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Parliamentary paper

Annual Plan 2010/11

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Annual Plan 2010/11

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Hon Dr Lockwood Smith MP
Speaker
House of Representatives
WELLINGTON

Mr Speaker

I am pleased to forward this report to you for presentation to the House of Representatives under section 36(4) of the Public Audit Act 2001.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

Wellington

23 June 2010

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Auditor-General's overview and strategic direction

This is my Annual Plan for 2010/11, which I am required to prepare under the Public Audit Act 2001. It includes the Statement of Intent information that I prepared under the Public Finance Act 1989 and which is contained in the 2010/11 Estimates of Appropriation. It also incorporates my proposed work programme for 2010/11, on which I sought feedback from the Speaker and select committees.

Major influences on our work in the next three years

There is no question that the Auditor-General's role and vision to improve public sector performance are of heightened importance to New Zealand at present.

Although most Kiwi households have managed to ride out the global recession, there has been a major, lasting effect on core government. Public revenue is down, and we are experiencing a level of national debt similar to the 1980s that will probably see the country's Budget in deficit for much of my term as Auditor-General. There will be continuing pressure on the public sector to do more with the same or less, greater concern about performance and value for money, and a stronger focus on safeguarding public assets and services.

International demands for changes to auditing and accounting standards and the mobility of the audit workforce continue to affect us as part of the international audit community, and we have major new challenges at home such as providing audit assurance over the amalgamation of eight local authorities into a single Auckland "super" council.

As a result, my Office – which includes the Office of the Auditor-General, Audit New Zealand, and all other audit service providers who carry out audits on my behalf – will be expected to:

- pursue avenues to improve the public sector while maintaining independence;
- improve the flow and analysis of our collective knowledge; and
- provide assurance over the soundness of management decisions in the public sector.

All of the Auditor-General's resources will need to work together even more effectively for the Office to provide the assurance, guidance, and leadership that will help to ensure that public money is used wisely.

Our Strategy

In this context, the Office's current Strategy is on the right track for the next two to three years. We will continue to build our own capability and to work on our three main strategic objectives to:

- better understand public entities;
- better use the full range of our resources; and
- better customise our reporting.

However, there will be some changes of emphasis so that we fully use the five aspects of the legislative audit model (authority, waste, probity, performance, and accountability) to report on matters that will help to improve public sector performance.

For the duration of my term as Auditor-General, I expect the Office to maintain high quality work, independence, and good relationships based on respect by:

- listening to and knowing our clients, our stakeholders, and the public sector so that we understand their expectations and the context for our work, and know the effect of our work;
- building our individual and collective expertise, experience, and judgement so that we can strengthen our contribution to improving public sector performance;
- working together (internally and externally) to integrate and focus our knowledge so that we get and give the most value from what we know and have an effect on the big issues; and
- adapting our ways of working to get results out when the matter is current and in a form suiting the audience so that our work has the best chance of having a positive influence.

Consultation with Parliament

Consultation with Parliament has helped me to ensure that the work done using my discretionary audit reporting powers will be relevant and useful to Parliament, public entities, and the public. It is an important way in which I can continue to ensure that the work of my Office remains relevant and responsive to the needs of my key stakeholders – Parliament and the public. The feedback I have received mainly supported the proposals I have made and the approach I have taken in determining my proposed work programme, with a specific suggestion made for future years being the performance of the New Zealand Police in road safety enforcement.

I am aware that the wider environment is one of rapid change influenced by the economic conditions we are currently experiencing, which in turn changes the priorities of the Government. My Office has put considerable thought and development work into preparing the proposed work programme within my Annual Plan. However, in this wider environment, I will consider amending specific proposals or substituting other work should the need arise.

Concluding comments

I do not underestimate the effect of changing emphasis and adding new work and complexity on top of doing better with what we have. The Office already has challenging roles, and our level of commitment to doing a good job is high. I am confident that this approach will enable us to build on our good reputation, and that we will be known for:

- providing expert and regular assurance on the activities and financial performance of public entities;
- improving public management;
- our expertise in public management and auditing;
- meeting expectations; and
- knowing the effect of our work.



Lyn Provost
Controller and Auditor-General

16 June 2010

Part 1

Nature and scope of the Auditor-General's functions

Part 1

Nature and scope of the Auditor-General's functions

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

The Auditor-General is the auditor of all public entities in New Zealand – a total of about 4000 public entities. Public entities are accountable to Parliament for their use of the public resources and powers that Parliament has conferred on them. Parliament has also legislated to require independent assurance that public entities are operating, and accounting for their performance, in keeping with Parliament's intentions. This includes the 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.

The Public Audit Act 2001 sets out the mandate and responsibilities of the Auditor-General. It provides for the Auditor-General to examine and provide independent assurance to Parliament and the public on matters of authority, waste, probity, performance and accountability. The Auditor-General's legislative mandate is confined to public entities, in respect of which the Auditor-General:

- must carry out requirements of the Public Audit Act 2001 and other statutes (such as the Public Finance Act 1989 and Local Government Act 2002, which set out accountability responsibilities of public entities);
- may carry out services of a kind that it is reasonable and appropriate for an auditor to perform; and
- must limit her examination to the extent to which activities are being carried out effectively and efficiently in a manner consistent with policy to which the public entity is required to adhere.

The output classes and outputs of the Auditor-General reflect her legislative audit mandate to provide independent advice and assurance. They are:

- audit and assurance services;
- supporting accountability to Parliament (services to Parliament and the Controller function); and
- performance audits and inquiries.

The audit work carried out and the resulting assurance helps public entities to make improvements in their use of, and in accounting to Parliament and the public for their use of, their public resources and powers.

