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Parliamentary paper

Annual Plan 2008/09

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Annual Plan 2008/09

Prepared in accordance with section
36(4) of the Public Audit Act 2001.

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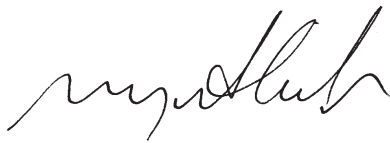
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Speaker's foreword

In my capacity as Speaker, I am responsible for Vote Audit under the Public Finance Act 1989. I am therefore pleased to introduce the Controller and Auditor-General's annual plan for the financial year 2008/09. The document includes a statement of future operating intentions (Statement of Intent) under sections 38(1) and 45G of the Public Finance Act 1989.

The Controller and Auditor-General is an Officer of Parliament whose role is to assist Parliament in its scrutiny of executive government, to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

This *Annual Plan 2008/09*, and its Statement of Intent, indicate how the Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Auditor-General to account for the performance of his Office during 2008/09.



Hon Margaret Wilson MP
Speaker of the House of Representatives

12 May 2008

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Statement of responsibility

The information on future operating intentions of the Controller and Auditor-General for the year ending 30 June 2009 contained in this *Annual Plan 2008/09* has been prepared in accordance with section 36 of the Public Audit Act 2001 and Part 4 of the Public Finance Act 1989.

As Controller and Auditor-General, I acknowledge that, in signing this statement, I am responsible for the information contained in this *Annual Plan 2008/09*.

The forecast financial statements, which include the service performance forecast for each class of outputs, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2008/09 budgetary estimates for the Auditor-General submitted under section 45G of the Public Finance Act 1989.

I certify that the information contained in this *Annual Plan 2008/09* is consistent with existing appropriations and with the appropriations set out in the Appropriation (2008/09 Estimates) Bill.

Signed:

Countersigned:



K B Brady
Controller and Auditor-General

M J Viviers
Financial Controller

15 April 2008

15 April 2008

Auditor-General's overview

I am pleased to present my annual plan for 2008/09. During the coming year, my Office will continue to focus on achieving our 2004-09 strategic plan. This plan for 2008/09 is based around three main strategies:

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

We have also begun preparing a new strategic plan for 2009-12.

It has been my honour and privilege to serve as Auditor-General. I am committed, when my term of office finishes in 2009, to leaving the Office in as good a heart and with people of as high a calibre as I inherited from my predecessor, David Macdonald. Therefore, while an incoming Auditor-General will bring their own priorities, I want to ensure that the Office's strategies, intentions, and risks are clearly laid out as a basis on which they can chart the course for their own term of office.

Main risks and issues

Significant changes in the accounting and auditing profession and in the legislative and operating environments of public entities continue to have a major effect on our work.

In the public sector, these include:

- increasingly high public expectations and scrutiny, particularly about ethical conduct, and transparent and accountable decisions and transactions;
- an expectation that public entities will work collaboratively to better integrate services to the public, and that public entities will consider the longer-term effects of their activities (especially in managing finite or fragile environmental resources); and
- changes in 2004 to the Public Finance Act 1989 and the Local Government Act 2002, and enactment of the Crown Entities Act 2004. These Acts require changes to be made to the planning, budgeting, and reporting responsibilities of many public sector entities.

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 was permitted. The local government sector decided to comply earlier,

and prepared NZ IFRS compliant financial statements 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).

Another significant change in the accounting and auditing profession is the adoption of New Zealand equivalents to International Standards on Auditing. This will probably mean a significant change to the Auditor-General's auditing standards during 2008/09.

Shaping our services

These changes increase complexity for those preparing financial reports and those auditing them. This puts pressure on both the quality and the cost of the audit work carried out. These changes have also created an environment in which financial expertise and audit assurance expertise are in high demand.

For several years, we have identified our key strategic risks to be the loss of our independence and audit failure. We have also included two additional strategic risks: loss of capability and loss of reputation.

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. In particular, I note that arrears in issuing public entities' audit reports increased from 315 in 2005/06 to 360 in 2006/07. Arrears may increase further during 2007/08.

I am concerned that the demands created by changes within the accounting and auditing profession have meant that our audit work has had to focus more heavily on entities' financial statements. This has been at the expense of public-interest audit work based on fuller consideration of the risks and challenges that entities face in their strategic, governance, and operational contexts.

We are therefore working to rebalance our audit effort so that the audit of each individual entity takes this fuller perspective into account, to the extent deemed appropriate by that entity's appointed auditor. This should result in a stronger emphasis on non-financial reporting, waste, probity, and accountability. Over time, this may affect how our audits are costed, resourced, carried out, and reported.

I have also, in response to the main risks and issues I see, identified several areas for us to focus on.¹ I have selected these areas because they are strongly related to my statutory role and because these concerns tend to be challenging for the public sector. They cover both central and local government, and are areas where, in my view, public sector performance should be improved. The areas of focus are:

¹ See Appendix 2 for more detailed discussion.

- probity;
- fraud;
- sustainable development;
- stewardship and management of infrastructure assets; and
- performance information.

I expect our work in these areas to involve the full range of our audit assurance services (annual audits, performance audits, inquiries, and advice and assistance).

I believe that the decision to base New Zealand standards on IFRS (which were 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 and have begun to voice my concerns publicly. If New Zealand is to remain at the forefront of public sector management, it is vital that accounting standards are sensible in the context of the New Zealand public sector.

To ensure that our annual audits comply with changing financial reporting and auditing standards, public sector audit fees have been increasing to keep pace with the wider international demand for assurance services. That fee pressure is likely to continue for the foreseeable future, given the prevailing market conditions. I have systems in place to ensure that audit services are provided at a reasonable cost to public entities. For example, I regularly seek independent assurance that our fee-monitoring mechanisms ensure that fee levels are fair and reasonable for audited entities. However, I must also ensure that audits are performed well, both now and in the future. To do this, my audit service providers must be fairly remunerated.

Building our capability to create and deliver our services

Recruiting and retaining good staff and continuing to invest in developing our staff is a core component of our strategic plan. This is becoming increasingly critical in the current tight labour market. We have recently been fortunate with a very successful Audit New Zealand graduate recruitment round. Although

graduates tend to be highly mobile, this is a significant and much needed boost that has increased the Office's total staffing by nearly 15%.

In 2007/08, the Office decided to use the Lominger Competency Framework as the basis for personal development within the Office. In the coming year, I will be focusing on staffing – in particular, in Audit New Zealand – through:

- resourcing and aligning staffing needs with our future business model;
- strengthening the management and leadership skills of our people, including further embedding the national professional development programme;
- enhancing our High Potential and Talent Management programmes to recognise, reward, and develop high performers; and
- developing a staff retention programme.

In 2007, I also initiated a peer review of the Office by a team of our international counterparts to let us know whether we are operating effectively and efficiently, and in keeping with good practice. The results of the peer review team's work were published on 15 April 2008.

Feedback from Parliamentary consultation

Under section 36(1) of the Public Audit Act 2001, our proposed work programme is subject to Parliamentary consultation. We sought feedback on two occasions – once on an early draft of our proposed work programme for 2008/09 and again on the statutory *Draft annual plan 2008/09*.

Feedback we have received from members of Parliament mainly supported the approach we have taken to determining the Office's work programme. The feedback included:

- suggestions for projects in future years;
- requests for more information, which we have responded to;
- guidance on the scope and relative emphasis we should place on some studies and other areas of concern; and
- a suggestion to consider more work on procurement across the public sector.

I thank Parliament for this feedback, and will ensure that we incorporate it into our scoping of the forthcoming studies and into development of our 2009/10 work programme.

Having regard to the requirements of section 36(3) of the Public Audit Act, I acknowledge that the Finance and Expenditure Committee provided written response to the statutory *Draft annual plan 2008/09*, and note that neither the Speaker nor any committee of the House requested any change to our work programme priorities.

I am confident that the performance audits we intend to conduct in 2008/09 are relevant and likely to be useful to Parliament, public entities, and the public.

Fostering relationships and ways of working that support our strategic plan

To shape our services to anticipate and respond to Parliament's and other stakeholders' needs and our changing environment, we need to foster relationships so we can understand those needs and our environment. Our efforts are most productive when they are part of 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.

I have in the past remarked on the exceptional collaborative working that occurred during our audits of the 2006-16 Long-Term Council Community Plans (LTCCPs). Indeed, we expect such collaboration to continue as we begin planning for the 2009-19 LTCCP audits, which will be undertaken during 2008/09. The approach taken to the LTCCP audits provided a “living” example of how my audit service providers – while coming from different accounting firms – could work together to create greater value for the public sector from their individual efforts. In 2003, when I decided to shift to an allocation method for contracting audits, I hoped it would be a cost-effective way of encouraging auditors to share methodologies and work together to improve audit work. I'm therefore pleased to see collaboration emerging across audit service providers as the way we seek to shape our products and services.

We also benefit from collaboration with the various interest and sector groups that make up the public sector through our liaison work and participation in working parties on financial management and accountability.

Over 2008/09, I expect my staff to continue participating on the major accounting and auditing standard-setting bodies in New Zealand. Although this takes a lot of time, I support 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. We will also continue 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 we continue to work co-operatively with such bodies to ensure that public sector issues have international consideration.

In view of the difficult labour market and the increasing “internationalisation” of accounting and auditing standards, we have been putting more effort into our relationships with our international counterparts. We have benefited in the past from an increasing number of secondment arrangements and are 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.

While the 2008/09 financial year has a number of challenges in store for us, I am confident that we have the systems and processes in place to achieve our strategic and annual plans. Most importantly, in fulfilling the statutory purpose of the Auditor-General, I am fortunate to be working with exceptionally skilled and talented people within the Office of the Auditor-General, Audit New Zealand, and our other audit service providers. I look forward to achieving the objectives of this annual plan with them during 2008/09.



K B Brady
Controller and Auditor-General

12 May 2008

Part 1
Background

Part 1

Background

Nature and scope of the Auditor-General's functions

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. 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 keeping with Parliament's intentions. There is also a need for independent assurance of local government. Local authorities are accountable to the public for the activities they fund through locally raised revenue. As an Officer of Parliament, the Auditor-General provides this independent assurance to both Parliament and the public.

