



Summary Annual Report 2008/09



This Summary Annual Report for the year ended 30 June 2009 provides an overview of the Office and our achievements during the year. The full annual report can be found on our website.

The outgoing Auditor-General, Kevin Brady, has left the Office in good heart, and the Office is widely respected for its work with the public sector. While 2008/09 was a demanding year for the Office, most of our impact and output measures were achieved and our staff and contracted auditors can take great pride in that.

During 2008/09, we performed the three-yearly audits of long-term council community plans (LTCCPs), and we carried out more major and sensitive inquiries than usual. The effort we put into preparation paid off, with LTCCP audits going

more smoothly in 2008/09 than the previous round of these audits in 2005/06. However, performing this significant audit requirement every third year places high demands on our resources, and some of the timeliness measures relating to our other work fell compared to past years.

We met our reporting intentions to Parliament, and increased our effort to support the newly formed select committees taking up their review and scrutiny work after the 2008 General Election.

We were very pleased to receive a “satisfactory” result – the highest possible grading – from a practice review of Audit New Zealand by the New Zealand Institute of Chartered Accountants. Participating in the review was voluntary because the Office does not offer accounting services to the public. However, we are committed to testing ourselves against external benchmarks and against our own expectation that we practice what we preach.

A significant concern in the current economic environment is to get better value from our audit work while managing the cost of audits for public entities. During 2008/09, we prepared a strategic plan for 2009-12. This strategy is aimed at improving our use of the wealth of information and knowledge that we have about the public sector to add value through reporting the performance of public entities. In July 2009, the Auditor-General issued a revised auditing standard for the audit of service performance reports. This standard is a key element in our wider effort to ensure that our audit work is focused on issues with, and risks to, the business of public entities, and on assessing the outcomes, impacts, and cost-effectiveness of public services.

We know that accountability requirements – including those for an audit – are often a burden for smaller public entities and subsidiaries of larger public entities. In the past, we have noted our concern about the number of audits in arrears at 30 June. For 2008/09, the number of arrears at year-end fell to 429 from

a peak of 453 in 2007/08, which appears to reflect the stabilising of financial reporting requirements now that the New Zealand equivalents to International Financial Reporting Standards are in place. However, we have been increasingly asking whether statutory compliance and accountability requirements for smaller public entities are too onerous. We hope to see changes in the light of discussion papers issued recently by the Ministry of Economic Development and the Accounting Standards Review Board.

Much of our annual audit work is carried out under statute and professional standards, which means that the extent of this work is largely beyond our control. In the last few years, auditors have been required to do more work. The cost of employing auditors has also been steadily increasing, largely as a result of the adoption of international accounting and auditing standards. The changing economic conditions, combined with changing immigration rules by countries such as the United Kingdom are making many newly qualified people think more about their options and, as a result, turnover is starting to reduce. However, we are not yet certain how the current economic conditions will affect audit fees.

I am proud of the contribution we have made during the past year to improve trust in the effectiveness and efficiency of the public sector. While 2009/10 will be challenging, I am confident we have a strong basis on which to continue our contribution.



Phillippa Smith
Deputy Controller and Auditor-General

30 September 2009

Our role and structure

The Controller and Auditor-General (Auditor-General) is an Officer of Parliament. The Auditor-General is independent of executive government and Parliament in discharging the functions of the statutory office, but is answerable to Parliament for the stewardship of the public resources used to carry out those functions.

The Auditor-General's staff are organised in two business units, supported by a shared team of corporate services staff:

- The Office of the Auditor-General plans, sets policy and standards, appoints and oversees the work of auditors, carries out performance audits, inquiries, and special studies, and provides reports and advice to Parliament and others.
- Audit New Zealand carries out annual audits allocated by the Auditor-General and provides other assurance services to public entities.

The Auditor-General also engages private sector accounting firms to carry out annual audits of some public entities. Most audits of public entities are allocated by the Auditor-General. A contestable process is used to appoint the auditors of some strongly commercial public entities and a small number of schools.

Overview of service performance

We want to help create trust in the effectiveness and efficiency of the public sector through our independent advice and assurance. A measure of trust is New Zealand's ranking on the Transparency International Corruption Perception Index. In 2008, New Zealand's score was 9.3, ranking it first equal with Denmark and Sweden. We also collect information to give us insight into the effect of our work on improving the effectiveness and efficiency of the public sector.

