Plan. As a result, PAG is improving its systems for managing the review process and the findings of the reviews.
- With regard to timeliness of reports, we maintained our performance audit methodology and used project management disciplines. Some performance audits took longer to complete than initially planned. This was a result of a number of issues, including staff movements within PAG, it taking longer to receive comments from entities on draft reports in some instances, and on occasion the audit being held up to accommodate internal issues such as restructuring or the availability of crucial staff within entities. We seek feedback on the usefulness of our performance audit reports as part of our stakeholder survey. As outlined above, based on the survey result, stakeholders are satisfied with the usefulness of reports. This suggests that our reports are timely and relevant.

### **Progress against our *Annual Plan 2006-07***

On pages 27-28 of our *Annual Plan 2006-07*, we listed a number of performance audits and other studies that we proposed to start and/or complete in 2006/07.

Much of that work is now complete.

The performance audits and other studies completed during 2006/07 were:

- *Allocation of the 2002-05 Health Funding Package*
- *New Zealand Qualifications Authority: Monitoring the quality of polytechnic education*
- *Inland Revenue Department: Performance of taxpayer audit – follow-up audit*
- *Performance of the contact centre for Work and Income*
- *Residential rates postponement*
- *Controlling sensitive expenditure: Guidelines for public entities*
- *Te Puni Kōkiri: Administration of grant programmes*
- *Assessing arrangements for jointly maintaining state highways and local roads*
- *Department of Labour: Management of immigration identity fraud*
- *Ministry of Health and district health boards: Effectiveness of the “Get Checked” diabetes programme*
- *Department of Internal Affairs: Effectiveness of controls on non-casino gaming machines*
- *Effectiveness of the New Zealand Debt Management Office*
- *New Zealand Customs Service: Collecting customs revenue*
- *Sustainable development: Implementing the Programme of Action*
- *Waste management planning by territorial authorities*
- *\*Statements of corporate intent: Legislative compliance and performance reporting*
- *\*Managing conflicts of interest: Guidance for public entities*
- *\*Guidance for members of local authorities about the law on conflicts of interest*
- *\*Advertising expenditure incurred by the Parliamentary Service in the three months before the 2005 General Election*
- *\*Matters arising from the 2006-16 Long-Term Council Community Plans*

The five reports marked with an asterisk are additions to the work programme set out in the *Annual Plan 2006-07*.

## Variations to the 2006/07 annual work plan

Reports that were removed from the work programme, have been delayed, or have been carried out and the results presented to Parliament in another form are:

- Ministry of Defence – major acquisitions projects (deferred – due for completion in 2007/08);
- Procurement guidelines update (to be presented to Parliament in the second quarter of 2007/08);

- Local government – decision-making and consultation (to be presented to Parliament in the first quarter of 2007/08);
- Resource Management Act 1991 – consultation in relation to major Crown capital developments (work completed – will be included in a compendium report to be presented to Parliament in 2007/08);
- E-government – review against progress and targets (not continued with);
- Land information management systems (deleted from work programme); and
- Local Government – asset management, business planning, and risk integration (deleted from work programme).

## Inquiries

### Responses to requests for inquiries

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Output</b>	Responses to requests for inquiries from:			
	• Taxpayers	72	50-60	70
	• Ratepayers	169	150-180	144
	• Members of Parliament	9	10-20	14
<b>Timeliness</b>	Receipt acknowledged within five working days	89%	100%	81%
	Advise within 15 working days of receipt of our decision whether to initiate an inquiry or undertake preliminary work that may result in an inquiry	96%	80%	Not recorded
<b>Quality</b>	Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures, and standards in relation to responses to requests for inquiries have been applied appropriately	Completed	QA undertaken	Undertaken

### Completion of inquiries initiated during 2006/07

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
<b>Output</b>	Completion of inquiries under section 18 of the Public Audit Act 2001			5
	“Routine” inquiries initiated and completed during the year	76	*	
	“Sensitive” inquiries initiated and completed during the year	1	*	
	“Major” inquiries initiated and completed during the year	0	*	
<b>Timeliness</b>	“Routine” inquiries started in this year completed within three months	95%	80%	
	“Sensitive” inquiries started in this year completed within six months of initiation	0	80%	
	“Major” inquiries started in this year completed within 12 months of initiation	0	80%	

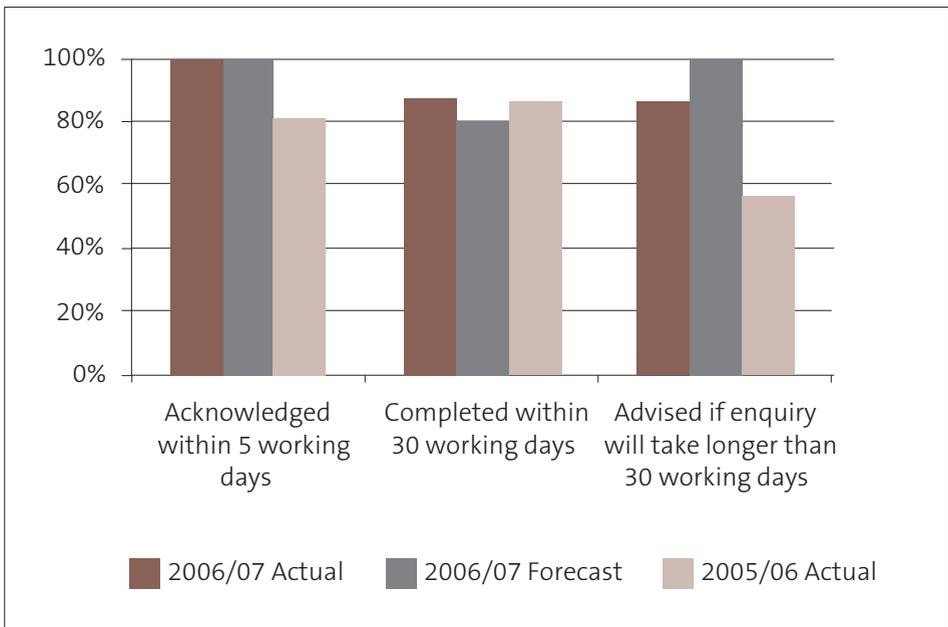
<b>Quality</b>	Independent review of two major inquiries**	Completed	Undertaken
	Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures, and standards in relation to inquiries have been applied appropriately	Completed	QA review undertaken

\* As this is the first year of classifying and measuring inquiries in this way, we did not set quantity targets.

\*\* As there were no major inquiries during the year, the reviewer was provided with a list of major and sensitive inquiries from the 2006/07 and previous financial years. The reviewer chose a major inquiry involving a central government organisation and a sensitive inquiry about a local authority.