Our operating model

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

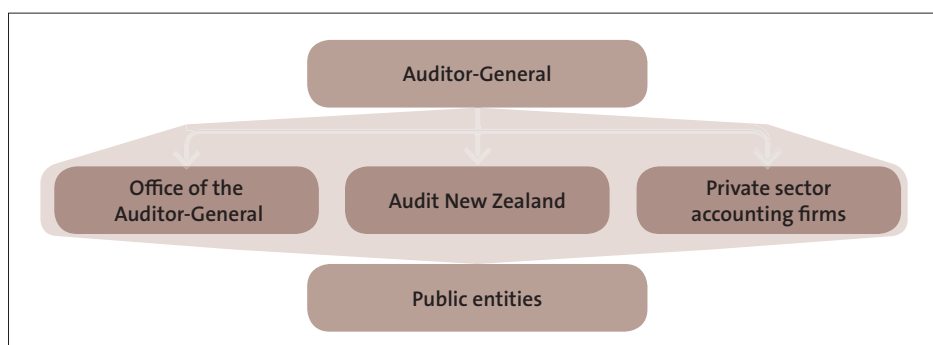
The Office of the Auditor-General carries out strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and carries out inquiries and other special studies.

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

The Auditor-General also engages private sector accounting firms to carry out his statutory functions for some public entities.

Figure 1 shows these different elements of our operating model.

Figure 1
Our operating model



Size and scale of our operations

Annual audits

The Auditor-General has a statutory duty to conduct annual audits of the financial reports – and other audits required by various statutes – of about 4000 public entities, of which 3000 are schools and other very small entities. The Auditor-General can also perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.

Supporting accountability to Parliament

The Office of the Auditor-General provides reports and advice to select committees and responsible Ministers. Each year, we prepare 120 to 140 reports to assist select committees with their financial reviews of public entities and Estimates examinations, and 120 to 130 reports to Ministers on the results of annual financial audits. The Office of the Auditor-General and appointed auditors also provide independent assurance to Parliament that departments and Officers of Parliament have incurred expenses and capital expenditure for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.

Performance audits and inquiries

The Office of the Auditor-General carries out 19 to 21 performance audits, special studies, and major inquiries each year. It also considers 200 to 300 requests for inquiries each year from taxpayers, ratepayers, and members of Parliament. A few of these requests lead to the Auditor-General carrying out a major inquiry. The Office of the Auditor-General also responds to requests for approvals for pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968. There are 50 to 100 enquiries each year about this Act.

Our current staff and contracted resource base

We employ about 315 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.

Part 2

Strategic direction and operating intentions

Part 2

Strategic direction and operating intentions

Our desired overall outcome is trust in the effectiveness and efficiency of the public sector. The Auditor-General helps create trust in the effectiveness and efficiency of the public sector by providing independent assurance and advice to Parliament and the public that governance and management arrangements are suitable to address five main areas¹ – our intermediate outcomes – and where they are not by saying so. These five main areas are that public entities:

- carry out activities in keeping with Parliament’s intentions, and in an effective and efficient manner;
- carry out activities, resourcing, and accountability requirements within the authority granted by Parliament;
- obtain and apply resources in an economical manner;
- meet parliamentary and public expectations of an appropriate standard of behaviour for the public sector; and
- give full and accurate accounts of their activities, and of their compliance with Parliament’s intentions, through the annual reporting cycle.

We gather the information necessary to provide this independent advice and assurance through our output classes:

- **Audit and assurance services** – performing audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the Financial Statements of the Government, public entities’ financial statements, and other information that must be audited.
- **Supporting accountability to Parliament** – providing advice and assistance to select committees and other stakeholders, and performing the Controller function. Through this function, the Office provides independent assurance to Parliament that departments and Offices of Parliament have incurred expenses and capital expenditure for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.
- **Performance audits and inquiries** – carrying out, and reporting on, performance audits and inquiries of public entities under the Public Audit Act 2001 and responding to requests for approvals of pecuniary interest questions regulated by the Local Authorities (Members’ Interests) Act 1968.

Outcome, impact, and output performance measures and standards

Our outcome measure of trust in the effectiveness and efficiency of the public sector is that New Zealand’s Transparency International Corruption Perception index score over the next three years is maintained or improved. In 2006, New

¹ These five main areas reflect the mandate given to the Auditor-General in the Public Audit Act 2001.

Zealand's score was 9.6, meaning it ranked first equal on the index with Finland and Iceland.

We are currently considering two other sources of possible future outcome measures:

- The Gallup Corruption Index survey asks respondents about business and government corruption. In the survey's overall results, New Zealand ranks well among the 101 countries in which it is conducted, sharing second to lowest place with Denmark, behind Finland.
- Each year, the State Services Commission produces a report – State of the Development Goals. The sixth development goal is “Trusted State Services: Strengthen trust in the State Services, and reinforce the spirit of service”.

In Part 3, we set out our output classes and their associated impact and performance measures and standards. We describe:

- the impact measures we use to help us understand whether our outputs are having the effect we want (as required by section 40(d)(i) of the Public Finance Act 1989); and
- the performance measures and standards we use to help us understand whether we are producing quality outputs within time and resource constraints (as required by section 41(1)(e)(ii) of the Public Finance Act 1989).

If our output performance and our outcome and output impact measures results match those projected in this plan, we will be contributing to an effective and efficient public sector that is trusted within the five areas that form the Auditor-General's mandate under the Public Audit Act 2001.

A failure to achieve satisfactory performance against an output standard or budget, a failure to maintain a static situation, or a trend in the opposite direction to that desired in outcome measures could indicate a cost-effectiveness² issue that we would explore and plan to improve.

It is worth noting that about 85% of the Auditor-General's expenditure is on audit and assurance services. These are primarily annual audits. To assess the effectiveness of annual audits, our performance measures include:

- ensuring that audits are completed within a reasonable time and that arrears in completing audits are not caused by inaction on our part;
- issuing timely management reports;

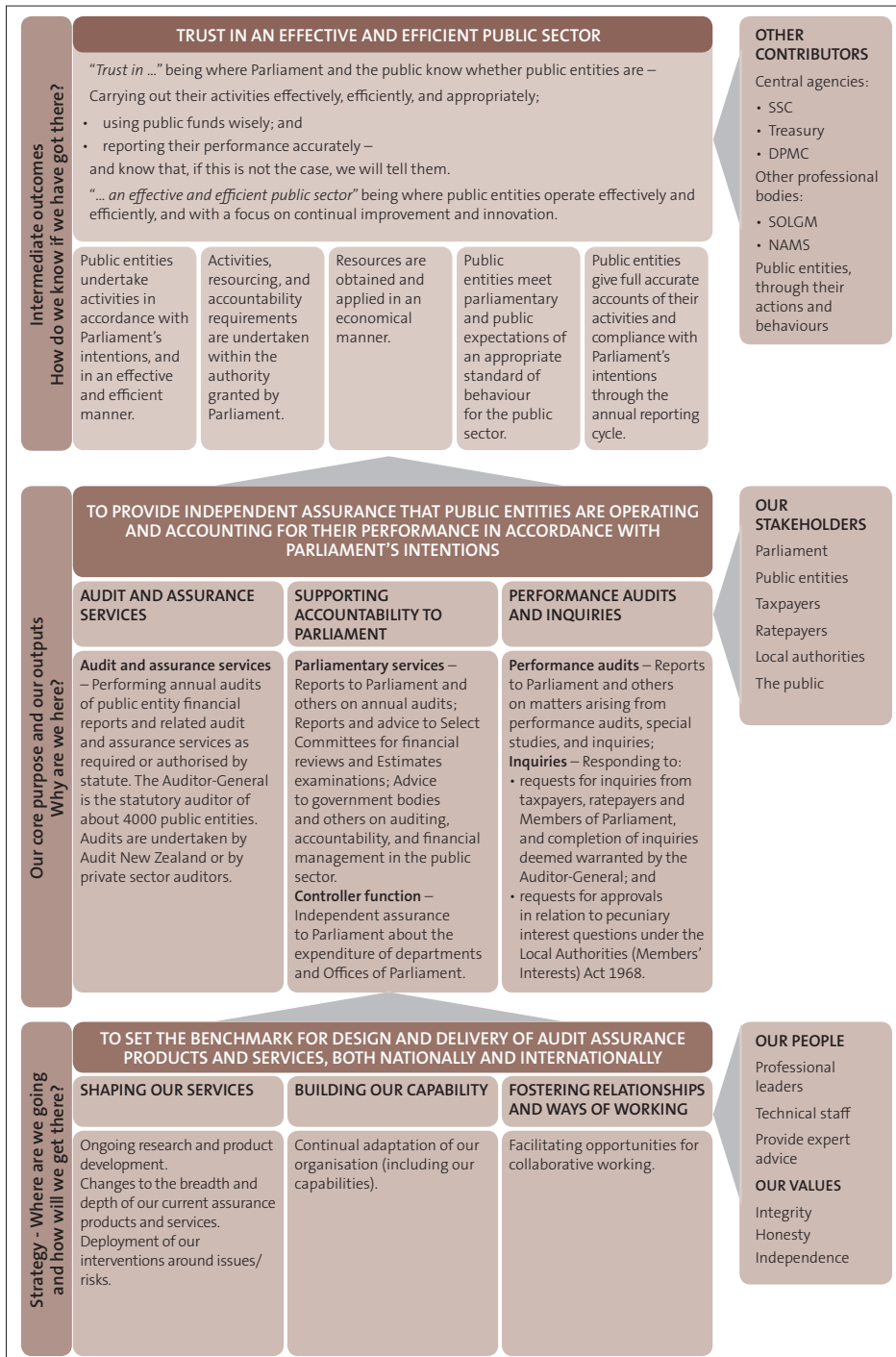
2 See section 40(d)(ii) of the Public Finance Act 1989.

- achieving client satisfaction with the quality of the work of our audit service providers;
- obtaining assurance about the quality of annual audit work; and
- obtaining independent confirmation of the probity and objectivity of the methods and systems that we use to allocate and tender audits and monitor the reasonableness of audit fees.

Our outcome measures focus on the effectiveness of this work by comparing the numbers of audits completed according to statutory timelines, audit qualifications, and the response of entities to management letter recommendations with data from the previous two years.

Figure 2 summarises our outcomes, our outputs, and our strategy.