Our annual audit and other assurance work suggest that the quality of financial reporting and management in the public sector was broadly maintained, as:

- audit reports issued on time improved to 81% compared to 78% in 2007/08 and 83% in 2006/07;
- audit reports qualified remained similar to those of previous years. In 2008/09, 2.4% of audit reports we issued were qualified, compared to 2.3% in 2007/08 and 2.4% in 2006/07;
- the acceptance by public entities of Audit New Zealand's annual audit management report recommendations increased this year (79%) compared to the previous two years (72% and 64% respectively). This trend is accompanied by an increase in the number of recommendations that were rejected, with 11% of recommendations rejected this year compared to the previous two years (4% and 1% respectively);
- our assessments of central government entities' management control environment and financial information systems and controls improved compared with the previous year. Most of this improvement was for entities we assessed as "Good" in 2007/08 being assessed as "Very Good" in 2008/09. "Needs Improvement" gradings remained essentially the same.

For our other output classes, our impact measures suggest that our work is achieving its desired effect, with:

- select committees advising (through our stakeholder feedback interviews) that our advice assists them in their Estimates examinations and financial reviews;
- reviews of a sample of performance audits and inquiries showing that entities have responded to our recommendations for improvement; and
- our follow up of the action by entities to respond to recommendations made from sensitive and major inquiries showing that satisfactory action had been taken.

Overview of performance (summary Statement of service performance)

We provide a snapshot below of our achievements in delivering services against the measures and targets we set in our Annual Plan 2008/09.

Audit and assurance services

2008/09 Forecast	2008/09 Actual	2007/08 Actual	2006/07 Actual
Less than 10% of audits in arrears are due to inaction on our part	49%	55%	51%
All management reports sent within six weeks of the audit report	93%	93%	95%
No outstanding LTCCP opinions at 30 June 2009 are because of inaction on our part	8% outstanding at 30 June, none due to inaction on our part.	N/A	N/A
All LTCCP management reports are issued within six weeks of issuing the LTCCP opinion	85%		
75% of client survey respondents rate Audit New Zealand's overall service as 7 or better on a scale of 1 to 10	80%	75%	68%
95% of auditors receive satisfactory or better grading through quality assurance reviews	100%	93%	84%
Independent review confirms the probity and objectivity of our methods for allocating audits and monitoring fees	Confirmed	Confirmed	Confirmed
Costs (2008/09 forecast – \$62.7m)	\$60.6m	\$58.6m	\$58.7m

Audit arrears due to inaction on our part improved on the previous year's result, but remains above our target. Improving our management of audit arrears is a key focus for us, not only to improve our own effectiveness but, more importantly, to ensure that those interested in public accountability receive our audit assurance as soon as possible after the end of the financial year.

Supporting accountability to Parliament, and Performance audits and inquiries

The Controller function of the Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of departments and Officers of Parliament have been incurred lawfully, for purposes within their intended scope. Monthly statements (between September 2008 and June 2009) were provided by the Treasury for our review. An internal quality review found that these monthly processes operated effectively and that there had been an improvement in the appropriation audit approach and documentation.

2008/09 forecast	2008/09 Actual	2007/08 Actual	2006/07 Actual
At least 85% of select committee members we seek feedback from rate the advice they receive from us as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 86% Usefulness: 86%	Quality: 80% Usefulness: 83%	Quality: 100% Usefulness: 86%
At least 85% of stakeholders members we seek feedback from rate our performance audit reports as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 100% Usefulness: 67%	Quality: 50% Usefulness: 66%	Quality: 100% Usefulness: 86%
Number of reports issued on performance audits, inquiries, special studies, and results of annual audits	21	24	22
Independent reviews of two performance audits confirm their quality (presentation of context; report structure, presentation and format; reasonableness of methodology and conclusions).	Confirmed	Confirmed	Confirmed
80% of findings on inquiries are reported within: <ul style="list-style-type: none"> • 3 months for routine inquiries, • 6 months for sensitive inquiries; and • 1 year for major inquiries. 	84% 73% 0% (2 major inquiries reported within 13 months)	91% 82% None undertaken	95% 0% (1 undertaken) None undertaken
Costs (2008/09 forecast \$9.8m)	\$9.3m	\$9.2m	\$8.8m

The 21 reports published are made up of reports to Parliament on the results of annual audits (2), on inquiries (4), and on performance audits and other special studies (15). All of the public reports we issued are available on our website: www.oag.govt.nz.