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

		2006/07 Actual	2006/07 Forecast	2005/06 Actual
Output	Administration of the provisions of the Local Authorities (Members' Interests) Act 1968: enquiries received	47	80	49
Timeliness	Receipt acknowledged within five working days	100%	100%	81%
	Completed within 30 working days	87%	80%	86%
	Advised if enquiry will take longer than 30 working days	86%	100%	57%
Quality	Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures, and standards in relation to administration of the Local Authorities (Members' Interests) Act 1968 have been applied appropriately.	Completed	QA review undertaken	



## Comments on performance against measures and targets

In last year's annual report, we noted that we had developed an inquiries strategy to set a common process for dealing with all requests. We now have in place an inquiries manual, which sets out the general process for dealing with requests and for carrying out inquiries. The manual has been in use since early 2006. We also now have a dedicated resource to support the overall administration of the inquiries process.

We also changed the performance measures we use for this work and the way in which we record and track requests, to match the new process and to give a clearer picture of the range of activity and our performance. Thus the measures we have used for requests received during 2006/07 are different from those that we used for the previous year. This means that direct comparisons cannot be made.

However, our broad sense is that we have succeeded in improving the timeliness of our work on inquiries. In particular:

- we advised 96% of correspondents of our decision on whether to initiate an inquiry within 15 working days (compared with a target of 80%); and
- we completed 95% of our responses to routine inquiries within three months (compared with a target of 80%).

As part of this ongoing development and improvement of our work on inquiries, we have recently completed an internal quality assurance review of the new processes, as well as an independent review of two recent larger inquiries. Both reviews confirmed that the new processes are operating well and offered some minor suggestions on areas of possible future improvement. As a result of these reviews and our own ongoing assessment of how well the new processes are operating, we are likely to make some further refinements during the coming year to the basic process, and also to our systems for recording data and measuring our performance.

## Financial performance of Output Class: Parliamentary services, and Output Class: Performance audits and inquiries

For 2006/07, a new multi-class output appropriation was established that includes the output classes Parliamentary services, and Performance audits and inquiries. Appropriations were transferred to these output classes from the former

output classes Reports and advice arising from the function of the legislative auditor, and Certification of authority to release funds from the Crown Bank Account. To more clearly show comparatives, the financial performance of both of these output classes is shown below.

Measure	2006/07 actual \$000	2006/07 forecast \$000	2005/06 actual \$000
<b>Financial performance of Output Class: Parliamentary services</b>			
Crown funding	2,890	2,890	
Expenditure	(2,772)	(2,889)	
<b>Surplus</b>	<b>118</b>	<b>1</b>	
<b>Financial performance of Output Class: Performance audits and inquiries</b>			
Crown funding	6,295	6,295	
Expenditure	(5,992)	(6,295)	
<b>Surplus</b>	<b>303</b>	<b>-</b>	
<b>Financial performance of Output Class D1 Reports and advice arising from the function of the legislative auditor</b>			
Crown funding			8,822
Other revenue			8
Expenditure			(8,666)
<b>Surplus</b>			<b>164</b>
<b>Financial performance of Output Class D2 Certification of authority to release funds from the Crown Bank Account</b>			
Crown funding			91
Expenditure			(53)
<b>Surplus</b>			<b>38</b>
<b>Total</b>			
Crown funding	9,185	9,185	8,913
Other revenue	0	0	8
Expenditure	(8,764)	(9,184)	(8,719)
<b>Surplus</b>	<b>421</b>	<b>1</b>	<b>202</b>

Part 3

## Organisational health and capability

# Report of the Audit and Risk Management Committee

## for the year ended 30 June 2007

Members:

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

Brigid McArthur BA, LLB (Hons) (to 13 February 2007), partner, Chapman Tripp, Barristers & Solicitors

Joanna Perry MA (Cantab), FCA (ICAEW), FCA (NZICA) (from 13 February 2007), professional director and chartered accountant

Stephen Revill BA, LLB (from 3 September 2007), consultant, Bell Gully

Ross Tanner MA (Hons), MPA (Harvard), director, Ross Tanner Consulting Limited

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

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 was included in the name of the Committee in December 2005, to better describe the Committee's role.

The purpose of the Committee is to oversee:

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

The Committee has no management functions.

During the past year the Committee:

- met on 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;
- oversaw the Office's review of its risk management framework and the procedures underpinning the framework;
- oversaw the Auditor-General's contracting out of the internal audit function for the Office;
- 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; and
- received and considered the report of an independent reviewer on 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  
3 September 2007

## Capability report

Our *Annual Plan 2006-07* 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 turnover levels, experience levels, and staff satisfaction.

Based on this information, we also make some of our own conclusions about the adequacy, quality, and effectiveness of our current capability.

Overall we have made good progress during 2006/07 in:

- improving staff numbers in a difficult labour market;
- ongoing leadership and capability development of our people;
- embedding our shared services model for corporate services;
- improving our systems and processes;
- improving recruitment and retention strategies to attract and retain good people;
- maintaining acceptable levels of organisational health; and
- implementing Audit New Zealand’s national practice and professional practices groups.

Against our *Annual Plan 2006-07* we can generally report modest improvements in organisational capability. Our specific intentions and results against these for 2006/07 were:

- embedding our shared services model for corporate services (achieved); and
- ongoing leadership and capability development of our people (in progress).

### Results

The Auditor-General currently employs about 288 staff in eight locations throughout New Zealand. Figure 10 sets out the number and distribution of our staff by function, gender, and ethnicity. Figure 11 sets out our staff’s experience and training. Figure 12 sets out our organisational health and staff satisfaction.

**Figure 10**  
Number and distribution of staff by function, gender, and ethnicity

As at 30 June	2007	2006	2005	2004
<b>Staff numbers (full-time equivalents)</b>				
Office of the Auditor-General	70.9	70.7	66.2	52.4
Audit New Zealand	217.2	189.1	177.6	178.4
Total	288.1	259.8	243.8	230.8
<b>Functional distribution</b>				
Audit/assurance	72%	71%	69%	65%
Technical and advisory	4%	4%	4%	4%
Corporate support	20%	21%	23%	27%
Management	4%	4%	4%	4%
<b>Gender distribution</b>				
<i>All staff</i>				
Women	54%	51%	48%	46%
Men	46%	49%	52%	54%
<i>Management staff</i>				
Women	45%	33%	30%	-
Men	55%	67%	70%	-
<b>Ethnicity distribution</b>				
NZ European	48%	49%	53%	56%
NZ Māori	3%	3%	4%	3%
Pacific Islander	2%	2%	2%	1%
Asian	9%	12%	14%	13%
Other European	8%	9%	7%	8%
Other ethnic groups	3%	3%	2%	4%
Undeclared	27%	22%	18%	15%

**Figure 11**  
Staff experience and training

		2006/07	2005/06	2004/05
<b>Experience</b>				
Average "time in job"	OAG	5.8 years	5.6 years	4.3 years
	Audit NZ	4.2 years	5.0 years	3.5 years
<b>Training and development</b>				
Average spent on formal training (each employee)	OAG	\$2,572	\$1,754	\$2,356
	Audit NZ	\$3,165	\$2,298	\$2,087*
Pass rate of staff undertaking NZICA accreditation		100%	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.