Figure 2
Our outcomes, outputs, and strategy



Part 3

**Statement of forecast service
performance**

Part 3

Statement of forecast service performance

Our output classes

Our output classes and the outputs within them are:

- **Audit and assurance services**

This output class is limited to the performance of audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the financial statements of the Government, public entities' financial statements, and other information that must be audited. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities. There is one output within this output class: Audit and assurance services.

- **Supporting accountability to Parliament**

This output class is limited to reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the executive to account for its use of public resources. There are two outputs within this output class: Parliamentary services and Controller function.

- **Performance audits and inquiries**

This output class is limited to undertaking, and reporting on, performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968. There are two outputs within this output class: Performance audits and Inquiries.

For comparative purposes, we have provided actual achievements against measures and standards for 2005/06 and 2006/07. As information is not yet available in most instances for 2007/08, we have not given forecast actual achievements for that year. The measures and standards for 2008/09 are substantively the same as those for 2007/08.

Output class: Audit and assurance services

This output class relates to the Auditor-General's statutory duty to carry out annual audits of the financial reports, and in some cases performance information, of about 4000 public entities, including the Financial Statements of the Government. It includes other audits that the Auditor-General is required to do by statute, such as the three-yearly audits of local authorities' Long-Term Council Community Plans (LTCCPs), and other assurance services provided to

public entities on behalf of the Auditor-General. 2008/09 is the next year in which LTCCP audits will be done; these represent a significant increase in audit work within this output class.

Audits and assurance services account for about 85% of our total budgeted expenditure. Audit New Zealand and private sector accounting firms carry out annual audits and provide other assurance services on behalf of the Auditor-General. The audits and other services are funded mainly by fees paid by the public entities.

Auditor appointments and fee monitoring of annual audits

The Auditor-General appoints auditors to carry out the annual audits of public entities. He appoints auditors 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 a few auditors are appointed to an audit after a competitive tender.

Because we mainly use an allocation approach, we monitor audit fees at the point of negotiation and provide a comparative analysis to help resolve any concerns about proposed audit fees. Our objective is to ensure that audit fees are fair to the public entities subject to audit and provide a fair return to the auditors for the work required by them to meet the Auditor-General's auditing standards.

Performing 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. If the financial statements fairly reflect the public entity's financial performance and position and, where applicable, service performance information, the auditor will issue an audit report with an unqualified opinion. However, if the auditor identifies a material¹ error or omission in the financial statements or performance information, the auditor will issue an audit report with a qualified opinion (which we refer to as a non-standard opinion).
- The management report is addressed to the governing bodies and management of public entities. It sets out any significant issues the auditor identified during the audit. The report recommends ways the public entity could improve its 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.

If public entities are subject to financial review by Parliamentary select committees, we report the results of the annual audits to responsible Ministers and select committees. This includes providing a grading for entities, based on our assessment of their management control environment, financial and service performance systems (where required), and controls.

Quality assurance of annual audits

Because the Auditor-General is responsible for auditing all public entities, we must ensure that audits are performed effectively and efficiently. We carry out quality assurance reviews of 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.

Measuring our performance for output Audit and assurance services

2008-11 Main measures and standards of impacts	2006/07 Actual	2005/06 Actual
The number of public entities' audited financial reports issued within the statutory timeframe is improved (or at least maintained), measured against the previous two years.*	4090 completed, 360 in arrears	4063 completed, 315 in arrears
The number of public entities' audited financial reports containing qualified opinions is reduced (or at least maintained), measured against the previous two years.	288	371
Public entities' acceptance of Audit New Zealand's management letter recommendations is improved (or at least maintained), measured against the previous two years.	64%	53%
Central government entities' management control environment, financial information and service performance information systems, and controls are improved (or at least maintained), measured against the previous two years.**	N/A	N/A

* Audits may not have been completed for several different reasons, including that the entity has not produced financial statements for audit, that the audit of the previous year's financial statements has not been completed (and must be audited first), that there are delays on the part of the entity in responding to audit queries, that the audit is under way but the financial statements have not been available to us for more than 30 days, and that the audit is complete and waiting for the entity's Board to adopt the financial statements.

** We collected benchmark data in 2007 for our first assessment of central government entities' management control environment and financial systems and controls aspects. We will collect benchmark data in 2009 for our assessment of the entities' service performance systems and controls.

2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
Less than 10% of the outstanding audit reports at 30 June 2009 are because of inaction on our part.* (New measure in 2007/08.)	N/A	N/A
All management reports are issued within six weeks of issuing the audit report.	95%	95%
No outstanding LTCCP audit opinions at 30 June 2009 are because of inaction on our part and all LTCCP management reports are issued within six weeks of issuing the audit report. (New measure in 2008/09. The audit of LTCCPs occurs every three years.)	N/A	N/A
Client satisfaction survey results show that, overall, 75% of respondents are satisfied with the quality of audit work (including the expertise of staff and the quality of the entities' relationships with their audit service provider).**	75% (based on Audit NZ clients)	N/A
Quality assurance reviews for all appointed auditors are completed during a three-year period. Of the auditors reviewed in any given year, 95% achieve a result of "satisfactory" or better. [§]	Achieved	Achieved
An annual independent review of our processes confirms the probity and objectivity of the methods and systems we use to allocate and tender audits, and monitor the reasonableness of audit fees. ^{§§} (New measure in 2007/08.)	N/A	N/A
The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses. (New measure in 2007/08.)	N/A	N/A

* Audits may not have been completed for several different reasons, including that the entity has not produced financial statements for audit, that the audit of the previous year's financial statements has not been completed (and must be audited first), that there are delays on the part of the entity in responding to audit queries, that the audit is under way but the financial statements have not been available to us for more than 30 days, and that the audit is complete and waiting for the entity's Board to adopt the financial statements.

** We assess this measure through our Client Survey. Appendix 3 provides further information about the method used for this survey.

§ There are five levels of quality assurance ratings, assessed using the reviewers' overall judgement of the quality of the audit work carried out. The five levels are "excellent", "very good", "good", "satisfactory", and "requires improvement". We will identify how many auditors have not achieved a "satisfactory" rating or better, and describe the actions we intend to carry out to address it.

§§ We will include in our annual report a copy of the independent reviewer's report, and provide an explanation of our performance.

The Vote estimate for the Audit and assurance services output class in 2008/09 is \$61.482 million (including funding for audits of smaller entities).

Output class: Supporting accountability to Parliament

This output class includes two outputs:

- Parliamentary services – advice and assistance to select committees and other stakeholders; and
- Controller function – independent assurance to Parliament that departments and Offices of Parliament have incurred expenses and capital expenditure

for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.

Parliamentary services

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 help them improve the performance and accountability of public entities.

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

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

Each year, we prepare 80 to 90 financial review reports, 40 to 50 Estimates of Appropriations examination reports, and 120 to 130 reports to responsible Ministers.

We also provide advice and assistance through:

- reports to Parliament and other constituencies on matters arising from our annual audits (with at least two reports presented to Parliament each year);
- responding to requests and participating in working parties on financial management and accountability matters 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 among members in the field of public audit. This includes our roles as Secretariat of the South Pacific Association of Supreme Audit Institutions (SPASAI), membership of various committees of the International Organisation of Supreme Audit Institutions (INTOSAI), and executing agent for the Pacific Regional Audit Initiative (which is funded by the Asian Development Bank, with co-financing from the Japan Special Fund and the Government of Australia).

Measuring our performance for output Parliamentary services

2008-11 Main measures and standards of impacts	2006/07 Actual	2005/06 Actual
Select committees confirm that our advice assists them in Estimates of Appropriation and financial review examinations.* (New measure in 2007/08.)	N/A	N/A
2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
Reports and advice are given to select committees and Ministers at least two days before an examination, unless otherwise agreed.	100%	100%
An internal review of a sample of Financial review, Estimates, and Ministerial reports confirms that they meet the relevant standards and procedures, including that reports are consistent in their framework and approach and are peer reviewed in draft.**	Achieved	N/A
At least 85% of select committee members we survey rate the quality of the advice they receive from us as 4 or better on a scale of 1 to 5.*	Achieved	Achieved
At least 85% of other stakeholders we survey rate the usefulness of the advice they receive from us as 4 or better on a scale of 1 to 5.* (New measure in 2007/08.)	N/A	N/A

* We assess these measures through our Stakeholder Survey. Appendix 3 provides further information about the method used for this survey.

** The nature, extent, and frequency of the quality assurance review is determined based on risk. The review is carried out during a three-year period.

Controller function

The Controller function provides independent assurance to Parliament that departments and Offices of Parliament have incurred expenses and capital expenditure 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 carry 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. This involves reviewing the monthly reports provided by the Treasury, and advising the Treasury of any issues arising and the action to be taken.

The audit work on appropriations, in conjunction with annual audits of government departments, underpins the Controller function. This work is a statutory function of the Auditor-General under section 15(2) of the Public Audit Act 2001. The Auditor-General's appointed auditors carry out an appropriation audit as part of the annual audit of each department, to:

- determine whether the department has incurred expenses or capital

expenditure within the amount, scope, and period of an appropriation or other statutory authority;

- confirm that expenses incurred have been for lawful purposes; and
- confirm that the department reports any unappropriated expenditure in its financial statements.

Measuring our performance for output Controller function

2008-11 Main measures and standards of impacts	2006/07 Actual	2005/06 Actual
Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Where there is a breach or suspected breach, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury. (New measure in 2007/08.)	N/A	N/A
2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
Monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	Achieved	Achieved
Internal quality assurance undertaken to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately.*	Achieved	N/A

* The nature, extent, and frequency of the quality assurance review is determined based on risk. The review is carried out during a three-year period.

The Vote estimate for the Supporting accountability to Parliament output class in 2008/09 is \$2.460 million.

Output class: Performance audits and inquiries

This output class includes two outputs:

- Performance audits – non-financial audit reports to Parliament and other constituencies on matters arising from examining how well public entities perform their activities; and
- Inquiries – carrying out, and reporting on, inquiries of central and local government entities.

Performance audits

Performance audits are significant in-depth projects. They form the bulk of the Auditor-General's discretionary work programme. They are non-financial audits and can examine whether public entities:

- are carrying out their activities effectively and efficiently;
- are complying with their statutory obligations; and
- have acted wastefully or with a lack of probity or financial prudence.