The work of the Auditor-General is carried out by staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand, supported by a shared team of corporate services staff – and by contracted auditors from the private sector. We refer to these collective resources as “the Office”.

Part 2

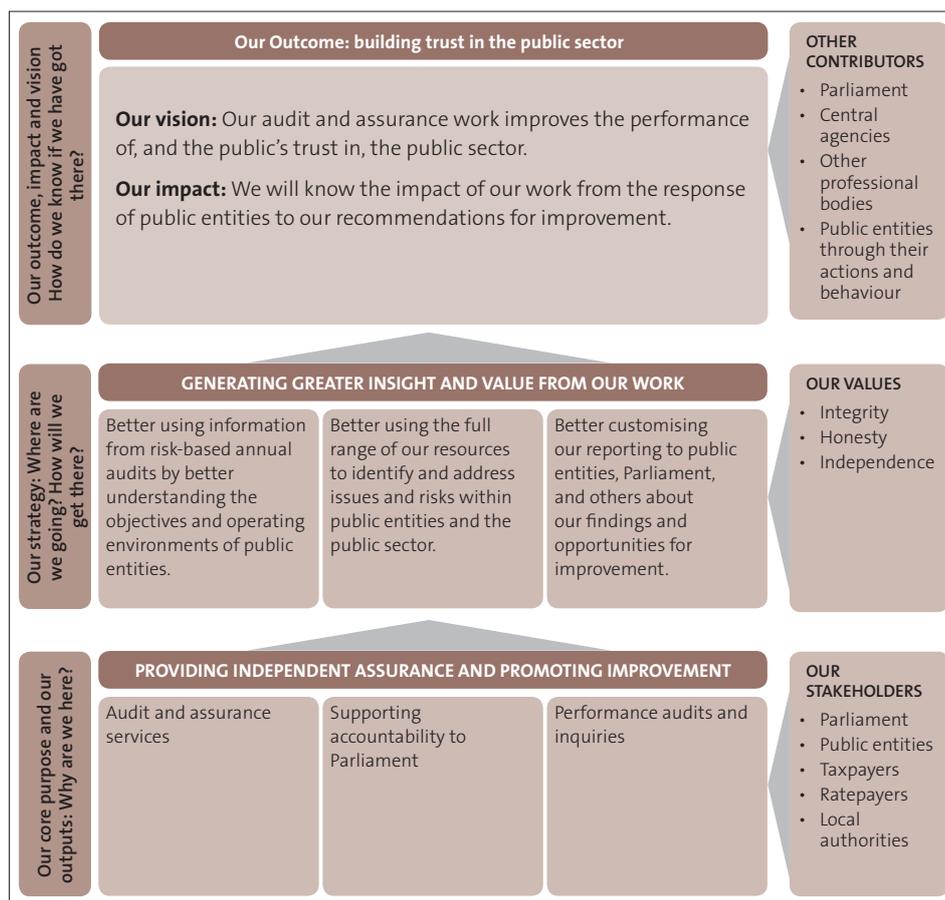
Managing in a changeable operating environment

Part 2

Managing in a changeable operating environment

We summarise our outcomes, outputs, and strategy in Figure 1.

Figure 1
Our outcomes, outputs, and strategy



Strategic directions and operating intentions

The Auditor-General, in her overview, identified external factors that are influencing the Office or that are areas of focus to improve the assurance we provide to Parliament and the public and the opportunities for public sector improvement. Each of the issues and focus areas identified below will both challenge us and give us the opportunity to give effect to our 2009–12 strategy of:

- better understanding public entities;
- better using the full range of our resources; and
- better customising our reporting.

The issues, and our responses to managing them, are as follows:

Auckland: The amalgamation of eight local authorities into one “super” council on 1 November 2010 is a complex exercise with major implications for the whole country, and local government in particular.

Performance measures: There are numerous challenges for the Office to implement its revised auditing standard AG-4 for auditing service performance information. During the next two years, we will focus on carrying out good quality audits of service performance information to underpin our statutory reporting duties and our efforts to add value to the organisations we audit. Our challenges include how we maintain independence and give advice, how we build confidence for this work, and how to report.

Good analysis and reporting of sector information: We have enormous amounts of data and knowledge that we can use much better to inform our audit work and to share with others. We will focus on getting the best from what we know and improving our understanding and reporting of sector themes.

Implementing Ministry of Economic Development/Accounting Standards Review Board changes: There is still a lot of work to do to arrive at the right set of financial reporting standards for the public sector in New Zealand. We will focus on making a positive contribution to the work of the Ministry of Economic Development and the Accounting Standards Review Board in setting and implementing appropriate standards.

Choosing a cross-cutting theme for 2012/13: In the next two years, we will choose one theme for our discretionary effort in 2012/13 that we will report on and that will make a lasting difference to the New Zealand public sector.

... and, of course, **adding value through our 4000-plus annual audits, inquiries, and performance audits:** Our auditing and assurance work is our core business, and the foundation for our ability to have a positive influence on public sector performance. We will focus on maintaining the underlying quality of all our financial and performance audits and inquiries, and on how to add value to the organisations that we audit. We will also focus on improving our reporting and our supporting communications and relationships.

Performance improvement actions

In **adding value through our 4000-plus annual audits, inquiries, and performance audits** and our response to managing this, there is a particular aspect of our performance that we are looking to improve. Our statement of service performance for our audit and assurance services includes an impact measure relating to public entities’ audited annual reports being issued on time and an output measure related to outstanding audit reports that are because of inaction on our part. We want those interested in the accountability of public entities to receive our audit assurance as soon as possible after the end of the financial year. However, not all public entities meet their statutory time frames. Overall, the timeliness of audit completions improved slightly last year from the previous year, with 81% of the audits due for completion in the year finished within the statutory time frame, compared with 78% and 83% in the previous two years.