**Figure 12**  
**Organisational health and staff satisfaction**

		2006/07	2005/06	2004/05
<b>Organisational health</b>				
Turnover	OAG	19%	17.8%	8.0%
	Audit NZ	18%	28.0%	34.8%
Average sick leave taken for each employee	OAG	5.3 days	4.3 days	4.9 days
	Audit NZ	4.8 days	5.2 days	5.5 days
<b>Staff survey results (scores out of 6)</b>				
Job satisfaction		4.3	4.3	4.5
Organisational satisfaction		4.6	4.5	4.6
Satisfaction with management		4.2	4.1	4.4
Understanding of vision and purpose		3.6	3.6	4.1
Staff assessment of:				
- The extent of innovation that occurs and is encouraged*		3.9	3.4	2.9
- The extent of collaboration that occurs and is encouraged		3.8	2.5	3.0
- The quality and usefulness of business processes and systems		4.1	4.0	4.4
- The adequacy of our resource base		3.6	3.6	3.8
Audit New Zealand ratio of senior to junior staff hours		25:75	24:76	26:74

Rating items were deleted from this year's survey. These scores are not calculated on precisely the same basis as previous years.

Audit New Zealand staff numbers have increased from the previous year because of:

- less turnover of recently qualified chartered accountants;
- a successful graduate recruitment intake – 25 graduates started with Audit New Zealand in February 2007; and
- successful recruitment of Audit Managers and Directors.

The general distribution of staff by function, gender, and ethnicity has largely remained similar to previous years.

While recruitment remains challenging, in 2006/07 we implemented new graduate recruitment strategies. Audit New Zealand became more active with the universities during 2006/07, and during the summer it ran its first internship programme in Wellington. This resulted in seven of the eight interns being offered

permanent positions. Audit New Zealand views the internship programme as now being its most important method of recruitment and plans to broaden the programme, offering it nationwide and to greater numbers.

In 2006/07 we also bedded down the new merged corporate services team. The merger resulted in considerable staffing changes, and more staff allocated to Human Resources. The merger has resulted in considerable improvements to corporate support – in particular, in areas of compliance, systems, and business processes.

## Training and development

“Developing our people” remains one of our main strategic objectives.

The increase in the amount we spent on training and development for each member of staff in 2006/07 shows that we continue to make serious investments in the development of our people. Ultimately the investment is about improving the overall quality of our people and therefore their work. Staff development is also critical for retention purposes.

In 2006/07 Audit New Zealand reintroduced its national professional development programme for all audit staff. The programme delivered 21 modules/courses, which were highly rated by audit staff. The programme is aimed at developing audit staff’s base professional competencies. This includes equipping them to work within Audit New Zealand’s national professional practice framework, audit methodology, quality control systems, and the Auditor-General’s statements and standards. In conjunction with the OAG, Audit New Zealand also delivered technical workshops and updates as part of its “auditor readiness” programme to prepare it for the introduction of IFRS to New Zealand.

The Office has also continued to invest in leadership and management development. In particular, this included:

- introducing an emotional intelligence-based 360-degree feedback programme, helping to inform individual development plans;
- holding a series of workshops titled “Having encouraging conversations”, aimed at equipping our senior staff with tools and advice to improve communications, feedback, and conflict management with staff, clients, members of Parliament, and other stakeholders;
- introducing a comprehensive applicant development and assessment programme at Audit New Zealand for internal staff applying for senior roles; and

- a good number of senior staff participating in local and international leadership programmes – in particular, through the Leadership Development Centre of New Zealand.

The Office also offered other courses throughout the year, including writing skills, presentation skills, media handling, machinery of government, and health and safety.

## Organisational health and staff satisfaction

Overall, our organisational's health is at an acceptable level. Staff turnover at Audit New Zealand is down on previous years. Staff turnover at the OAG during 2006/07, while high, was a result of natural attrition in most cases.

The annual climate survey results showed that staff generally have high levels of satisfaction and commitment to the organisation. Areas that management need to address include their own effectiveness as managers and ensuring that staff understand the Office's strategy and vision.

## Equal Employment Opportunities and Effectiveness for Māori

We made limited progress during 2006/07 with our existing Equal Employment Opportunities and Effectiveness for Māori programmes, although we continue to:

- ensure that our recruitment strategies, particularly job advertisements, are aimed at a wide audience; and
- offer applicant development programmes to assist female staff to apply for senior roles.

More formal effort is required to raise staff awareness of aspects of tikanga Māori and kaupapa Māori, including basic understanding of the Treaty and language skills.

## Information technology systems

The Office, especially Audit New Zealand, is highly dependent on information technology to complete its work. Audit staff working in the field need to have remote access and communications tools to ensure an effective, efficient, and customer-focused service. During 2006/07, the Office continued to invest in

mobile technologies. All audit staff have mobile communication devices and the majority of audit staff are able to access our networks through wireless technologies. This is already benefiting how we get our work done.

Figure 13 summarises details of our performance against the measures set out in our *Annual Plan 2006-07*.

**Figure 13**  
**Financial performance indicators**  
**for the year ended 30 June 2007**

Measure	2006/07 actual \$000	2006/07 forecast \$000	2006/07 Annual Plan \$000	2005/06 actual \$000
<b>Operating results</b>				
Revenue: other than Crown	58,339	59,696	42,162	42,737
Output expenses	67,345	69,024	51,201	51,700
Surplus before capital charge	455	127	377	263
Surplus	329	7	255	140
<b>Working capital management</b>				
Current assets less current liabilities	1,909	1,736	1,824	1,538
<i>Current ratio</i>	124%	128%	131%	123%
<i>Average receivables and work in progress*</i>	61 days	26 days	36 days	42 days
<b>Resource use</b>				
Physical assets:				
Total physical assets at year-end	2,389	2,300	2,262	2,505
<i>Additions as % of physical assets</i>	51%	54%	60%	60%
<b>Taxpayers' funds</b>				
Level at year-end	3,586	3,586	3,586	3,586
<b>Net cash flows</b>				
Surplus/(Deficit) on operating activities	1,867	1,039	1,482	984
Surplus/(Deficit) on investing activities	(1,015)	(963)	(1,185)	(1,368)
Surplus/(Deficit) on financing activities	-	-	(244)	(937)
Net increase/(decrease) in cash held	852	76	53	(1,321)

\*Calculation of average receivables and work in progress has now been adjusted to exclude revenue relating to contracted audit service providers. The increase in days in the current year is attributable to this change.

Part 4

**Financial statements 2006/07**

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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 2007

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 2007.