Performance audits differ in their scope and coverage of the above areas. They usually provide assurance about specific issues or programmes and how the relevant public entity or entities have managed them, and usually recommend improvements. We carry out performance audits in both the central government and the local government sectors. We also publish good practice guides on topical issues of public sector accountability and performance.

To select performance audits and studies, we scan the environment each year. Through this process, we assess risks and identify the issues and programmes that our performance audits will examine. Environmental scanning 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.

Core areas of interest for the Auditor-General include:

- major public investment or liability management (focusing on the New Zealand Debt Management Office, Accident Compensation Corporation, New Zealand Superannuation Fund, Government Superannuation Fund, Earthquake Commission, and Student Loans Scheme);
- major public revenue management or generation (focusing on the Inland Revenue Department and New Zealand Customs Service);
- major asset management or infrastructure spending or management (focusing on health, correctional facilities, education, defence, conservation, transport, housing, and energy); and
- major expenditure, including service delivery expenditure (focusing on health, education, and social security and welfare).

We also identify areas within or throughout entities or sectors that warrant further examination. To assign priorities to these areas, we consider:

- the severity and significance of the issue;

- the benefit to the public of examining the issue;
- the extent to which the performance of the public entity or sector could be improved; and
- how the issue fits with the Auditor-General's role and mandate.

We consult with Parliament and other stakeholders on our *Draft annual plan* (and in particular our proposed discretionary work programme) to ensure that stakeholders agree we are addressing the issues of greatest relevance.

Appendix 1 sets out our proposed performance audit work programme for 2008/09.

We maintain and follow a performance audit methodology, and use project management disciplines, to help ensure that we carry out, manage, and report our performance audit work effectively and efficiently. Some of our reports are also independently reviewed each year for quality and reasonableness.

Measuring our performance for output Performance audits

2008-11 Main measures and standards of impacts	2006/07 Actual	2005/06 Actual
Entities accept or respond to the recommendations made in our performance audits, as assessed by: <ul style="list-style-type: none"> • internal review of three reports of performance audits tabled in the previous year and selected by our independent Audit and Risk Committee. The results of these reviews are presented to the Officers of Parliament Committee; and • the findings of any follow-up reports we complete on performance audits tabled in previous years. (New measure in 2007/08.)	N/A	N/A
2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
We complete 19 to 21 reports on matters arising from performance audits and special studies, and inquiries.*	20	21
Select committees and other stakeholders are satisfied with the proposed work programme of performance audits (as indicated by feedback on our draft work programme). (New measure in 2007/08.)	N/A	N/A
At least 85% of the stakeholders that we survey rate the quality and usefulness of performance audit reports (relevant to their sector or interest) as 4 or better on a scale of 1 to 5.**	100% quality, 86% usefulness	N/A
Our performance audit methodology reflects good practice for undertaking such audits as assessed every second year by the National Audit Office of Australia through a review of two of our performance audits. The next review is scheduled for 2008/09. (New measure in 2007/08.)	N/A	N/A

2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
Each year, independent external reviews of two performance audits are undertaken. These reviews confirm the quality of these reports in terms of: the sufficiency of administrative and management content; the report structure, presentation, and format (including use of graphics and statistics); the rigour of the methodology used; and the balance, reasonableness, and practicality of the resulting conclusions and recommendations. [§] (New measure in 2007/08.)	N/A	N/A
Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology. ^{§§}	Achieved	N/A

* It is not always possible for us to complete the full range of work that we propose. This is because entities may have initiated their own internal or independent reviews or are undergoing legislative or structural change, detailed project development shows that our initial proposal needs to be amended, and/or other events happen that change the Auditor-General's priorities.

** We assess these measures through our Stakeholder Survey. Appendix 3 provides further information about the method used for this survey.

§ An independent Audit and Risk Committee selects the two performance audit reports to be externally reviewed.

§§ The nature, extent, and frequency of the quality assurance review is determined based on risk. The review is carried out during a three-year period.

Inquiries

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

Each year we usually receive:

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

Our inquiries manual establishes the process for, and priority for dealing with, requests for inquiries and for carrying out inquiries.

We carefully consider each request to determine the most appropriate way to proceed. Factors we consider 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.

In some cases, we are unable to look at the issues at all – for example, because the entity in question is outside our mandate. We will advise a correspondent promptly when this is the case.

Depending on how serious the issues raised are, we classify inquiries into three categories: routine, sensitive, and major. A routine inquiry involves straightforward issues, and can often be carried out either by a review of documents or through correspondence or discussion with the public entity. It will not usually result in a published report. We always advise the correspondent of our conclusions and the reasons for them, and in some instances will advise the public entity of the matter.

Sensitive and major inquiries involve more complex issues and may attract a broader level of public interest and attention. In these inquiries, we will often review files from the entity and may also formally interview people. We may report the results of these inquiries publicly, as well as advising the correspondent and the entity.

Measuring our performance for output Inquiries

2008-11 Main measures and standards of impacts	2006/07 Actual	2005/06 Actual
Entities take action in response to concerns identified in inquiry reports as assessed by follow-up on a sample of sensitive and major inquiries undertaken in the previous year. (New measure in 2007/08.)	N/A	N/A
2008/09 Measures and forecast standards of output delivery	2006/07 Actual	2005/06 Actual
Our findings on inquiries are reported to the relevant parties within three months for 80% of "routine" inquiries, within six months for 80% of "sensitive" inquiries, and within 12 months for 80% of "major" inquiries.	95% for the 76 routine received. One sensitive inquiry and no major inquiries were received.	N/A
For inquiries under the Local Authorities (Members' Interests) Act 1968, we complete 80% within 30 working days.	87%	86%
Responses to requests for inquiries, and our administering of the Local Authorities (Members' Interests) Act 1968 requests, is in accordance with relevant policies, procedures, and standards as confirmed by internal quality assurance review.*	Achieved	Achieved

* The nature, extent, and frequency of the quality assurance review is determined based on risk. The review is carried out during a three-year period.

The Vote estimate for the Performance audits and inquiries output class in 2008/09 is \$6.587 million.

Part 4

Managing in a changeable operating environment

Part 4

Managing in a changeable operating environment

The Auditor-General, in his overview, set out the strategic environment within which the Office operates. He noted that significant changes in the accounting and auditing profession and in the legislative and operating environments of public entities continue to have a major effect on our work. The effect of these changes is increasing complexity for those preparing financial reports and those auditing them. This puts pressure on both the quality and the cost of the audit work carried out. These changes have also generated an environment in which financial and audit assurance expertise are in high demand.

Our risk management framework is the set of elements of our management system concerned with managing risk. It is aligned to our business outcomes and the strategies designed to achieve these outcomes.

Identifying and managing risk is a crucial part of our annual planning process. While our strategic planning process defines plans and allocates resources to achieve objectives, we also identify, assess, and evaluate the risk to achieving the objectives.

The risks we are exposed to can be categorised as strategic, professional operational, and business operational risks. While we manage all risks within the same framework, experience shows that inadequately managed professional operational risks and business operational risks can escalate in the form of issues that affect our strategic risks.

Strategic risks

Identifying and managing risk is integral to our business. In our view, we face four main strategic risks:

- loss of independence – the risk that we lose the independence that underpins the value of the Auditor-General’s products in fact or appearance;
- audit failure – the risk that we issue an incorrect audit opinion with material effects, or a report that is significantly wrong in nature or process;
- loss of capability – the risk that we are unable to retain, recruit, or access people with the technical and other skills our audit work requires; and
- loss of reputation – the risk that we may lose reputation or credibility, which would affect our relationships with stakeholders.

These risks will always be present, but much of the way we do our work reduces them.

Actions to reduce strategic risks

The main actions we use to reduce strategic risks are:

- the Auditor-General's independence standards – the Auditor-General sets a high standard for independence for both his employees and the auditors he appoints from private sector accounting firms;
- monitoring the independence of the two statutory officers, employees, and appointed auditors – the system includes regular declarations of interest and, where necessary, implementation of measures to avoid conflicts of interest;
- adhering to professional auditing standards;
- quality assurance regimes – including implementing and complying with New Zealand Institute of Chartered Accountants' revised quality control standards;
- peer review and substantiation procedures – these include annual independent evaluation of our audit allocation and tendering processes, independent external review of two performance audits each year, and stakeholder feedback studies;
- an independent Audit and Risk Committee – comprising three external members and the Deputy Controller and Auditor-General; and
- ongoing training and development of our staff – including talent and capability management programmes, leadership development initiatives, and professional development programmes.

Operational risks

Identifying more specific risks is also an important part of our annual planning process. We review the environment in which we operate. We consider economic, legal, social, environmental, and technological developments, and changes in the accounting and auditing professions, that might affect us. We look too at the effect such matters might have on our stakeholders and the entities that we audit.

Our audit work has had to focus more heavily on entities' financial statements because of demands created by changes within the public sector and, in particular, in the accounting and auditing profession as a result of the adoption of New Zealand equivalents to International Financial Reporting Standards, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff. This has been at the expense of fuller consideration of the risks and challenges that entities face in their strategic, governance, and operational contexts.

We are therefore working to rebalance our audit effort so that it takes this fuller perspective into account for each individual entity, to the extent deemed appropriate by each entity's appointed auditor. The areas of strategic focus outlined in Appendix 2 are areas we have identified through environmental scanning that we believe require stronger emphasis in our audit work.

This should result in a stronger emphasis on non-financial reporting, waste, probity, and accountability. It may over time affect how we cost, resource, carry out, and report our audits.

Part 5 sets out the efforts we are making to maintain and build our organisational health and capability to equip us to deal with the increased demands of our environment. However, in the short to medium term, we expect to see trends such as increasing levels of arrears in issuing public entities' audit reports.

In the coming year, we will continue to develop our processes for managing strategic and operational risks, to ensure that all significant risks are identified, that we put mitigation measures in place where appropriate, and that responsibility for implementing those measures is clearly allocated. We will also ensure that we clearly document all such activity.

Part 5

Assessing organisational health and capability

Part 5

Assessing organisational health and capability

“Developing our people” is a critical business objective to achieving our vision of being a benchmark provider of independent assurance services. This was highlighted in our *Five-year Strategic Plan*, which Parliament supported with additional funding in 2004. This objective has become increasingly critical as the labour market for financial and audit expertise has tightened.