We assessed 49% of the arrears at 30 June 2009 to have been caused by inaction on our part, compared with 55% at the end of the previous year. This was a new measure and target included for the first time in the 2007/08 year. Since the introduction of this measure, we have compared trends by sector for our actual results in reducing arrears that are due to our inaction. We propose as a result to reset the target for future years from 10% to 30%, reflecting the result achieved for our best performing sector within the overall results, which we consider to be a more reasonable best estimate.

We would like to significantly reduce both the number of arrears in total and those that are our responsibility, and will be working with our audit service providers to ensure that the main obstacles to prompt completion of audits are removed. We have previously reported that we give priority to audit work in larger public entities at the expense of smaller audits such as cemeteries and administering bodies (for example, hall boards). These smaller audits (of entities that often do not have revenue to pay for their audit costs) make up an undue proportion of both total arrears in public entity reporting and those that are caused by inaction on our part.

Evaluating our service performance, its impact, and its cost-effectiveness

In the Forecast statement of service performance (Part 4, on pages 22-38), we set out our outcome, intended impacts, outputs, and their associated impact and performance measures and standards:

- Our impact measures help us understand whether our outputs are likely to be contributing to the overall outcome we want (building trust in the public sector). They help us know the effect of our work and that this work is contributing to improving public management.
- Our output performance measures and standards help us understand whether we are producing quality outputs within time and resource constraints and in doing so that we are meeting expectations and being known for our expertise in public management and auditing.

Strategic risks and risk management

The Auditor-General faces four ongoing strategic risks. These risks are primarily managed through processes that support the work we do, as shown in Figure 2.

Figure 2
Our strategic risks and risk management

Risk	Management
<p>1. Loss of independence – independence underpins the value of the Auditor-General’s products. Losing that independence in fact or appearance, whether by failure on the part of the Auditor-General or her appointed auditors to act independently or otherwise, would undermine trust in our organisation.</p>	<p>The Auditor-General sets a high standard for independence for her employees and the auditors she appoints from chartered accounting firms. The Auditor-General’s independence standards apply to all appointed auditors. Monitoring of the independence standards, including for the two statutory officers and all employees, is carried out through a system that includes regular declarations of interest and, where necessary, implementation of measures to avoid conflicts of interest.</p>
<p>2. Audit failure – the risk that we issue an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process.</p>	<p>The Auditor-General adheres to professional auditing standards, including implementing and complying with the revised quality control standards from the New Zealand Institute of Chartered Accountants, and supplements such standards with the Auditor-General’s auditing standards to address public sector matters on which general auditing standards are not relevant or appropriate.</p> <p>Monitoring of adherence to these standards is carried out through external quality assurance regimes (such as participating in New Zealand Institute of Chartered Accountants’ practice reviews and from time to time International Peer Reviews’ annual independent evaluation of our audit allocation and fee monitoring processes, independent external review of two performance audits each year, and stakeholder feedback studies) and through internal peer review and substantiation procedures that include carrying out quality assurance reviews of all our appointed auditors and our Office products on a risk basis and at least three-yearly.</p> <p>A range of opinion and consistency review processes are used to confirm audit team conclusions where non-standard opinion opinions are proposed, changes to audit standards and work are being introduced. Before performance audits are presented in Parliament, we carry out process of external report clearance and internal substantiation and review.</p>

<p>3. 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.</p>	<p>Ongoing training and development of our staff is carried out – including talent and capability management programmes, leadership development initiatives, and professional development programmes. We provide further information in Part 3 on organisational capability.</p>
<p>4. Loss of reputation – the risk that we may lose reputation or credibility that affects our ability to maintain effective relationships with stakeholders. This could arise either because of failings in one of the three areas above or because of external expectations and perceptions about the role of the Office or its findings on any particular matter that has been the subject of audit scrutiny. The Auditor-General’s discretionary mandate is broad and it is inevitable that we will not meet all expectations.</p>	<p>Managing this risk requires the exercise of judgement about where to focus our audit effort and how best to report while also achieving the greatest likelihood of public sector improvement. There are a number of ways this risk is managed in our day-to-day work. The combined leadership team of the Office meets regularly, discussing issues and feedback from key stakeholders and public entities on our audit work. Senior staff liaise with public entities and key stakeholders. We carry out regular stakeholder and client feedback surveys as well as media monitoring to identify areas in which the Office may not be effectively communicating on matters such as its role and the results of its audit work.</p>

We consider that our strategic risks are more likely to materialise in two main areas in the coming three years, and we intend to take specific risk management actions for them:

- **Auckland** – The complexity of the pending amalgamation of eight local authorities into one “super” council on 1 November 2010 has led to the Auditor-General determining that she will oversee the audit of the new Auckland Council and its associated controlled subsidiaries, including signing the audit opinion for the new council.
- **Performance measures** – We will be building our expertise to provide assurance to Parliament and advice to public entities about the quality of performance information and reporting by entities. To do this we have been preparing and carrying out a greater range of training modules for our staff and making these available to our other audit service providers (where they carry out service performance work on our behalf). We have also established a range of consistency and review processes to support the introduction of our revised auditing standard.

Part 3

Organisational capability

Part 3

Organisational capability

Our operating model

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

The OAG carries out strategic 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.