#### Unqualified Opinion

In our opinion the financial statements of the Controller and Auditor-General on pages 32 to 36, 40 to 43, 48 to 54 and 69 to 89:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Controller and Auditor-General's financial position as at 30 June 2007;
  - 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 18 September 2007, 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 2007. 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**

audit and assurance services  
local focus, global reach

## 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 for establishing and maintaining systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

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

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

In my opinion, the information set out in the financial statements and attached notes to those statements (on pages 32-36, 40-43, 48-54 and 69-89) fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2007, and our financial position as at that date.

Signed:



K B Brady  
Controller and Auditor-General

18 September 2007

Countersigned:



M J Viviers  
Financial Controller

18 September 2007

# Statement of accounting policies

## for the year ended 30 June 2007

### 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 carried out by the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office"), and contracted audit service providers.

### 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.

Crown funding 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 based on the stage of completion of audit and other assurance work.

Audit fee revenue from audits carried out by contracted audit service providers is recognised based on the stage of completion of audit work as advised by the contracted audit service providers.

All audit service providers (including Audit New Zealand) 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 based on the stage of completion of audit and other assurance work.

**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: Provision of audit and other assurance services.

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

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

**Receivables and work in progress**

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

**Leases**

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.

**Plant and equipment**

Plant and equipment 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 plant and equipment costing more than \$500 are capitalised.

**Depreciation**

Depreciation of plant and equipment 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**

Amounts in the financial statements are reported exclusive of Goods and Services Tax (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 Office is exempt from paying income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

**Commitments**

Future payments relating to contractual obligations at balance date are disclosed as commitments to the extent that they are not recorded as liabilities. 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**

To provide more relevant information about the effect of contracted audit service provider transactions on the statement of financial performance, the Office now recognises audit fee revenue from audits carried out by contracted audit service providers based on the stage of completion. The assessment of the stage of completion is based on the advice from the contracted audit service providers. Formerly, audit fee revenue from audits carried out by contracted audit service providers was recognised on the completion of the audits.

The effect of the change is an additional \$8.4 million in both revenue and expenditure in the current financial year. There is no effect on the surplus for the year; nor on any Statement of financial position items. Costs equal to the revenue are recognised, and there is no cash received or disbursed. Contracted audit service providers invoice and collect audit fees directly from public entities. The effect of this change in accounting policy on the comparative figures for revenue and expenditure is not practical to estimate.

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

# Statement of financial performance

## for the year ended 30 June 2007

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 36 and 54.

	Notes	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
<b>Continuing activities</b>				
<b>Revenue</b>				
Crown funding	2	9,335	9,335	9,103
Audit fees and other revenue	3	58,339	59,696	42,737
<b>Total revenue</b>		<b>67,674</b>	<b>69,031</b>	<b>51,840</b>
<b>Expenses</b>				
Personnel costs		27,496	28,353	26,401
Operating costs	4	38,569	39,376	23,956
Depreciation	5	1,154	1,175	1,220
Capital charge	6	126	120	123
<b>Total expenses</b>		<b>67,345</b>	<b>69,024</b>	<b>51,700</b>
<b>Surplus</b>		<b>329</b>	<b>7</b>	<b>140</b>

\* See Note 1 on page 81.

# Statement of movements in taxpayers' funds (equity)

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## for the year ended 30 June 2007

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	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
Taxpayers' funds brought forward at 1 July		3,586	3,586	3,586
<b>Movements during the year</b>				
Surplus		329	7	140
Total recognised revenues and expenses for the year		329	7	140
<b>Flows to and from the Crown</b>				
Surplus payment due to the Crown	7	(329)	(7)	(140)
<b>Taxpayers' funds at 30 June</b>		<b>3,586</b>	<b>3,586</b>	<b>3,586</b>

\* See Note 1 on page 81.

# Statement of financial position

as at 30 June 2007

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

	Notes	30 June 2007 actual \$000	30 June 2007 forecast* \$000	30 June 2006 actual \$000
<b>Taxpayers' funds</b>				
General funds		3,586	3,586	3,586
<b>Total taxpayers' funds</b>		<b>3,586</b>	<b>3,586</b>	<b>3,586</b>
Represented by:				
<b>Current assets</b>				
Cash and bank balances	8	3,844	2,928	2,992
Prepayments		389	350	362
Work in progress		1,525	1,158	1,378
Receivables	9	4,103	3,500	3,510
<i>Total current assets</i>		9,861	7,936	8,242
<b>Non-current assets</b>				
Plant and equipment	10	2,389	2,300	2,505
<i>Total non-current assets</i>		2,389	2,300	2,505
<b>Total assets</b>		<b>12,250</b>	<b>10,236</b>	<b>10,747</b>
<b>Current liabilities</b>				
Payables and accruals	11	5,008	3,693	3,613
Provision for payment to the Crown	7	469	7	140
Provision for employee entitlements	12	2,475	2,500	2,951
<i>Total current liabilities</i>		7,952	6,200	6,704
<b>Term liabilities</b>				
Provision for employee entitlements	12	712	450	457
<i>Total term liabilities</i>		712	450	457
<b>Total liabilities</b>		<b>8,664</b>	<b>6,650</b>	<b>7,161</b>
<b>Net assets</b>		<b>3,586</b>	<b>3,586</b>	<b>3,586</b>

\* See Note 1 on page 81.

# Statement of cash flows

## for the year ended 30 June 2007

76

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	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
<b>Operating activities</b>				
<b>Cash received from:</b>				
The Crown		9,335	9,335	9,208
Others**		30,833	31,020	27,145
<b>Cash disbursed on:</b>				
Production of outputs**		(35,019)	(39,196)	(32,181)
Net GST paid		(3,156)	-	(3,056)
Finance charges		-	-	(9)
Capital charge		(126)	(120)	(123)
<i>Net cash flow from operating activities</i>	13	1,867	1,039	984
<b>Investing activities</b>				
<b>Cash received from:</b>				
Sale of plant and equipment		207	278	142
<b>Cash disbursed on:</b>				
Purchase of plant and equipment		(1,222)	(1,241)	(1,510)
<i>Net cash flow from investing activities</i>		(1,015)	(963)	(1,368)
<b>Financing activities</b>				
<b>Cash disbursed on:</b>				
Surplus payment to the Crown		-	(140)	(775)
Repayment of finance lease		-	-	(162)
<i>Net cash flow from financing activities</i>		-	(140)	(937)
<b>Total net increase in cash held</b>		<b>852</b>	<b>(64)</b>	<b>(1,321)</b>
Add opening cash balance at 1 July		2,992	2,992	4,313
<b>Closing cash balance at 30 June</b>		<b>3,844</b>	<b>2,928</b>	<b>2,992</b>

\* See Note 1 on page 81.

\*\* 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.

## Statement of commitments

as at 30 June 2007

This statement records those expenditures to which the Office is contractually committed at 30 June 2007.

The Office has long-term operating leases on its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 9-yearly.

Equipment lease commitments include leases of telephone exchange systems, facsimile machines, and photocopiers.