Since 2004, we have made good progress in:

- building up our capability to carry out performance audits;
- implementing our project office approach to improve the way we manage projects;
- building up our Research and Development capability;
- improving how we manage inquiries;
- merging the corporate services teams of Audit New Zealand and the Office of the Auditor-General;
- implementing Audit New Zealand’s comprehensive professional development programme for audit staff;
- investing in leadership and management development of senior staff;
- improving the self-awareness of senior staff through a comprehensive 360 degree feedback process;
- building a “future business model” that better defines our requirements for audit staff within Audit New Zealand;
- improving our recruitment strategies, including starting an internship programme at Audit New Zealand; and
- devoting greater resources to our Human Resources team, so they can better support staff development.

However, we continue to experience difficulties in recruiting suitably qualified and experienced senior staff because of industry and labour market shortages. Retaining good staff is therefore critical, and the ongoing investment in development is essential.

The aim of the investment in leadership and management development is to improve the performance of our leaders and managers, to deliver on our vision as the “benchmark provider”. Investing in our leaders and managers is also important because:

- to respond to environmental changes, our leaders and managers need to deliver high quality audit and assurance services with an increasingly proactive and innovative approach;

- it gives them the increased motivation, commitment, and capability to take responsibility for developing themselves and their staff;
- they will demonstrate the style and behaviours we need to develop a “constructive” culture; and
- they need the skills and ability to lead the cultural change required by our commitment to organisational development.

During 2008/09, we intend to focus on:

- continued strengthening of the management and leadership capability of our senior people;
- maintaining and extending the national professional development programme;
- improving all staff members’ Individual Development Programmes;
- ongoing investment in targeted areas of generic training (for example, te reo, presentation skills, media liaison, and writing);
- resourcing and aligning the mix of staff in Audit New Zealand to better align with our “future business model”;
- improving and expanding our High Potential and Talent Management programmes to recognise, reward, and develop our high performers;
- maximising the quality of our national internship programme; and
- further aligning our human resources policies and procedures to support the recruitment, retention, and development of the best people.

Measuring our organisational health and capability

As with previous years, we will use an existing framework to measure our organisational health and capability. Central to this will be our annual survey of all staff. The survey provides us with an indication of overall staff satisfaction, and this year we intend to increase the focus on staff engagement. We will also use the survey to measure staff assessment of:

- their own professional development;
- the implementation of our strategy;
- management and leadership effectiveness; and
- the usefulness of business processes and systems.

As well as the annual staff survey, we will also continue to measure important statistics against previous years to provide us with a picture of our capability. These include:

- staff numbers and the distribution of staff by function, gender, and ethnicity;
- numbers of internal promotions to senior roles;
- average investment in staff training and development; and
- data on staff tenure and turnover.

In 2008/09, we aim to maintain or improve:

- our overall rating as assessed by staff in our annual survey;
- our audit staff numbers; and
- all of the main capability statistics from the previous year.

Appendix 4 sets out a summary of information from previous years.

Part 6

**Forecast financial statements for
2008/09**

Part 6

Forecast financial statements for 2008/09

Introduction

The Auditor-General's forecast financial statements have been prepared in accordance with sections 38, 41(1), and 45G of the Public Finance Act 1989, and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Auditor-General. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here, and that the variations may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Auditor-General reasonably expects to occur, associated with the actions he reasonably expects to take, as at the date that this information was prepared.

It is not intended that this published material will be updated.

Statement of significant underlying assumptions

The forecast financial statements on pages 40-54 have been compiled on the basis of existing Government policies and after the Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Auditor-General will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of annual audits will remain substantially the same. However, in 2008/09 there will be additional fee revenue and cost associated with the audit of LTCCPs.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand and the effects of the Public Audit Act 2001.
- The Auditor-General will continue to use audit expertise from both Audit New Zealand and private sector accounting firms.

These assumptions are adopted as at 15 April 2008.

Statement of accounting policies

Reporting entity

These are the prospective financial statements of the Auditor-General, prepared in accordance with sections 41(1) and 45F of the Public Finance Act 1989.

The 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 purpose of the Public Finance Act 1989.

The Auditor-General's activities include work undertaken by the Office of the Auditor-General, Audit New Zealand, and contracted audit service providers.

Measurement base

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

Statement of compliance

The prospective financial statements for 2008/09 comply with the applicable financial reporting standards, which include NZ IFRS and other applicable financial reporting standards, as for a public benefit entity.

This Annual Plan complies with Financial Reporting Standard No. 42: *Prospective Financial Statements*.

Accounting policies

Revenue

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Office of the Auditor-General and Audit New Zealand and the revenue can be reliably measured.

Crown operating appropriations

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

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

Income of audit service providers

Audit fee revenue from audits carried out by contracted audit service providers is also recognised as the work progresses based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Expenses

Fees paid to contracted audit service providers are recognised as the work progresses based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Leases

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as *operating leases*. All of our leases are operating leases.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

Revenue in advance

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

Cash and cash equivalents

The bank balance in the balance sheet comprises cash at bank and cash in hand.

For the purpose of the Statement of prospective cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above.

Work in progress

Work in progress is recognised at cost or net realisable value, whichever is lower.

Trade and other receivables

Receivables are recognised and carried at the original invoice amount less any allowable allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Provision for doubtful debts is determined with reference to objective evidence of impairment. Bad debts are written off when they are identified.

Plant and equipment

Motor vehicles, office equipment, furniture and fittings, and computer hardware are stated at cost less accumulated depreciation and any accumulated impairment in value. All plant and equipment costing more than \$1,000 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 depreciation is charged to the Statement of prospective financial performance. The estimated useful lives are:

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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net sale proceeds and the carrying amount of the item is included in the Statement of prospective financial performance in the year the item is derecognised.

Intangible assets

Computer software is a non-monetary asset without physical substance, and is therefore classified as an intangible asset. The useful life of the software has been assessed as being finite, and between 2.5 to 5 years.

Computer software is capitalised at cost, and the capitalised cost is amortised on a straight line basis over 2.5 to 5 years. After initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation is taken to the Statement of prospective financial performance.

Gains and losses arising from derecognition of computer software is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of prospective financial performance when the asset is derecognised.

Impairment

All assets are assessed for impairment at least annually. Where there are indicators of impairment for those assets, the asset's recoverable amount will be

determined. Where the recoverable amount is lower than carrying amount, an impairment loss will be recognised and the asset written down to recoverable amount.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST, except for payables and receivables in the Statement of prospective financial position, which include GST.

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).

Provisions

Provisions are recognised when we have a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Annual leave and time off in lieu for overtime worked are recognised as they accrue to employees, based on current rates of pay. The present value of the estimated future cash flows relating to long service leave and retiring or resigning leave are recognised on an actuarial basis, annually.

Where sick leave balances accrue, a liability is recognised according to the portion of unutilised sick leave entitlements that are expected to be utilised in future periods.

The expense relating to the provision is presented in the income statement.

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.

Income tax

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

Commitments

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

Contingent liabilities

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

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 the output class for the provision of audit and assurance services.

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

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

Changes in accounting policies

There have been no changes in accounting policies from those contained in the Annual Plan for 2007/08.

Since our last audited financial statements (30 June 2007), we have changed our accounting policies to align with the adoption of NZ IFRS from 1 July 2007. We now accrue for non-vesting employee liabilities – that is, sick leave. Formerly, sick leave was not recognised until the period in which it was taken. Under NZ IFRS, sick leave is accrued when it is earned, as a liability in the Statement of prospective financial position.

Statement of prospective financial performance

for the year ending 30 June 2009

This statement reports the revenue and expenses relating to all outputs (goods and services) that we produce. A supporting statement showing the revenue and expenditure of each output class is on page 59.

	2007/08		2008/09
	Budgeted*	Estimated actual**	Forecast
	\$000	\$000	\$000
Revenue			
Crown	9,620	9,620	9,896
Departments	10,494	10,494	9,680
Income of contracted audit service providers	23,506	23,506	23,918
Other	24,708	24,708	27,734
Total revenue	68,328	68,328	71,228
Expenses			
Personnel costs	32,367	32,367	33,760
Operating costs	11,137	11,137	11,999
Depreciation and amortisation	1,198	1,198	1,431
Fees charged by contracted audit service providers	23,506	23,506	23,918
Capital charge	120	120	120
Total expenses	68,328	68,328	71,228
Surplus	-	-	-

* Budgeted figures incorporated both the Main Estimates and Supplementary Estimates appropriations for 2007/08.

** The amounts in this column reflect actual results to 29 February 2008 and the forecast results for the remaining four months to 30 June 2008.

Statement of prospective movements in taxpayers' funds (equity) for the year ending 30 June 2009

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

	2007/08		2008/09
	Budgeted	Estimated actual	Forecast
	\$000	\$000	\$000
Taxpayers' funds brought forward at 1 July	3,521	3,521	3,521
Movements during the year			
Surplus	-	-	-
Total recognised revenues and expenses for the year	-	-	-
Flows to and from the Crown			
Provision for payment to the Crown	-	-	-
Taxpayers' funds at 30 June	3,521	3,521	3,521

Statement of prospective financial position as at 30 June 2009

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

	Budgeted as at 30 June 2008	Estimated Actual as at 30 June 2008	Forecast as at 30 June 2009
	\$000	\$000	\$000
Taxpayers' funds			
General funds	3,521	3,521	3,521
Total taxpayers' funds	3,521	3,521	3,521
Represented by:			
Current assets			
Cash and cash equivalents	3,800	3,800	3,979
Prepayments	389	389	397
Work in progress	1,556	1,556	1,587
Trade and other receivables	4,233	4,233	4,275
Total current assets	9,978	9,978	10,238
Non-current assets			
Plant and Equipment	1,628	1,628	1,529
Intangible Assets	412	412	490
Total non-current assets	2,040	2,040	2,019
Total assets	12,018	12,018	12,257
Current liabilities			
Trade Payables	5,190	5,190	5,296
Provision for employee entitlements	2,567	2,567	2,670
Total current liabilities	7,757	7,757	7,966
Term liabilities			
Provision for employee entitlements	740	740	770
Total term liabilities	740	740	770
Total liabilities	8,497	8,497	8,736
Net assets	3,521	3,521	3,521

Statement of prospective cash flows for the year ending 30 June 2009

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This statement summarises the cash movements in and out during the year. It takes no account of money owed to us or owing by us, and therefore differs from the Statement of prospective financial performance.