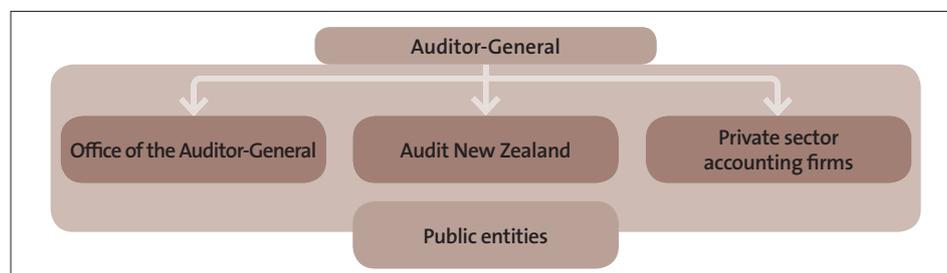
Audit New Zealand is the operating arm, and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities within the Auditor-General's mandate and in keeping with the Auditor-General's auditing standard on the independence of auditors.

The Auditor-General also engages private sector accounting firms to carry out audits of some public entities.

We employ about 350 staff in eight locations, and engage about 60 private sector accounting firms to carry out annual audits of public entities.

Figure 3 shows how all these parts fit together in our operating model.

Figure 3
Our operating model



Our people

The core expertise of the Auditor-General is our expertise in public management and auditing. Underlying this expertise are both our technical competencies (for example, in accounting and auditing) and the exercise of our professional judgement by:

- listening to and knowing our clients, our stakeholders, and the public sector so that we understand their expectations and the context for our work, and know the effect of our work; and

- building our individual and collective expertise, experience, and judgement so that we can strengthen our contribution to improving public sector performance.

We will continue to recruit a number of new staff each year. Some of these will be experienced professionals – replacing those who have left us – but we also hire a number of accounting graduates. When evaluating candidates we are careful to select people who have not only the required expertise, but also a strong affinity with the core ethical and public service values of the Office. Through their work for the Office, we expect to see our staff develop both their vocational and leadership expertise, strengthening their contribution to the Office and the public sector and being sought by other public sector organisations for their knowledge of, and contribution to, improving public sector performance.

We will continue our focus on each individual's needs in developing skills identified in our competency frameworks, on our leadership development programmes, and on improving the level of engagement of our people (as measured by our annual staff survey).

A particular area of development focus from 2010 through to 2013 is our auditors' understanding of, and expertise in, the changed audit requirements in the Auditor-General's revised auditing standard about service performance reporting by public entities. It is critical not only that entities are assessed appropriately according to the standard, but also that these assessments are consistent throughout the public sector.

Historically, our highest area of staff attrition is in recently qualified accountants. However, the global and local economic downturn has resulted in a reduced turnover of staff in 2009/10 overall. As we emerge from the downturn, we expect that attrition of recently qualified accountants will increase again in 2010/11 and future years. We continue to expect lower levels of attrition among our more experienced staff, which should improve the feedback we receive on the knowledge, skills, and consistency of audit teams.

The Office benefits from a diverse workforce, and we are committed to recognising and valuing different skills, talents, experiences, and perspectives among our employees. A diverse workforce will help the Office relate to our clients and bring a variety of perspectives to bear on our work.

Our main measures of our organisational health and capability are set out in Figure 4. As information is not yet available in most instances for 2009/10, we have not given actual achievements for that year. Instead, for comparative purposes, we have provided actual achievements against measures and standards for 2008/09 and 2007/08.

Figure 4
Organisational health and capability – main impact measures and standards

2010–13 main impact measures and standards	2008/09 Actual	2007/08 Actual
Staff engagement		
Improve (or at least maintain) the engagement and satisfaction of our staff measured against the previous two years (on a scale of 1 to 5).	Overall engagement 3.8 Overall satisfaction 3.7 Basic needs met 4.0 Individual contribution 3.7 Teamwork 3.7 Growth 4.2	Overall engagement 3.7 Overall satisfaction 3.5 Basic needs met 4.0 Individual contribution 3.5 Teamwork 3.5 Growth 4.0
Staff experience and expertise		
Improve (or at least maintain) the average years of experience of our staff measured against the previous two years.	Office of the Auditor-General 7.6 Audit New Zealand 4.2 Corporate Services 2.9	Office of the Auditor-General 7.2 Audit New Zealand 4.3 Corporate Services 5.4
Achieve a pass rate of staff undertaking NZICA accreditation of not less than 95%.	94%	100%
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.	All completed 100% achieved satisfactory or better	All completed 93% achieved satisfactory or better

Listening, understanding, and exercising judgement		
<p>Client survey feedback shows that auditors' knowledge of entities' business and operating context is improving and that auditors are investing in work to understand that context. Our clients give us improved (or at least maintained) ratings compared with the previous two years for their auditors':</p> <ul style="list-style-type: none"> • understanding of clients' business and the risks that clients face; • general skills and knowledge required to conduct the audit; and • provision of useful insights into the clients' business and promoting improvement in the business. 	<p>New measure in 2010/11 Baseline information being collected in 2009/10</p>	<p>New measure in 2010/11 Baseline information being collected in 2009/10</p>
<p>Our quality assurance review of audit and assurance work confirms that auditors are carrying out the requirements of AG-4 (revised).</p>	<p>New measure in 2010/11</p>	<p>New measure in 2010/11</p>

The Office addresses equal employment opportunities through its recruitment and employment policies. The principles of equal opportunity are embedded in the Office's policies and procedures. Our recruitment programme in particular aims to attract and appoint the best people, who have the appropriate skills, values, and attributes to meet the Office's needs, objectives, and strategic direction, in a manner that provides equal employment opportunities to Māori, women, ethnic or minority groups, and people with disabilities (see Figure 5). Recruitment and employment decisions and practices (such as feedback from exit interviews) are monitored to confirm that policies are applied. Managers are coached and supported to be aware of their good employer obligations both through specific programmes and courses and through one-on-one coaching.