	30 June 2007 actual \$000	30 June 2006 actual \$000
<b>Operating lease commitments</b>		
<b>Property lease commitments</b>		
Less than one year	1,835	1,670
One to 2 years	1,835	1,096
2 to 5 years	1,609	1,786
More than 5 years	316	472
<i>Total property lease commitments</i>	5,595	5,024
<b>Equipment lease commitments</b>		
Less than one year	234	273
One to 2 years	33	220
2 to 5 years	19	18
<i>Total equipment lease commitments</i>	286	511
<b>Total operating lease commitments</b>	<b>5,881</b>	<b>5,535</b>

## Statement of contingent liabilities

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as at 30 June 2007

This statement discloses situations that existed at 30 June 2007, 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 2007 (nil as at 30 June 2006). 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 2007 (nil as at 30 June 2006).

# Statement of appropriations

## for the year ended 30 June 2007

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

Operating flows	Output expenses GST-exclusive \$000	Appropriations GST-exclusive \$000
<b>Annual appropriations</b>		
<b>Legislative auditor:</b>		
Parliamentary services	2,095	2,212
Performance audits and inquiries	5,992	6,295
Provision of audit and assurance services	58,581	59,840
<i>Total annual appropriations</i>	66,668	68,347
<b>Other appropriations:</b>		
Other parliamentary services <sup>1</sup>	677	677
<i>Total other appropriations</i>	677	677
<b>Total output expenses as reported in the Statement of Financial Performance</b>	<b>67,345</b>	
<b>Total appropriations</b>		<b>69,024</b>

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

## Statement of unappropriated expenditure for the year ended 30 June 2007

The Office incurred no unappropriated expenditure during the year ended 30 June 2007 (nil for the year ended 30 June 2006).

## Statement of trust money for the year ended 30 June 2007

On 1 November 1996, the Office was appointed Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI). SPASAI encourages, promotes, and advances co-operation among its public audit members.

A trust account records the financial transactions the Office carries out 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.

	2006/07 actual \$000	2005/06 actual \$000
Opening balance at 1 July	28	25
Receipts	6	385
	34	410
Payments	(12)	(382)
<b>Closing balance at 30 June</b>	<b>22</b>	<b>28</b>

# Notes to the financial statements

## for the year ended 30 June 2007

### 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.

	2006/07 Main budget estimates \$000	2006/07 Supplementary estimates changes \$000	2006/07 Final forecast estimates \$000	2006/07 Estimated actuals (forecast) \$000
<b>Revenue</b>				
Crown	9,294	41	9,335	9,335
Other	42,162	17,534	59,696	59,696
Total revenue	51,456	17,575	69,031	69,031
<b>Expenses</b>				
Personnel costs	25,428	2,925	28,353	28,353
Operating costs	24,424	14,952	39,376	39,376
Depreciation	1,227	(52)	1,175	1,175
Capital charge	122	(2)	120	120
Total expenses	51,201	17,823	69,024	69,024
<b>Surplus</b>	<b>255</b>	<b>(248)</b>	<b>7</b>	<b>7</b>

Forecasts represent the estimated actuals prepared in March 2007 as part of the 2007/08 Central Government budget process.

The increase in other revenue and operating expenses between the main budget estimates and final forecast estimates relate to:

- the change in accounting policy relating to recognition of audit fee revenue from audits carried out by contracted audit service providers; and
- increases in audit fee levels as a result of a mix of increases in hours and charge-out rates, plus additional work relating to the implementation of NZ IFRS. These increases apply to audits completed by Audit New Zealand and those completed by contracted audit service providers.

### Note 2: Crown funding

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

### Note 3: Audit fees and other revenue

	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
Audit fees - departments	7,781	10,147	7,685
Audit fees - other	50,533	49,549	35,044
Miscellaneous	25	-	8
<b>Total other revenue</b>	<b>58,339</b>	<b>59,696</b>	<b>42,737</b>

\* See Note 1 on page 81.

### Note 4: Operating costs

	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
(Profit)/Loss on sale of plant and equipment	(23)	(7)	(10)
(Decrease)/Increase in provision for doubtful receivables	(104)	30	(102)
Fees to auditors for the audit of the Office's financial statements	78	78	79
Fees to auditors for other assurance services provided to the Office	17	9	19
Finance lease costs	-	-	9
Equipment lease costs	-	-	63
Property lease costs	1,777	2,129	1,600
Fees paid to contracted auditors for audits of public entities	27,718	27,578	14,521
Fees paid to the Office's auditors for audits of other public entities	87	87	98
Other expenses	9,019	9,472	7,679
<b>Total operating costs</b>	<b>38,569</b>	<b>39,376</b>	<b>23,956</b>

\* See Note 1 on page 81.

### Note 5: Depreciation

	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
Furniture and fittings	329	337	261
Office equipment	20	21	79
IT hardware	358	349	300
IT software	175	186	333
Motor vehicles	272	282	247
<b>Total depreciation charge</b>	<b>1,154</b>	<b>1,175</b>	<b>1,220</b>

\* See Note 1 on page 81.

## 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 2007 was 7.5% (in 2005/06, it was 8.0%).

During the year, the Office continued to participate in a pilot differential capital charge scheme. Under the scheme, interest earned on cash and bank balances at 4.5% (in 2005/06, it was 4.8%) was offset against the capital charge. For the year ended 30 June 2007, the capital charge reduced by \$152,670 (in 2005/06, it reduced by \$157,070) 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 \$329,000 is repayable to the Crown.

	30 June 2007 actual \$000	30 June 2006 actual \$000
Surplus current year	329	140
Surplus brought forward	140	775
Payment to the Crown	-	(775)
Total provision for payment to the Crown	469	140

## 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 2005/06).

## Note 9: Receivables

	30 June 2007 actual \$000	30 June 2006 actual \$000
Trade receivables	4,319	3,821
Provision for doubtful receivables	(216)	(320)
Net trade receivables	4,103	3,501
Crown debtor	-	1
Other receivables	0	8
<b>Total receivables</b>	<b>4,103</b>	<b>3,510</b>

## Note 10: Plant and equipment

	30 June 2007			30 June 2006		
	At cost \$000	Accumulated depreciation \$000	Net carrying value \$000	At cost \$000	Accumulated depreciation \$000	Net carrying value \$000
Furniture and fittings	2,422	1,713	709	2,678	1,718	960
Office equipment	202	159	43	1,066	966	100
IT hardware	2,541	1,965	576	1,711	1,264	447
IT software	2,695	2,341	354	2,693	2,430	263
Motor vehicles	1,094	387	707	1,061	326	735
	<b>8,954</b>	<b>6,565</b>	<b>2,389</b>	<b>9,209</b>	<b>6,704</b>	<b>2,505</b>

## Note 11: Payables and accruals

	30 June 2007 actual \$000	30 June 2006 actual \$000
Trade payables	2,371	1,977
Revenue in advance	2,281	1,240
Accruals	356	396
<b>Total payables and accruals</b>	<b>5,008</b>	<b>3,613</b>

## Note 12: Provision for employee entitlements

	30 June 2007 actual \$000	30 June 2006 actual \$000
<b>Current liabilities</b>		
Annual leave	1,430	1,292
Long service leave	79	58
Time off in lieu of overtime worked	86	61
Salary and other accruals	843	1,164
Retiring leave	37	376
<b>Total current liabilities</b>	<b>2,475</b>	<b>2,951</b>
<b>Non-current liabilities</b>		
Long service leave	34	80
Retiring/resigning leave	678	377
<b>Total non-current liabilities</b>	<b>712</b>	<b>457</b>
<b>Total provision for employee entitlements</b>	<b>3,187</b>	<b>3,408</b>

## Note 13: 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 73, to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 76.