	2007/08		2008/09
	Budgeted	Estimated actual	Forecast
	\$000	\$000	\$000
Operating activities			
Cash received from:			
The Crown	9,620	9,620	9,896
Departments	10,494	10,494	9,680
Others	24,554	24,554	27,653
Cash disbursed on:			
Operating costs*	10,970	10,970	11,832
Personnel costs	32,304	32,304	33,688
Capital charge	120	120	120
Net cash flow from operating activities	1,274	1,270	1,589
Investing activities			
Cash received from:			
Sale of plant and equipment and intangible assets	94	94	132
Cash disbursed on:			
Purchase of plant and equipment and intangible assets	943	943	1,542
Net cash flow from investing activities	(849)	(849)	(1,410)
Financing activities			
Cash disbursed to:			
Payment to the Crown	469	469	-
Net cash flow from financing activities	(469)	(469)	-
Total net increase/(decrease) in cash held	(44)	(44)	179
Add Opening cash balance at 30 June	3,844	3,844	3,800
Closing cash balance at 30 June	3,800	3,800	3,979

* The Statement of prospective cash flows does not include the contracted audit service provider audit fees because these do not involve any cash transactions within our organisation.

Reconciliation of surplus in the Statement of prospective financial performance to the prospective net cash flow from operating activities

for the year ending 30 June 2009

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of prospective financial performance on page 51 to arrive at the net cash flow from operating activities disclosed in the Statement of prospective cash flows on page 54.

	2007/08		2008/09
	Budgeted	Estimated actual	Forecast
	\$000	\$000	\$000
Surplus	-	-	-
Non-cash items			
Depreciation and amortisation	1,198	1,198	1,431
Total non-cash items	1,198	1,198	1,431
Investing activity items			
Profit on disposal of assets	-	-	-
Total investing activity items	-	-	-
Working capital movements			
(Increase)/decrease in prepayments	-	-	(12)
(Increase)/decrease in receivables	(123)	(123)	(38)
(Increase)/decrease in work in progress	(31)	(31)	(31)
Increase/(decrease) in payables	103	103	106
Increase/(decrease) in current employee entitlements	99	99	103
Total net working capital movements	48	48	128
Movements in non-current liabilities			
Increase/(decrease) in employee entitlements	28	28	30
Net cash flow from operating activities	1,274	1,274	1,589

Statement of forecast capital expenditure for the year ending 30 June 2009

This statement discloses the forecast capital expenditure for the 2008/09 financial year (incurred in accordance with section 24 of the Public Finance Act 1989) that is primarily routine replacement and upgrade of the Office's information technology, office equipment, and furniture and fittings.

	Actual June 2004	Actual June 2005	Actual June 2006	Actual June 2007	Budget June 2008	Estimated Actual* June 2008	Forecast June 2009
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Plant and Equipment							
Furniture and fittings	69	401	484	77	94	94	0
Office equipment	29	104	11	17	16	16	70
Motor vehicles	283	512	507	429	382	382	616
Computer hardware	623	214	373	445	212	212	306
Intangible Assets							
Computer software	188	288	176	254	239	239	550
Total	1,192	11,519	1551	1222	943	943	1542

* Actual for the 8 months to 29 February 2008 plus budget for the period March-June 2008.

Forecast details of physical assets by category as at 30 June 2009

	As at 30 June 2008		Forecast Position as at 30 June 2009		
	Budgeted Net Book Value	Estimated Actual Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000
Plant and Equipment					
Furniture and fittings	455	455	2,497	2,275	222
Office equipment	26	26	278	209	69
Motor vehicles	730	730	1,295	391	905
Computer hardware	417	417	3,028	2,694	333
Intangible Assets					
Computer Software	412	412	3,484	2,994	490
Total	2,040	2,040	10,582	8,563	2,019

Prospective appropriation statement for the year ending 30 June 2009

This statement breaks down the expenditure reported in the Statement of prospective financial performance (on page 51) and the Forecast output class operating statements (on page 59) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2008/09 in the *Estimates of Appropriations* (parliamentary paper B.5, Vol. 1).

	\$000
Departmental output expense	
Statutory auditor function (multi-class output appropriation)	
Supporting accountability to Parliament	2,460
Performance audits and inquiries	6,587
Statutory auditor function	9,047
Audit and assurance services (revenue-dependent appropriation)	61,332
Audit and assurance services – Crown-funded small entity audits	150
Total departmental output expense	70,529
Other expenses to be incurred by the Office	
Permanent Legislative Authority – Auditor-General's and Deputy Auditor-General's remuneration	699
Total operating expenses	71,228

Forecast output class operating statements for the year ending 30 June 2009

	Revenue Crown	Revenue Depts	Revenue Other	Total Revenue	Total expenses	Surplus
	\$000	\$000	\$000	\$000	\$000	\$000
Departmental output expense						
Audit and assurance services (revenue-dependent appropriation)						
Scope: This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the financial statements of the Government, public entities' financial statements, and other information that must be audited. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.						
		9,680	51,652	61,332	61,332	
Audit and assurance services						
Scope: This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute for smaller entities such as cemetery trusts and reserve boards.						
	150	-	-	150	150	-
Statutory auditor function (multi-class output appropriation)						
Basis – these output expenses use the same resources and contribute to the same outcome.						
Performance audits and inquiries						
Scope: This output class is limited to undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.						
	6,587			6,587	6,587	-
Supporting accountability to Parliament						
Scope: This output class is limited to reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the executive to account for its use of public resources.						
	2,460	-	-	2,460	2,460	-
Total departmental output expenses	9,197					
Other expenses to be incurred by the Office						
Permanent Legislative Authority – Auditor-General's and Deputy Auditor-General's remuneration	699		-	669	699	-
Total operating expenses	9,896	9,680	51,652	71,228	71,228	-

Forecast financial indicators for the year ending 30 June 2009

	2007/08		2008/09
	Budgeted (after Supplementary Estimates)	Estimated actual	Forecast
	\$000	\$000	\$000
Operating results			
Revenue: other than Crown	58,708	58,708	61,332
Output expenses	67,629	67,629	70,529
Other expenses	699	699	699
Surplus before capital charge	120	120	120
Surplus	-	-	-
Working capital			
Net current assets*	2,221	2,221	2,272
<i>Current ratio**</i>	129%	129%	129%
<i>Average receivables and work in progress</i>	45 days	50 days	45 days
Resource utilisation			
Physical and intangible assets			
Total at year-end	2,040	2,040	2,019
<i>Additions as % of physical assets</i>	46%	46%	76%
Taxpayers' funds			
Level at year-end	3,521	3,521	3,521
Forecast net cash flows			
Surplus on operating activities	1,274	1,274	1,589
Deficit on investing activities	(849)	(849)	(1,410)
Deficit on financing activities	-	-	-
Net increase/(decrease) in cash held	(44)	(44)	179

* Current assets minus current liabilities.

** Current assets as a proportion of current liabilities.

Appendix 1

Our proposed performance audit work programme

Proposed performance audits and studies in 2008/09

The Auditor-General proposes to conduct the following performance audits and studies in 2008/09.

The proposed performance audits and studies marked with an asterisk (*) have not previously been described in our annual plans, and are described in more detail on the following pages.

The actual work programme we deliver in 2008/09 may differ from this proposal. Our proposed annual work programme is necessarily determined many months in advance of the year to which it relates. As time elapses, we may need to alter our priorities. For example, other urgent work such as an inquiry may intervene, or government policy or the circumstances of a particular entity may change so that a particular audit is no longer relevant. The reports for some audits that will begin in 2008/09 may not be presented to Parliament until 2009/10.

For context, we also provide a list of work due to be completed in the remainder of 2007/08.

Performance audits and studies proposed for 2008/09

Accident Compensation Corporation – effectiveness of the implementation of the Falls Prevention Strategy

Civil Aviation Authority – follow-up of the Auditor-General’s 2005 audit

*Crown entity monitoring and governance

*Crown Research Institutes – science workforce development

*Department of Building and Housing – implementation of the Building Act 2004

*Department of Corrections – management of parole

*District health boards – asset management planning

*District health boards – effectiveness of managing patients in Active Review

* District Health Boards – procurement

*Electricity Commission – effectiveness of reporting against the Government Policy Statement on Electricity Governance

Housing New Zealand Corporation – maintenance of state housing

Inland Revenue Department – management of tax debt

*Local authorities – strategies to meet water demand

*Ministry of Defence and New Zealand Defence Force – Major acquisition project monitoring and reporting systems

*Ministry of Education – effective management of the Crown’s financial interest in integrated schools

*Ministry of Education (Group Special Education) – progress report on the Better Outcomes for Children action plan

Performance audits and studies proposed for 2008/09 (continued)

Ministry of Education – monitoring and support of school Boards of Trustees
Ministry of Health – monitoring progress against the Primary Health Care Strategy
*Ministry of Justice – management of Court workloads
*New Zealand Defence Force – Defence Sustainability Initiative
*New Zealand Police – implementation of the recommendations of the Commission of Inquiry into Police Conduct
Tertiary Education Commission – monitoring of tertiary education institutions
*Transit New Zealand – State highway maintenance
*Transpower – managing the national grid
Work and Income – effectiveness of case management of sickness and invalid beneficiaries

Performance audits and studies due to be completed by 30 June 2008

Guidelines on costing and charging for public sector goods and services – update
Guardians of New Zealand Superannuation – governance, management, and administration of the New Zealand Superannuation Fund
Ministry of Defence – major acquisitions
Ministry of Education – effectiveness of teacher professional development services
Ministry of Social Development – benefit fraud
ONTRACK – systems, policies, and procedures for maintaining and renewing rail infrastructure
Procurement guidelines – update
Purchasing, grants, and gifts: An overall framework for managing public sector funding arrangements with external parties

Proposed performance audits and studies not previously described in our annual plans

The following paragraphs provide more information about our proposed performance audits and studies that have not previously been described in our annual plans.