Figure 5
Staff profile and diversity

As at 30 June	2009	2008
Staff numbers (full-time equivalents)		
Office of the Auditor-General	61	57
Audit New Zealand	249	216
Corporate Services*	44	38
Total	354	311
Gender distribution – all staff		
Women	52%	52%
Men	48%	48%
Gender distribution – executive management		
Women	42%	42%
Men	58%	58%
Ethnicity distribution		
NZ European	48%	42%
NZ Māori	2%	4%
Pacific Islander	3%	3%
Asian	12%	12%
Other European	7%	12%
Other ethnic groups	4%	2%
Undeclared	24%	25%
Functional distribution		
Audit/assurance	65%	74%
Technical and advisory	10%	9%
Corporate support	22%	13%
Senior management	3%	4%

* Corporate Services function is shared between the OAG and Audit New Zealand.

Financial trends

The Office has been broadly maintaining the quality and quantity of its outcome, impact, and output results in the last three years. These results have been achieved within our appropriations, with adjustments made in recent years only for remuneration costs, with no adjustments to these levels since 2008/09.

In particular, audit and assurance services comprise 87% of the Office's expenditure, with the cost of each audit (audit fee) paid by each public entity according to the Office's revenue-dependent appropriation. The trend in audit and assurance services expenditure has been moderately stable over the last three years, after increases in 2005/06 driven mainly by the increased complexity of audits due to the adoption of International Financial Reporting Standards, and input cost increases largely arising from worldwide shortages of qualified auditing staff.

We anticipate greater pressure on our forecast financial operations, particularly as a result of the following influences:

- It is becoming increasingly difficult to retain our best and most experienced staff when holding remuneration ranges at 2008/09 levels. Our staff turnover in 2009/10 is at a historical low, to some extent in our view because of the tight overall economic climate. However, we are seeing initial signs that staff turnover will increase. Although competitive remuneration is only one element of staff retention, it is a very important element.
- In recent years, there has been an increase in the complexity of requests to the Office from taxpayers and ratepayers asking us to enquire into matters of concern to them. The Public Audit Act 2001 gives the Auditor-General discretion to carry out performance audits and inquiries to examine matters concerning a public entity's use of resources. We continue to explore ways to prioritise these requests to maintain appropriate levels of response to critical issues.
- Considerable upward pressure remains on audit fees as a result of increasing salaries and standard increases in operating costs (not only for the OAG and Audit New Zealand, but also for private audit service providers contracted by the Auditor-General to carry out audits on her behalf), changes to accounting standards, changes to auditing standards, and the increasing complexity of some public agencies (for example, local government agencies becoming issuers, with complex subsidiary arrangements). We note that changes to auditing and accounting standards are largely beyond our control and that any changes may further increase pressure on audit fees.

The upward pressure on audit fees is challenging, given the fiscal restraint that the public sector is currently operating under.

- A small but significant number of the public entities audited by the Office are in arrears or have not paid their audit fees. Arrears are where audits for previous financial years have not been completed, often because the entity does not have the capability to prepare the financial accounts. Other entities have simply not paid for previous financial years' audits. The Office has an ongoing programme to address arrears and unpaid audit fees.

Business practices

We have an extensive quality assurance programme for all the products that feature in our statement of service performance. The programme informs improvements in our business and professional development.

In addition, the Office has an internal audit function that is contracted to an external firm. The annual internal audit programme is agreed with our independent Audit and Risk Committee. In 2010/11, internal audit will continue to focus on those key risks that could affect our reputation, independence, capability, and product integrity.

Based on our own assessments and on previous review findings, in 2010/11 we intend to work on improvements to our information security (including our disaster recovery capability) and our risk management processes.

Facilities and equipment

In 2008/09, we started a project to understand our medium-term to long-term property needs. The project identified the advantages of co-locating our OAG and Audit New Zealand Wellington staff. It is likely that our Audit New Zealand Wellington operation will need to vacate its premises in 2013. We plan to continue this work in 2010/11, and expect to complete a business case for consideration by Parliament in due course.

Information systems

We rely on information technology to complete our work. To ensure an effective, efficient, and customer-focused service, our audit staff working in the field use specialist auditing and remote access and communications tools. In the OAG, the audit status database system is used to manage the allocation, tracking, and reporting of the 4000 or so audits carried out annually by appointed auditors from about 60 chartered accounting firms. Corporate services staff are responsible for the core financial, time and cost, document and records management, publishing and communications, and human resources systems that underpin the Office's operation.

In 2010/11, we intend to:

- improve the reliability and connectivity of the systems used by our field staff;
- enhance the functionality of our financial management systems and audit tracking systems; and
- investigate options to improve our electronic document and records management systems.

Part 4

Forecast statement of service performance for each of the three years 2010/11, 2011/12, and 2012/13

Part 4

Forecast statement of service performance for each of the three years 2010/11, 2011/12, and 2012/13

Outcome

Public entities are accountable to Parliament for their use of the public resources and powers that Parliament has conferred on them. Parliament has also legislated to require independent assurance that public entities are operating, and accounting for their performance, in keeping with Parliament's intentions.

The Public Audit Act 2001 provides for the Controller and Auditor-General (the Auditor-General) to examine and provide independent assurance to Parliament and the public on matters of authority, waste, probity, performance and accountability and sets out her mandate and responsibilities.

The overall outcome that we work toward is building trust in the public sector. We assess progress toward this outcome by New Zealand's Transparency International Corruption Perception Index score over the next three years being maintained or improved. In 2009, New Zealand's score was 9.4 on a 10-point scale, and it ranked first on the index. New Zealand has achieved a high place on the index since it started in 1995.