	2006/07 actual \$000	2006/07 forecast* \$000	2005/06 actual \$000
<b>Surplus</b>	<b>329</b>	<b>7</b>	<b>140</b>
<b>Non-cash items</b>			
Depreciation	1,154	1,175	1,220
<i>Total non-cash items</i>	<b>1,154</b>	<b>1,175</b>	<b>1,220</b>
<b>Working capital movements</b>			
(Increase)/decrease in prepayments	(27)	12	26
(Increase)/decrease in receivables	(593)	10	123
(Increase)/decrease in work in progress	(147)	220	(948)
(Decrease)/increase in payables	1,395	80	81
(Decrease)/increase in employee entitlements	(476)	(451)	460
(Decrease)/increase in property lease liabilities			(111)
<i>Total net working capital movements</i>	<b>152</b>	<b>(129)</b>	<b>(369)</b>
<b>Investing activity items</b>			
Loss/(profit) on sale of plant and equipment	(23)	(7)	(10)
<i>Total investing activity items</i>	<b>(23)</b>	<b>(7)</b>	<b>(10)</b>
<b>Other items</b>			
Increase/(decrease) in non-current employee entitlements	255	(7)	3
<i>Total other items</i>	<b>255</b>	<b>(7)</b>	<b>3</b>
<b>Net cash flow from operating activities</b>	<b>1,867</b>	<b>1,039</b>	<b>984</b>

See Note 1 on page 81.

## Note 14: 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.

### **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 15: Related party information

The Crown provides 13.8% of the Office's revenue directly (see Note 2 on page 88), and a further 11.5% is provided indirectly through fees for the audit of government departments (see Note 3 on page 82). 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 16: 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 2007 actual	30 June 2006 actual
Area	6173m <sup>2</sup>	6283m <sup>2</sup>
Number of staff (FTE)	288	263
Space allocation per person	21m <sup>2</sup>	24m <sup>2</sup>
Total costs of leased office accommodation	\$1,777,229	\$1,600,154
Rent costs per person	\$5,820	\$5,709
Utility costs per person	\$355	\$375
Vacant accommodation	-	-

## Note 17: Adoption of New Zealand equivalents to 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 on or 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, the Office adopted NZ IFRS on 1 July 2007. We will release our first full set of NZ IFRS financial statements for the year ending 30 June 2008. For the 2008 financial statements, NZ IFRS requires full restatement of comparative balances for the year ending 30 June 2007. Adjustments required to restate the opening NZ IFRS balance sheet at 1 July 2006 will be made directly to taxpayers' funds.

Based on the standards as they are currently, we expect little effect 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, a liability for sick leave is recognised in the Statement of financial position to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements in the coming year. Non-current assets are reclassified to separately report intangible assets, which are currently included in plant and equipment. Intangible assets held by the Office are computer software programs. It is possible that future changes to the standards will change the nature of the adjustments required by the time we report our first financial statements under NZ IFRS.

The following table shows the expected adjustments to the balance sheet at 30 June 2006 and 30 June 2007. No other potential effect has been identified from the adoption of NZ IFRS.

## Reconciliation of taxpayers' funds, assets, and liabilities

	Current reporting 30/6/07	Estimated NZ IFRS adjustments	Estimated NZ IFRS 30/6/07	Current reporting 30/6/06	Estimated NZ IFRS adjustments	Estimated NZ IFRS 30/6/06
<b>Taxpayers' funds</b>						
General funds	3,586	(64)	3,522	3,586	(21)	3,565
Surplus for the year	0	0	0	0	0	0
<b>Total taxpayers' funds</b>	<b>3,586</b>	<b>(64)</b>	<b>3,522</b>	<b>3,586</b>	<b>(21)</b>	<b>3,565</b>
<b>Current assets</b>						
Cash and bank balances	3,844	0	3,844	2,992	0	2,992
Prepayments	389	0	389	362	0	362
Work in progress	1,525	0	1,525	1,378	0	1,378
Receivables	4,103	0	4,103	3,510	0	3,510
<i>Total current assets</i>	<i>9,861</i>	<i>0</i>	<i>9,861</i>	<i>8,242</i>	<i>0</i>	<i>8,242</i>
<b>Non-current assets</b>						
Plant and equipment	2,389	(355)	2,034	2,505	(264)	2,241
Intangible Assets	0	355	355	0	264	264
<i>Total non-current assets</i>	<i>2,389</i>	<i>0</i>	<i>2,389</i>	<i>2,505</i>	<i>0</i>	<i>2,505</i>
<b>Total assets</b>	<b>12,250</b>	<b>0</b>	<b>12,250</b>	<b>10,747</b>	<b>0</b>	<b>10,747</b>
<b>Current liabilities</b>						
Payables and accruals	5,008	0	5,008	3,613	0	3,613
Surplus payment to the Crown	469	0	469	140	0	140
Provision for employee entitlements	2,475	64	2,539	2,951	21	2,972
<i>Total current liabilities</i>	<i>7,952</i>	<i>64</i>	<i>8,016</i>	<i>6,704</i>	<i>21</i>	<i>6,725</i>
<b>Term liabilities</b>						
Provision for employee entitlements	712	0	712	457	0	457
<i>Total term liabilities</i>	<i>712</i>	<i>0</i>	<i>712</i>	<i>457</i>	<i>0</i>	<i>457</i>
<b>Total liabilities</b>	<b>8,664</b>	<b>64</b>	<b>8,728</b>	<b>7,161</b>	<b>21</b>	<b>7,182</b>
<b>Net assets</b>	<b>3,586</b>	<b>(64)</b>	<b>3,522</b>	<b>3,586</b>	<b>(21)</b>	<b>3,565</b>



# Appendix 1

## Summary of reports on performance audits and other studies published in 2006/07

1. *Residential rates postponement* (September 2006)

Rates postponement policies allow ratepayers to defer paying their rates, with the debt being secured against the equity in their property. A group of councils has formed a consortium to offer optional rates postponement to older ratepayers with enough equity in their homes. In addition, some councils offer rates postponement to ratepayers suffering financial hardship. Our audit examined the design and administration of six councils' rates postponement policies. Overall, councils' rates postponement policies are well designed, and councils are administering them in the interests of their communities. However, we identified some areas where councils could clarify their rates postponement policies and procedures.