Crown entity monitoring and governance

Crown entities deliver many public services of importance to New Zealanders and often provide the “face of government”. Crown entities account for more than 50% of the Crown’s operating expenditure, and it is important that they work effectively. Ministers have agreed on the need to improve Crown entity performance, and the three central agencies have developed a joined-up Central Agency Work Programme for improving Crown entity performance.

We propose carrying out a performance audit to assess the effectiveness of the frameworks of several departments for monitoring performance, capability, and risk within their Crown entities. To inform this work, we will initially gather information on the monitoring activities of government departments. The audit will examine two or three departments. We will select departments not only from those with large monitoring responsibilities but also from those with smaller monitoring responsibilities and therefore with less resource devoted to monitoring. This selection will ensure that we cover a representative sample of monitoring departments.

Crown Research Institutes – science workforce development

Research, science, and technology has an important role in enhancing economic growth, social development, and environmental well-being. Crown Research Institutes (CRIs) represent a significant range of research, science, and technology capacity and capability. Changing workforce demographics, tight labour markets, and increasing globalisation in the labour market represent a considerable risk to CRIs' ability to deliver innovations in research, science, and technology.

We propose a performance audit focusing on how CRIs are providing for their workforce needs. This will include an examination of planning for future needs, leadership and mentoring initiatives, and provision of professional development opportunities, as well as recruitment and retention strategies.

Department of Building and Housing – implementation of the Building Act 2004

The building sector is an important contributor to New Zealand's economic and environmental performance, and social well-being. The Building Act 2004 regulates building work, establishes a licensing regime for building practitioners, and sets performance standards for buildings and product certification, with the intention of ensuring that buildings are built right first time. The Department of Building and Housing is responsible for administering the Act and for ensuring the effectiveness of the regulatory system for the building sector. The purpose of our performance audit is to see whether the Department has followed an effective process in implementing the regulatory framework envisaged by the Act.

Department of Corrections – management of parole

Parole is the conditional release from prison of high-risk offenders with sentences of more than two years. Parole is intended to provide a structured plan for an offender based on their risk of reoffending and any risks they pose for the community, their individual needs, and their motivation to address those needs. The Department of Corrections is responsible for managing offenders on parole.

The focus of the proposed performance audit is the effectiveness of the Department of Corrections' systems, processes, and procedures for managing offenders on parole within the community.

District health boards – asset management planning

The current approvals for capital projects in district health boards (DHBs) for the period 2007 to 2011 are \$1.044 billion. All projects involving capital expenditure of more than \$1 million have the potential to be referred to a regional forum of DHBs for collective decision-making under a collaborative framework. Major capital projects with an effect on regional or national services must have those service aspects considered through the framework.

We propose to audit the extent to which regional and national service priorities are considered when investment in new assets or reconfiguration of existing assets is approved under the collaborative framework. In particular, we will focus our performance audit on ensuring that the process used in approving capital investments takes adequate account of:

- current and future service levels (regionally and nationally);
- collaboration between DHBs regionally and nationally (in terms of service delivery and infrastructure); and
- the need to provide optimal flexibility for future service requirements.

This will involve assessing the effectiveness of the inter-relationship between the Service Planning and New Health Intervention Assessment Framework and the Capital Investment Framework. In particular, we will look at:

- the role of the regional capital committees and the extent to which they are informed by the work of regional forums on optimal regional service configuration;
- the extent to which the National Capital Committee draws on the strategic advice of the National Service and Technology Subcommittee and the Deputy Director-General and Chief Executive Officer Group for national service configuration; and
- the interaction between the regional capital committees and the National Capital Committee to ensure that regional and national clinical service planning has been appropriately done for major business cases.

District health boards – effectiveness of managing patients under Active Review

The elective services booking system ensures that patients who are assessed as having a need that can be met within DHB's available funding and capacity are provided with surgery within six months of assessment. When surgery within six months is not possible, but there is a realistic probability that the patient's condition may meet the threshold for surgery in the foreseeable future, then patients are placed under Active Review.

Patients under Active Review have six-monthly reviews, for up to two years, to check on their health and to find out whether their health status has changed. If surgery has not been scheduled by the end of the Active Review period, then patients may be referred to primary care for continuing management of their condition.

DHBs are responsible for effectively managing Active Review patients. In July 2007, about 12,000 patients were in this category. It is important for the public to have confidence in the integrity of the booking system, which includes the management of patients under Active Review.

We propose a performance audit to assess the effectiveness of DHBs' management of patients under Active Review and the Ministry of Health's oversight of Active Review.

District Health Boards – procurement

The 21 DHBs in New Zealand collectively spend more than \$5.3 billion each year on goods and services in the health sector. Parliament and the public expect good management of this public resource in terms of value for money, transparency, fairness, and the integrity of the processes for procurement and funding.

Over the last year, we looked at policies and procedures for procurement, conflict of interest, and delegations in the health sector. We found that many of the policies needed improvement, and we reported this to the DHBs concerned. Other work in the health sector has indicated that there may be a systemic problem with how DHBs are implementing procurement policy in practice.

We are extending annual audit work this year to carry out further high level audit of procurement practices across all the DHBs. We will also do a detailed examination of procurement practices, including funding arrangements with NGOs, within three or four DHBs.

Electricity Commission – effectiveness of reporting against the Government Policy Statement

The Electricity Commission (the Commission) is responsible for implementing the Government's General Policy Statement on Electricity Governance (GPSEG). The GPSEG covers matters such as:

- mandating low, fixed daily charges for small users;
- the requirement for the Commission to promote the efficient generation, distribution, and use of electricity;
- the Commission's responsibility for security of supply; and
- the Commission's responsibility for approving a consumer complaints system (which is run by the Electricity and Gas Complaints Commission).

The Commission is required to report its achievements in implementing the GPSEG on an annual basis and in quarterly reports to the Minister of Energy. Annual reporting remains the Commission's main means of being publicly accountable for its performance.

We propose to review the Commission's cumulative annual achievements since its creation, and to match that cumulative performance against the GPSEG. As well as providing assurance on achievements to date, our performance audit may help the Commission and the Minister better define the Commission's intended and actual performance.

Inland Revenue Department – management of tax debt

The Inland Revenue Department (IRD) has a major role collecting tax revenue for the Government. The level of total overdue tax debt has grown significantly in recent years.

We propose a performance audit to examine the effectiveness and efficiency of the IRD's management of tax debt. In particular, we will examine what strategies and approaches the IRD is taking to address the growth of total overdue tax debt, as well as specific components of tax debt that it can influence.

Local authorities – strategies to meet water demand

Many territorial local authorities play a significant role in providing water supply to the residents and communities in their district or region.

Water supply is an essential service for safeguarding the health and well-being of residents and communities in a district or region. An authority's ability to supply adequate water quality and quantity to residents and communities relies on a sufficient and reliable water source and the necessary infrastructure to store, treat, and supply the water.

It is important for local authorities to ensure that they have considered and planned for future demand for water supply so they will have adequate infrastructure and/or arrangements in place to meet community needs.

The purpose of this performance audit is to be able to provide assurance that selected territorial authorities that provide water supply services have adequately assessed future water demand for residents and communities in their district, and that they have strategies in place to meet this demand. The audit will also consider the strategies and approaches of the selected authorities to managing the demand for water as a factor in meeting water supply needs.

Ministry of Defence and New Zealand Defence Force – Defence Sustainability Initiative

In May 2005, the Government announced the \$4.6 billion Defence Funding Package. This is a 10-year programme of additional funding for the Ministry of Defence and the NZDF. The Defence Sustainability Initiative (DSI) is a major component of the Defence Funding Package, and is aimed at rebuilding the NZDF and the Ministry by addressing shortages in personnel, equipment, and management capability.

In our report on the results of the 2005/06 audits for central government agencies, we indicated that we would monitor the progress of the DSI. This proposed performance audit will look at progress towards achievement of the original objectives of the DSI, taking into account the various programmed internal and external reviews of the DSI.

Ministry of Defence and New Zealand Defence Force – major acquisition project monitoring and reporting systems

This performance audit will examine how well the Ministry of Defence and the New Zealand Defence Force (NZDF) meet the information requirements of internal and external stakeholders, including Parliament, for major acquisition projects. We will examine the Ministry's and the NZDF's project monitoring and reporting systems to identify what improvements may be necessary.

Ministry of Education – effective management of the Crown’s financial interest in integrated schools

Integrated schools are schools that were originally private and that have been integrated into the state schooling system under the Private Schools Conditional Integration Act 1975. Integrated schools are governed by elected Boards of Trustees (Boards) in the same way as state schools. However, integrated schools also have proprietors, private entities that own the land and buildings associated with integrated schools. Proprietors are responsible for providing and maintaining the buildings. Boards are responsible for running the schools and educating the students.

The Ministry of Education provides operational grants to Boards to enable them to fulfil their responsibilities. The Ministry also provides some funding to proprietors for maintenance and capital expenditure on buildings. However, in general, proprietors are responsible for meeting these costs, mainly through charging attendance fees.

There is evidence that the financial boundaries between Boards and proprietors have become blurred in some instances, which has led to cases of Crown money being spent to benefit proprietors (private entities). For example, Boards have spent money on buildings on proprietors’ land without receiving acknowledgment of the ownership interest in the buildings that should arise as a result of a Board’s investment.

Our performance audit proposes to describe the financial risks inherent in the Board-proprietor relationship and how the Ministry of Education manages these risks, to review instances where these risks have emerged, and to provide guidance on the future management of such risks.

Ministry of Education (Group Special Education) – progress report on the Better Outcomes for Children action plan

In mid-2006, the Ministry of Education published Better Outcomes for Children, an action plan for Group Special Education 2006-11. The Ministry has appropriations to spend about \$460 million for “interventions for target student groups” and “special needs support” in 2007/08. Most of this funding is to deliver special education services to more than 30,000 children. The action plan is intended to ensure that children with special needs who are entitled to targeted funding get the quality services they need, when they need them.

We intend to audit the effectiveness of the Ministry’s implementation of the action plan and the likelihood of the plan being achieved by 2011.

Ministry of Justice – management of court workloads

The Ministry of Justice is responsible for managing court workloads. Court workloads have increased significantly in recent years and are forecast to continue to increase. The Ministry is aware of the increasing court workload and has a range of initiatives designed to address this increase.