The audit work carried out by the Auditor-General and the resulting assurance helps public entities to make improvements in their use of the resources and powers entrusted to them and in their accounting to Parliament and the public for their use of these. Therefore, within each output class, we identify the main measures and targets for the impacts of our outputs as well as with our output performance measures and targets.

Because information is not yet available in most instances for 2009/10, we have not given actual achievements for that year. Instead, for comparative purposes, we have provided actual achievements against measures and standards for 2008/09 and 2007/08.

Audits required by statute

The majority of the work of the Office (about 87%) comprises annual audits of the financial and performance reports of public entities. We carry out about 4000 such audits each year. The Auditor-General is also required to perform the Controller function and appropriation audit, to carry out audits of Long-Term Council Community Plans (LTCCPs), and to give approvals under the Local Authorities (Members' Interests) Act 1968. This work is non-discretionary.

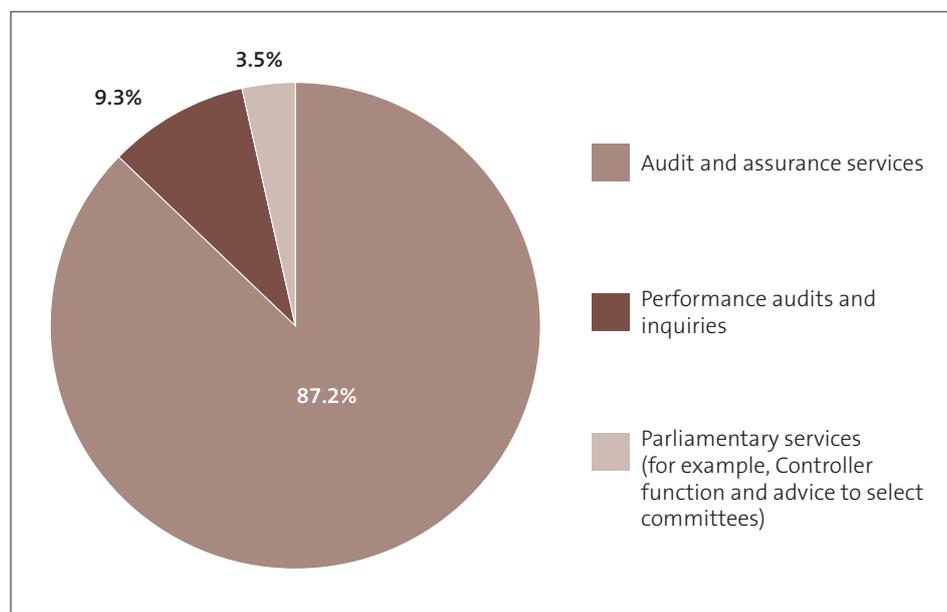
Other reports and work performed under discretionary reporting powers

The rest of our work is done under the Auditor-General's discretionary reporting powers, with much of this work being "demand-driven", including:

- advice to Parliament and to select committees;
- responding to enquiries from ratepayers, taxpayers, and members of Parliament;
- performance audits and studies;
- working with the accounting and auditing profession;
- wider assurance work;
- international liaison and involvement;
- support and leadership for the Pacific Association of Supreme Audit Institutions; and
- advice to, and liaison with, government bodies and other agencies in the public sector.

Figure 6 shows the allocation of the Office's work between its three output classes.

Figure 6
Allocation of work between output classes



Output class: Audit and assurance services

The main purpose of an annual audit is to provide independent assurance about the fair disclosure of the financial – and in many instances non-financial – information within annual reports. An audit involves a range of procedures, tests, and management and governance enquiries to support our opinion.

In carrying out annual audits, auditors consider the legislative audit mandate, and recommendations for improvements in matters of authority, probity, performance, waste, and accountability may also be raised in our management letters to the governors and managers of public entities. We also use our annual audits to gather information and knowledge about public entities to assist us in advising Parliament and other stakeholders and to help determine the work we do in our performance audits, inquiries, and good practice guides.

A foundation for trust in the public sector is that public entities respond to their statutory public reporting obligations and to findings resulting from audits. Public entities' responses demonstrate their commitment to effective, efficient, and accountable service delivery. Therefore, the measures of intended impacts of the appropriation for this output class are as shown in Figure 7.

Figure 7

Audit and assurance services – main impact measures and standards

2010–13 main impact measures and standards	2008/09 Actual	2007/08 Actual
The number of public entities' audited annual reports issued within the statutory timeframe is improved (or at least maintained), measured against the previous two years.	Total audits due for completion in year: 3908 Percentage on time: 81%	Total audits due for completion in year: 3946 Percentage on time: 78%
The number of public entities' audited annual reports containing qualified opinions is reduced (or at least maintained), measured against the previous two years.	Total qualified opinions: 95 or 2.4%	Total qualified opinions: 91 or 2.3%
Public entities' acceptance of audit service providers' management report recommendations is improved (or at least maintained), measured against the previous two years. (Note – In prior years this has been assessed against Audit New Zealand's management report recommendations.)	Accepted: 79% Rejected: 11% Noted, under consideration, or not responded to: 10%	Accepted: 72% Rejected: 4% Noted, under consideration, or not responded to: 24%

<p>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.</p>	<p>Management control environment:</p> <ul style="list-style-type: none"> • Very good: 46% • Good: 44% • Needs improvement: 10% • Poor: 0% <p>Financial systems and controls:</p> <ul style="list-style-type: none"> • Very good: 32% • Good: 58% • Needs improvement: 10% • Poor: 0% 	<p>Management control environment:</p> <ul style="list-style-type: none"> • Very good: 38% • Good: 51% • Needs improvement: 11% • Poor: 0% <p>Financial systems and controls:</p> <ul style="list-style-type: none"> • Very good: 21% • Good: 68% • Needs improvement: 11% • Poor: 0%
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* Service performance information and associated systems and controls was graded for the first time under our new framework as part of the 2008/09 audits or with audit work carried out in 2009/10.