2. *Inland Revenue Department: Performance of taxpayer audit – follow-up audit* (October 2006)

The Inland Revenue Department (IRD) carries out taxpayer audits to ensure that taxpayers comply with appropriate taxation law and regulations. In 2006/07, IRD expected to assess \$828 million of additional tax as a result of audits conducted across all taxpayer groups. Our 2003 audit of taxpayer audit concluded that much of what was needed for taxpayer audit to play its full part in the Taxpayer Compliance Model was not in place, the scale of change needed was substantial, and IRD required a significant programme to manage the change. We audited IRD in 2006 to see what progress it had made in implementing the recommendations in our 2003 report. IRD had made significant progress in implementing our recommendations, which had resulted in considerable changes in the operation of taxpayer audit. We expect IRD to continue to maintain and improve its performance.

3. *Advertising expenditure incurred by the Parliamentary Service in the three months before the 2005 General Election* (October 2006)

We carried out an inquiry into expenditure on advertising and publicity material paid for by the Parliamentary Service in the three months before the General Election on 17 September 2005. The focus of the inquiry was whether the expenditure incurred by the Service was lawful. We concluded that, to the extent that the material considered was electioneering material, the expenditure was in breach of appropriation. Accordingly, the Auditor-General directed the Minister responsible to report the breaches identified to the House of Representatives. The direction was issued under section 65Z(1) of the Public Finance Act 1989.

4. *Allocation of the 2002-05 Health Funding Package* (November 2006)

We carried out this audit to provide Parliament with a better understanding of where the Health Funding Package had been allocated between 2002 and 2005. We found the Ministry of Health had good documentation to support decisions on allocating the Package and that the Package had been allocated in accordance with Cabinet authority. However, it was not possible to say from this audit how the Package was ultimately spent by district health boards and Ministry directorates, because district health boards and many Ministry directorates did not keep separate records of Package funds. We also found the aim to cap new funding available to the health sector through the Package had not been achieved, with additional funding appropriated for the health sector from outside the Package.

5. *Performance of the contact centre for Work and Income* (December 2006)

We audited the performance of the contact centre for Work and Income. The contact centre's management systems follow industry good practice, and the contact centre is well integrated with the rest of Work and Income. We recommended improvements in the way the contact centre measures and reports on the service it provides to callers, and the preparation of an annual business plan. The contact centre has implemented our recommendations.

6. *Controlling sensitive expenditure: Guidelines for public entities* (February 2007)

We developed guidelines to help public entities improve, where necessary, their organisational approach to, and control of, sensitive expenditure. Sensitive expenditure is expenditure that could be seen as giving some private benefit to an individual staff member that is additional to the business benefit to the entity of that expenditure. Travel, accommodation, and hospitality spending are examples. Public entities incur sensitive expenditure to help them achieve their objectives. The guidelines represent our view of good practice for controlling sensitive expenditure. We may use the guidelines when carrying out future audits or inquiries.

7. *Department of Internal Affairs: Effectiveness of controls on non-casino gaming machines* (February 2007)

We examined how the Department of Internal Affairs administers controls on non-casino gaming machines. The review focused on controls on licensing machine operators and venues, on operator and venue costs, and on the

distribution and application of funds to the community. We found that the Department's approach to compliance was still emerging, but that the fundamental elements were in place. However, the Department needs to make several improvements, and the report contained 17 recommendations for the Department to consider. Recommendations included ensuring that its policies and procedures comply with the Act, and needing more information on the level of compliance in the industry to assess the Department's success in contributing to the industry's compliance with the Act.

8. *Waste management planning by territorial authorities (May 2007)*

The Local Government Act 1974 requires all territorial authorities to adopt a waste management plan to provide for waste management in their district. Our audit reviewed whether every territorial authority had adopted a waste management plan, and checked whether six selected territorial authorities were implementing their waste management plans. We also considered three case studies looking at particular approaches to managing solid waste.

We found that every council had prepared a waste management plan, although some plans were out of date or did not contain all the information we expected. In many cases it was not clear whether the plans had been formally adopted.

The six territorial authorities we reviewed in more detail were progressively implementing their plans. Several of them had improved their plans and practices through self-review.

The three case studies highlight the need for territorial authorities to carefully evaluate the requirements and the implications of pursuing particular waste management practices before implementing them. Most of the territorial authorities we looked at as case studies had done this.

9. *New Zealand Qualifications Authority: Monitoring the quality of polytechnic education (May 2007)*

Our report examined how the Board of the New Zealand Qualifications Authority (NZQA) ensured that there was effective auditing of the quality of the education provided at polytechnics. The quality auditing of polytechnics had been delegated by the Board of NZQA to another agency. Our report found that there were sound auditing systems in place, but that the Board of NZQA needed to be better informed about the outcomes of the audit work being carried out on its behalf.

10. *Te Puni Kōkiri: Administration of grant programmes (May 2007)*

This audit was the third in a multi-year series we have carried out to examine how effectively grant programmes are administered by public entities. We found that Te Puni Kōkiri has some good systems in place for administering its grant programmes, but that there were several areas for improvement. These include improved documented monitoring of actual expenditure and progress against contract milestones for funded projects.

11. *Sustainable Development – Implementing the Programme of Action (May 2007)*

The Sustainable Development Programme of Action sought real change in the way central government works, including how it works with local government. We audited the leadership and co-ordination, planning, implementation, and evaluation and reporting of the Programme of Action as a whole, and of two of its four workstreams. Although a lot was achieved in the separate areas of focus for the Programme of Action and most of our expectations were met, our expectations for some aspects of planning and reporting to the public were not fully met. We identified some implications for central and local government in areas such as governance, management, and accountability. Our intention was to provide timely information to those who are working in cross-agency collaboration.

12. *Assessing arrangements for jointly maintaining state highways and local roads (June 2007)*

We looked at how well three collaborative agreements between Transit New Zealand (Transit) and district councils for jointly maintaining state highways and local roads were working, and what cost savings and other benefits they were bringing. Our overall conclusion was that collaborative agreements between Transit and district councils can be an effective means of maintaining state highways and local roads. The district councils were getting greater savings and more non-financial benefits than Transit from the agreements. From Transit's national perspective, there were significant drawbacks to collaborative agreements, although it had not thoroughly assessed these and the merits of current collaborative agreements. To avoid the risk of discounting collaborative agreements as a potentially viable and worthwhile option for managing and maintaining state highways and local roads, Transit needed to more fully assess the value of current collaborative agreements.