Our reports, advice, and responses to inquiries are subject to a range of quality assurance reviews to ensure that they are well prepared. In all cases, the result of this quality assurance work confirmed that our work was of a good quality. We also received positive feedback from our stakeholder interviews, including the assessment that the quality of our performance audits had returned to its previous high level although their usefulness again remained lower than our target. We make extensive effort to ensure that our performance audits and studies will be useful through consultation on our draft annual plan. While our stakeholder feedback interviews are held with a very small number of people, their feedback is important to us and we are taking steps to respond.

Our timeliness in dealing with routine and sensitive inquiries was affected by the larger number of unusually sensitive and major inquiries during the year.

Financial performance and financial position (summary financial statements)

	2009 Actual \$000	2009 Supp. Estimates \$000	2008 Actual \$000	2007 Actual \$000
The income we earned was:	70,420	72,520	68,146	67,838
We received this income from the following sources:				
• \$60.5m of audit fees from public entities				
• \$9.9m from the Crown, which included a funding increase from the previous year of \$0.293m				
Our total expenditure was:	69,934	72,520	67,861	67,553
The main items we spent money on were personnel costs \$35.8m, fees paid to contracted auditors \$20.9m, and other day-to-day operating costs \$12.0m				
All our spending was within the limits set by Parliamentary appropriations				
Our surplus for the year, which is returned to the Crown, was:	486	-	285	285
Our total assets at 30 June were:	13,267	11,875	11,961	12,250
The assets consisted of:				
• Current assets – including cash \$3.7m, work in progress \$2.2m, and receivables \$4.8m	10,916	9,435	10,114	9,861
• Non-current assets – the plant, equipment, and intangible assets we own	2,351	2,440	1,847	2,389
Our liabilities at 30 June were:	9,746	8,354	8,440	8,729
The liabilities consisted of:				
• Current liabilities – including creditors and other payables \$4.6m, and provision for employee entitlements \$4.1m	9,229	7,699	7,790	8,017
• Non-current liabilities – provision for employee entitlements	517	655	650	712
Movements in our taxpayers' funds were:				
Opening balance at 1 July	3,521	3,521	3,521	3,565
Surplus for the year	486	-	285	285
Provision for payment of surplus to the Crown	(486)	-	(285)	(329)
Closing balance at 30 June	3,521	3,521	3,521	3,521
Our net increase/(decrease) in cash held was:	520	(1,003)	(669)	852
The net cash flows were from:				
• Operating activities	2,233	813	452	1,867
• Investing activities	(1,428)	(1,531)	(652)	(1,015)
• Financing activities	(285)	(285)	(469)	-

* This summary has been extracted from the full financial statements. The full financial statements, dated 30 September 2009, are in our Annual Report 2008/09 (available on our website, www.oag.govt.nz).

Audit report



AUDIT REPORT

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S SUMMARY FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

We have audited the summary financial statements and statement of service performance as set out on pages 5 to 7.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements and statement of service performance complies with FRS-43: *Summary Financial Statements* and is consistent with the full financial statements and statement of service performance from which they are derived and upon which we expressed an unqualified audit opinion in our report dated 30 September 2009.

Basis of Opinion

The audit was conducted in accordance with New Zealand Auditing Standards. We carry out audit assignments on behalf of the Controller and Auditor-General. The level of work from these assignments is no greater than the level of work prior to our appointment as auditor. Other than the audit and these assignments, we have no relationship with or interests in the Controller and Auditor-General.

Responsibilities of the Controller and Auditor-General and the Auditor

The Controller and Auditor-General is responsible for preparing the summary financial statements and statement of service performance and we are responsible for expressing an opinion on those statements.

CST Nexia Audit

**CST Nexia Audit
Chartered Accountants
Manukau City, New Zealand
30 September 2009**