In 2008/09, annual audits and other assurance services accounted for 87% of our total expenditure. The major portion of the output class relates to annual audits for public entities that are required by statute to be carried out. Delivery of annual audits is supported by several key processes, including:

- appointing auditors and monitoring audit fees;
- setting the Auditor-General's auditing standards;
- maintaining auditor independence; and
- quality assurance.

There are two main products from an annual audit:

- the audit report; and
- the management report,
- plus, for some public entities:
- a financial review report.

The audit report is addressed to the readers of the financial statements and performance information. It provides the auditor's independent opinion (the audit opinion) on whether the financial statements (and, where applicable, the performance information) fairly reflect the public entity's performance and financial position. If the financial statements fairly reflect the public entity's financial performance and position (and, where applicable, service performance information), then the auditor issues 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 issues an audit report with a qualified opinion.

The management report is addressed to the governing body or the senior management of public entities. It sets out any significant issues identified by the auditor during the audit and provides recommendations for improving the public entity's controls, systems, and processes.

Where public entities are subject to financial review by select committees, we report the results of annual audits to responsible Ministers and select committees. The report includes a grading for public entities, based on our assessment of their management control environment, and financial and service performance (where required) systems and controls. Our output measures and standards for this output class are shown in Figure 8.

Figure 8

Audit and Assurance Services – output measures and standards

2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)	2008/09 Actual	2007/08 Actual
Less than 30% of the outstanding audit reports at 30 June 2011 are because of inaction on our part.	Total arrears at 30 June: 429 49% due to inaction on our part.	Total arrears at 30 June: 453 55% due to inaction on our part.
All management reports are issued within six weeks of issuing the audit report.	93% issued within six weeks	93% issued within six weeks
No outstanding LTCCP opinions at 30 June of the year in which LTCCPs are to be adopted by local authorities are because of inaction on our part. All LTCCP management reports are issued within six weeks of issuing the LTCCP opinion.	8% of LTCCP opinions were outstanding at 30 June 2009, one of which remained outstanding at 31 August 2009. No outstanding opinions were due to inaction on our part. 85% of management reports were issued within six weeks of issuing the LTCCP opinion.	Not applicable – LTCCPs are required to be adopted and audited every three years.

1 "Material" is defined in the New Zealand Institute of Chartered Accountants auditing standard AS-702: *The Audit Report on an Attest Audit* as: "a statement, fact or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, give 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 subject matter in making decisions or assessments."

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).	On a scale of 1 to 10, 80% of respondents gave overall service ratings of 7 or greater.	On a scale of 1 to 10, 75% of respondents gave overall service ratings of 7 or greater.
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.	All completed. 100% achieved satisfactory or better.	All completed. 93% achieved satisfactory or better.
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.	Review undertaken and confirmation provided.	Review undertaken and confirmation provided.
The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.	No significant proposal made for an appropriation increase in audit fees and expenses. However, a request for an increase in appropriation of \$50,000 for audits of smaller entities (Cemetery Trusts and Reserve Boards) was not accepted by the Officers of Parliament Committee.	No significant proposal made for an appropriation increase in audit fees and expenses.

In the next three years, we will focus on:

- Implementing Ministry of Economic Development/Accounting Standards Review Board changes** – We will continue to focus on contributing positively to the work of the Ministry of Economic Development and the Accounting Standards Review Board in setting and implementing appropriate standards. We will work to provide well-founded advice about the effect of International Financial Reporting Standards and other reporting options to assist the development of standards appropriate for the public sector.
- Performance measures** – Included in our existing performance measures for 2009/10 is our work to issue service performance statement opinions for local authorities under our revised Auditor-General's standard for the audit of service performance reports. We will, for the second year be grading the service performance and associated systems and controls of government departments and Crown entities, and will be phasing in our revised standard

during the three financial years ending 30 June 2011 to 30 June 2013. We have categorised entities as A, B, or C, depending on their size (the largest entities are generally category A). We and the Treasury intend to work directly with all category A entities to enable auditors to apply AG-4 (revised) to the audit of the performance information for the year ending 30 June 2011. We will carry out similar work with category B entities to apply AG-4 (revised) for the year ending 30 June 2012, and for category C entities and district health boards for the year ending 30 June 2013.

- **Auckland** – Included in our existing performance measures for 2009/10 is the work to conduct the disestablishment audits of the eight councils that will be merged into one on 1 November 2010. The performance statements will be issued under our revised Auditor-General's standard for the audit of service performance reports and the audit of the Planning document for the new Auckland Council. In 2011/12, we will audit the financial statements for the new Auckland Council.
- **Good analysis and reporting of sector information** – We are carrying out work to better identify, categorise, and manage the flow of information from annual audits into our work in services to Parliament and carrying out performance audits and inquiries. Our focus is to get the best from what we know and improve our understanding and reporting of sector themes.

The Vote estimate for the Audit and assurance services output class in 2010/11 is \$61.855 million.

Output class: Supporting accountability to Parliament

The Office supports Parliament in holding executive government to account for its use of public resources through two outputs:

- Services to Parliament – 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.
- The Controller function of the Controller and Auditor-General – providing independent assurance to Parliament that expenses and capital expenditure of departments and Offices of Parliament have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Through this output, the Office provides for the accountability of departments and Offices of Parliament for the use of funds appropriated to them within the authority granted by Parliament.

Effectiveness, efficiency, and accountability are foundations for trust in the public sector. Therefore, the intended impacts of the appropriation for this output class are as shown in Figure 9.