13. *Ministry of Health and district health boards: Effectiveness of the “Get Checked” diabetes programme (June 2007)*

The “Get Checked” programme was set up in June 2000 to help people who have been diagnosed with diabetes better manage their condition and lower the risks of complications. District health boards are responsible for the programme and ensuring that it is delivered in their districts. Our audit assessed the extent to which the programme’s objectives were being met. We found that the programme has resulted in improvements. However, to make the programme more effective, improvements need to be made to the quality of programme data and how the data is used. Better use can be made of the data to inform the provision of diabetes care at primary and secondary care levels. More evaluation should be carried out using the programme data to better understand how the programme and other factors contributing to diabetes are linked, and to identify further improvements in how diabetes is managed.

14. *New Zealand Customs Service: Collecting customs revenue (June 2007)*

The New Zealand Customs Service is responsible for collecting about 15% of the Government’s total forecast revenue for 2006/07. We conducted a performance audit that assessed the Service’s arrangements for collecting customs duties, excise, and Goods and Services Tax on imported goods. Although we made recommendations for improvement, we were satisfied that the Service’s arrangements for collecting customs revenue were sound, and that its information technology systems were performing effectively. The Service needs to improve its performance measures to reflect the quality and outcome of its performance. This is a deficiency that the Service has in common with other entities we audit, and is one that we would like to see remedied. We were pleased that the Service had already identified this matter for serious attention.

15. *The Department of Labour: Management of immigration identity fraud (June 2007)*

We conducted an audit to assess the effectiveness of the Department of Labour’s systems, processes, and procedures for managing people who seek to enter New Zealand with a false identity as skilled migrants or United Nations quota refugees. Our audit looked at how the Department prevents, detects, and investigates instances of identity fraud with those two entry categories. Although we found that there were systems, processes and procedures, and relationships with external stakeholders in place, there were several areas where improvements need to be made. These include the need to identify immigration fraud risks

specific to the two entry categories considered as part of our audit; prepare a plan to manage those risks; provide appropriate training, guidance material, and IT support systems for relevant staff; and regularly evaluate the effectiveness of the Department's prevention, detection, and investigation activities.

16. *Effectiveness of the New Zealand Debt Management Office (June 2007)*

With the assistance of technical experts from KPMG, we carried out a performance audit of the New Zealand Debt Management Office (NZDMO), a unit within the Treasury. NZDMO is responsible for the efficient management of the Crown's debt and associated financial assets within an appropriate risk management framework. Our audit did not find any fundamental concerns with the performance of NZDMO. It identified that NZDMO has made appropriate adjustments to its operating framework as the Crown's fiscal position has changed. The audit also identified areas of governance, risk management, portfolio management policy, and performance reporting where NZDMO could make some further improvements.

17. *Statements of Corporate Intent: Legislative compliance and performance reporting (June 2007)*

We examined the compliance of a range of public entities with their legislative requirements to produce a statement of corporate intent, and then report in their annual report against performance measures set in the statement of corporate intent. Entities examined included Crown Research Institutes, energy companies, port companies, and State-owned enterprises. We also included council-controlled organisations and council-controlled trading organisations, which are required to produce statements of intent, since their legislative requirements are very similar to those for statements of corporate intent. Our audit found broad legislative compliance, but we also identified several cases of non-compliance. There was also mixed quality of targets used by some entities to measure, and report against, their performance.

18. *Managing conflicts of interest: Guidance for public entities (June 2007)*

This publication provides general guidance about conflicts of interest for anyone who works with or for a public entity. It explains how to understand conflicts of interest in a public sector context, and how to identify, disclose, and manage them. It sets out the Auditor-General's view of what constitutes good practice in the public sector. It considers both the legal and ethical dimensions of conflicts of interest, and includes a series of case studies.

19. *Guidance for members of local authorities about the law on conflicts of interest* (June 2007)

This publication contains specific guidance about conflicts of interest for members of the governing bodies of local authorities (and those other organisations that are subject to the Local Authorities (Members' Interests) Act 1968). This guide is an updated version of previously published guidance about the legal requirements about conflicts of interest that apply to local authority members in formal decision-making at meetings of their authority. It is focused on the application of relevant statutory and common law rules to members in a local government context.

20. *Matters arising from the 2006-16 Long-Term Council Community Plans* (June 2007)

The Local Government Act 2002 requires local authorities to prepare Long-Term Council Community Plans (LTCCPs), and the Auditor-General to audit them. The report outlines the results of the audits of the LTCCP Statement of Proposal and its Summary (used for community consultation), and of the final LTCCP adopted by an authority. It also includes an external review by four experts in the areas of sustainable development, performance information, asset management information, and financial management and strategies. The report is intended to assist local authorities in improving their next LTCCP for 2009-19.



## Appendix 2

# Senior management

Controller and Auditor-General	Kevin Brady
Deputy Controller and Auditor-General	Phillippa Smith
<b>OAG Leadership Team</b>	
Assistant Auditor-General, Accounting & Auditing Policy	Greg Schollum
Assistant Auditor-General, Corporate Business Services	Matt Reid (until August 2007)
Assistant Auditor-General, Legal	Nicola White (from December 2006)
Assistant Auditor-General, Local Government	Bruce Robertson
Assistant Auditor-General, Parliamentary Group	Wendy Venter
Assistant Auditor-General, Performance Audit Group	Craig Neil (until July 2006) Graham Baker (from November 2006)
Assistant Auditor-General, Research and Development	Ann Webster
<b>Audit New Zealand Executive Leadership Team</b>	
Executive Director, Audit New Zealand	Terry McLaughlin
General Manager, Operations	Chris Fabling (until December 2006) Bethia Gibson (from May 2007)
General Manager, Professional Practices	Chong Lim



# Appendix 3

## Directory of offices

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

Level 5  
Revera Building  
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Telephone: (04) 917 1500  
Facsimile: (04) 917 1549  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

### **Audit New Zealand**

#### **National Office**

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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](http://www.auditnz.govt.nz)

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Facsimile: (03) 479 0447



# 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: Andriill Joint Venture
- Chatham Islands Enterprise Trust
- Corporate Property Investments Limited
- France Trust
- Kaipara Community Health Board
- Kahungunu Executive Ki Te Wairoa Charitable Trust
- Literacy Aotearoa
- Māori Education Trust
- Ngāti Whatua o Orakei Corporate Limited
- Ngāti Whatua o Orakei Health and Social Needs Limited
- Orakei Management Services Limited
- Orakei Retirement Care Limited
- Tamaki Retirement Care Limited
- Te Runanga O Kirikiriroa Trust
- The Quit Group
- Tokelau International Trust Fund
- TROK Building Limited
- Unipol Recreation Limited



# Publications by the Auditor-General

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

- Turning principles into action: A guide for local authorities on decision-making and consultation
- Matters arising from the 2006-16 Long-Term Council Community Plans – B.29[07c]
- Local government: Results of the 2005/06 audits – B.29[07b]
- Effectiveness of the New Zealand Debt Management Office
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