We propose a performance audit to examine how well the Ministry is anticipating the increased workload and planning for it, and how it is managing the implementation of initiatives to manage the increased court workload.

New Zealand Police – implementation of the recommendations of the Commission of Inquiry into Police Conduct

The Commission of Inquiry into Police Conduct, which reported in March 2007, recommended that the Government invite the Auditor-General to monitor for a period of 10 years the implementation by the Police of the projects and initiatives they started in response to the inquiry, and to report regularly to Parliament on their progress. In September 2007, the Government invited the Auditor-General to carry out that work. We are currently discussing with the Police an appropriate work programme to monitor their progress. In 2008/09, we intend to complete our first report to Parliament on the matter.

Tertiary Education Commission – monitoring of tertiary education institutions

The Tertiary Education Commission (TEC) is the Crown entity responsible for managing the Government's purchase and ownership relationship with the tertiary education sector.

The Tertiary Advisory Monitoring Unit (TAMU) is the unit within the TEC that is responsible for managing the Government's ownership interest in the 31 public tertiary education institutions (TEIs). TAMU's aim in managing the Government's ownership interest is to ensure the continued operation and long-term viability of TEIs. TAMU does this through monitoring, providing support, and, where required, initiating statutory intervention processes such as installing a Commissioner.

Our proposed audit will seek to provide assurance that the TEC, and TAMU in particular, is:

- collecting and analysing all relevant information about the financial and operational viability of TEIs;
- using this information to identify TEIs at risk; and
- taking appropriate action to support those TEIs to minimise the number of statutory interventions.

Transit New Zealand – State highway maintenance

Transit New Zealand spends around \$400 million annually on maintaining State highways and motorways. We intend to conduct a performance audit to examine how efficient Transit New Zealand is in maintaining State highways, and to identify the extent to which it is following best practice in asset management and contract management.

Transpower – managing the national grid

The reliability of our “national grid”, through which electricity is transmitted from generators to distribution companies and ultimately to power consumers, is vital for the economic and social well-being of all New Zealanders. This performance audit will look at the effectiveness with which Transpower is managing the assets that make up the national grid to ensure security of electricity transmission.

Appendix 2

Areas of strategic focus

The Auditor-General has identified areas of concern within his mandate about which he wishes to give particular assurance to Parliament and the public. These areas have been identified in response to the main risks discussed by the Auditor-General in his overview (see pages 7-9). They have been selected because they are “hard” issues and risks for the public sector. They cut across central and local government and across the interventions of the Office, and include areas where the Auditor-General considers that public sector performance must be improved. Work in these areas will help us to achieve our strategic intentions of better deploying our interventions and extending the depth and breadth of our annual audits.

The “hard” and cross-cutting nature of these concerns means that work will generally involve multiple initiatives during two or more years. These initiatives are likely to result in external products (such as reports) and internal development and process improvements (to, for example, our audit approach), and will also be significant areas of focus within our research and development programme.

During 2008/09, the areas of strategic focus for the Auditor-General are:

- probity;
- fraud;
- sustainable development;
- stewardship and management of infrastructure assets; and
- service performance information.

Probity

Our *Five-year Strategic Plan* indicated our intention to do more work on probity in our annual audits. Probity is also of public interest, and features strongly in our inquiry work. The base for enhancing our audit work on probity has been emerging in recent years through the development of a suite of good practice guides (for example, our 2007 reports *Managing conflicts of interest: Guidance for public entities* and *Controlling sensitive expenditure: Guidelines for public entities*). We intend to maintain our efforts to ensure probity through the continuing development of guidance statements where there is an apparent need, and through including this guidance in annual audits.

Fraud

The most recent Transparency International report on corruption within governments places New Zealand high among the “clean” countries. However,

this is a reputation that is unlikely to be maintained without taking positive action. There is growing concern that, even if some forms of fraud or corruption are not prevalent in New Zealand, complacency may pose risks to New Zealand's reputation (for example, a recent Anti-Bribery Convention report from the Organisation for Economic Co-operation and Development recommended that New Zealand strengthen its laws to combat foreign bribery).

We intend to increase our focus on managing fraud risk through:

- identifying fraud trends and patterns, and informing auditors about them; and
- considering opportunities for raising the awareness of public entities about fraud and corruption issues by issuing good practice and other guidance material to assist public entities to detect and prevent fraud and corruption.

Sustainable development

It is becoming increasingly important for public entities to work and think in ways that take account of long-term sustainability. The Local Government Act 2002 requires local authorities to take a sustainable development approach. For other parts of the public sector, a sustainable development approach can be a means to give effect to statutory requirements (such as the managing for outcomes/results initiatives, which are reflected in the Public Finance and Crown Entities Acts).

We have been considering how we can ensure that our work takes account of the increasing importance of sustainable development to the public sector. We intend to continue this work with specific areas for focus, which are likely to include:

- participating in forums with overseas audit offices to build methodologies for sustainable development audit work (for example, through specific performance audits such as, in this proposed annual work programme, Effectiveness of the Electricity Commission's reporting against the Government Policy Statement on Electricity Governance);
- continuing to develop our own audit methodologies to address public entities' sustainable development-related statutory requirements – in particular, by enhancing our methodology to take account of sustainable development principles in our 2009 audits of Long-Term Council Community Plans (LTCCPs); and
- contributing to broader understanding of, and debate about, how public sector planning, budgeting, and subsequent evaluation would be done if sustainable development considerations were to have a greater prominence in these systems.

Stewardship and management of infrastructure assets

For some time, there has been general public concern about asset management, primarily of network utility assets. We have taken an active interest in the management and stewardship of infrastructure assets for nearly two decades, including through:

- performance audits (with several projects on asset management featuring in this proposed annual work programme);
- annual audits (primarily in the local government sector);
- LTCCP audits; and
- liaison with stakeholders in the development of good practice guides.

We now wish to give broad assurance and information to Parliament and the public about the state of, management of, and planning for important infrastructure assets throughout the public sector. In particular, in 2008/09 we will work with the Treasury on its Capital Asset Management project, to identify mechanisms that the Treasury could consider to provide greater assurance about the service levels, maintenance, and useful lives for important state sector asset groups.

Service performance information

We intend to put in place initiatives to enhance the depth of annual audit work on service performance information. We intend these initiatives to address issues arising as a result of statutory change and other audit reporting improvement work (for example, the Crown Entities Act 2004 and the changes to the Public Finance Act in 2004 and the Local Government Act 2002).

The focus will be to improve the depth of our service performance information audit work, to better position us to contribute to improving the quality of service performance information reported by public entities. It will also take account of our strategic focus on sustainable development. Work on this area will be through two main initiatives:

- continuing with our focused reviews of Statements of Intent for government departments and Crown entities, and carrying out similar work for local authorities as part of our audits of LTCCPs; and
- incorporating the lessons from our extensive work on service performance information into audit tools and guidance for auditors and providing support for their use, including:
 - incorporating the effect of any revisions to the Auditor-General's standard on the Audit of Service Performance Reports (which is due to be reported

- with his other standards to Parliament in May 2008 under section 23 of the Public Audit Act 2001); and
- making revisions to the approach and process of our audit work arising from the review of accountability documents carried out by the Treasury.

Appendix 3

Approach and method used for our surveys

Stakeholder Survey

We use our stakeholder feedback survey to measure how Parliament and other key stakeholders' perceive the quality, relevance, and usefulness of our reports and advice.

Using an independent consultant, we survey a sample of stakeholders made up of 50% of select committees, a selection of central agencies, and other representative groups.

Our questions cover stakeholders' perceptions of the effect and effectiveness of our work, as well as their satisfaction with the quality, relevance, and usefulness of specific reports and types of advice.

Stakeholders are asked to respond to a series of qualitative open questions and then to rate us in a number of areas on a scale from 1 to 5, with 1 being strongly disagree or very dissatisfied and 5 being strongly agree or very satisfied.

Client Survey

The Auditor-General uses an independent firm to conduct an annual client satisfaction survey of the entities for which he is the auditor (that is, all public entities). The firm surveys a random sample of public entities as a means of measuring the level of satisfaction and identifying areas where we need to improve our audit services.

In previous years, survey work has been limited to a sample of those public entities audited by Audit New Zealand. In 2007/08, we extended the sample to cover public entities audited by private sector accounting firms.

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

- audit service providers' core audit ability;
- audit service providers' staff knowledge;
- the way audit service providers' staff work with entities, including governing bodies and audit committees where relevant;
- the value that audit service providers add and the usefulness of the advice given;
- the performance and contribution that audit service providers made as entities prepared to adopt NZ IFRS; and
- the overall degree of satisfaction with the service received from audit service providers.

Appendix 4

Demographics and statistics

Number and distribution of staff by function, gender, and ethnicity

As at 30 June	2007	2006	2005	2004
Staff numbers (full-time equivalents)				
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
Functional distribution				
Audit/assurance	72%	71%	69%	65%
Technical and advisory	4%	4%	4%	4%
Corporate support	20%	21%	23%	27%
Management	4%	4%	4%	4%
Gender distribution				
All staff –				
Women	54%	51%	48%	46%
Men	46%	49%	52%	54%
Management staff –				
Women	45%	33%	30%	-
Men	55%	67%	70%	-
Ethnicity distribution				
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%

Staff experience and training

		2006/07	2005/06	2004/05
Experience				
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
Training and development				
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.

Publications by the Auditor-General

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

- Central government: Results of the 2006/07 audits – B.29[08a]
- The Auditor-General's Auditing Standards
- Responses to the Coroner's recommendations on the June 2003 Air Adventures crash
- Inland Revenue Department: Effectiveness of the Industry Partnership programme
- Audit committees in the public sector
- New Zealand Trade and Enterprise: Administration of grant programmes – follow-up audit
- Mental health services for prisoners
- New Zealand Agency for International Development: Management of overseas aid programmes
- Liquor licensing by territorial authorities
- Implementing the Māori Language Strategy
- Management of conflicts of interest in the three Auckland District Health Boards
- Annual Report 2006/07 – B.28
- 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
- Statements of corporate intent: Legislative compliance and performance reporting
- Department of Labour: Management of immigration identity fraud

Website

All these reports are available in HTML and PDF format on our website – www.oag.govt.nz.

They can also be obtained in hard copy on request – reports@oag.govt.nz.

Mailing list for notification of new reports

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

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