Figure 9

Supporting accountability to Parliament – main impact measures and standards

2010–13 main impact measures and standards	2008/09 Actual	2007/08 Actual
Select committees confirm that the Office's advice assists them in Estimates of Appropriation and financial review examinations.	100% of respondents rated us as 4 or better on a scale of 1 to 5, as assessed through our stakeholder survey.	100% of respondents rated us as 4 or better on a scale of 1 to 5, as assessed through our stakeholder survey.
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.	The operation of the monthly Controller process and the appropriation audit were carried out to ensure that this measure was achieved.	The operation of the monthly Controller process and the appropriation audit were carried out to ensure that this measure was achieved.

Services to Parliament

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

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

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

We also provide advice and assistance through:

- reports to Parliament and other constituencies on matters arising from our annual audits (including presenting two reports to Parliament on the results of our audits in central and local government);

- responding to requests and participating in working parties on matters related to financial management and accountability with other stakeholders, including government departments, central agencies, local authorities, professional bodies, sector organisations, and other public entities; and
- working with Auditors-General in other countries to encourage, promote, and advance co-operation in the field of public audit. This includes our role as Secretariat of the Pacific Association of Supreme Audit Institutions (PASAI), being a member of various committees of the International Organisation of Supreme Audit Institutions (INTOSAI), and being executing agent for the Pacific Regional Audit Initiative (funded by the Asian Development Bank, with co-financing from the Japan Special Fund and the Government of Australia).

Our output measures and standards for services to Parliament are shown in Figure 10.

Figure 10
Services to Parliament – output measures and standards

2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)	2008/09 Actual	2007/08 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 relevant standards and procedures, including that reports are consistent in their framework and approach and are peer reviewed in draft. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)	There was no internal review this year.	Confirmed by internal review of a sample of reports.
At least 85% of select committee members we survey rate the advice they receive from us as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> • quality; and • usefulness. 	86% 86%	80% 83%
At least 85% of other stakeholders we survey rate the advice they receive from us as 4 or better on a scale of 1 to 5 for relevance and usefulness.	100%	100%

In the next three years, we will focus on good analysis and reporting of sector information. We are carrying out work to better identify, categorise, and manage the flow of information from annual audits into our services to Parliament and carrying out performance audits and inquiries. We want to communicate to Parliament and our other stakeholders what we learn from our annual and discretionary work, so they can get the best from what we know and respond to issues and concerns as they see them.

The Controller function

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

The OAG and appointed auditors carry out standard procedures to give effect to the Controller function in keeping with the Auditor-General's auditing standards and a Memorandum of Understanding with the Treasury. This involves reviewing monthly reports provided by the Treasury, and advising the Treasury of any issues arising and the action to be taken.

Each year, we report to Parliament on the significant issues arising from the operation of the Controller function.

Our output measures and standards for performing the Controller function are shown in Figure 11.

Figure 11

Controller function – output measures and standards

2010/11 measures and standards of output delivery (and forecast for 2011/12 and 2012/13)	2008/09 Actual	2007/08 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.	All monthly procedures have been followed, and agreed timescales achieved.	All monthly procedures have been followed, and agreed timescales achieved.

<p>Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately.</p> <p>(The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>	<p>An internal review was carried out in May 2009, which confirmed the central work carried out was consistent with the Memorandum of Understanding and that the processes operated effectively. There was considerable improvement in the appropriation audit approach and documentation to demonstrate compliance with the auditing standard.</p>	<p>Review to be carried out in the first quarter of 2008/09, at the end of Controller function work for 2007/08.</p>
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* This action is based on the requirement in section 65Y of the Public Finance Act 1989 for the Treasury to submit reports to the Auditor-General following the preparation (under section 31A) of financial statements of the Government "after the end of each month (except for the first 2 months and the last month) in each financial year".

The Vote estimate for the Supporting accountability to Parliament output class in 2010/11 is \$2.460 million.

Output class: Performance audits and inquiries

The Public Audit Act 2001 provides the Auditor-General with the discretion to carry out performance audits and inquiries to examine matters concerning a public entity's use of resources, including:

- the extent to which activities are carried out effectively and efficiently;
- compliance with statutory obligations;
- any acts or omissions to determine whether waste has resulted or may result; and
- any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or its members, office holders, or employees.

The Auditor-General must also respond to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.

Performance audits, inquiries, and good practice guides allow the Auditor-General to consider and provide advice about issues of accountability, performance, waste, probity, and authority in greater depth than is appropriate within the statutory scope of an annual audit.

Effective, efficient, and accountable public entities that operate within their authority and according to high ethical standards are the foundation for trust in the public sector. Therefore, the intended impacts of the appropriation are as shown in Figure 12.

Figure 12
Performance audits and inquiries – main impact measures and standards

2010–13 main impact measures and standards	2008/09 Actual	2007/08 Actual
Entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of performance audits published in the previous year. The results are presented to the Officers of Parliament Committee in our annual follow-up report.	Three performance audit reports were selected by our Audit and Risk Committee for review and the results were presented to the Officers of Parliament Committee. The review concluded that our recommendations had been accepted by the relevant entities and either had been implemented or were being implemented.	Three performance audit reports were selected for review by our Audit and Risk Committee and the results were presented to the Officers of Parliament Committee. The review concluded that our recommendations had been accepted by the relevant public entities and either had been implemented or were being implemented.
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.	We followed up on four of the 11 inquiries within these categories from the previous year that contained recommendations or suggestions for action. In all cases, we were satisfied with the action taken.	We have followed up the one sensitive inquiry that was carried out in 2006/07 (there were no major inquiries). The entity has taken positive steps to address the comments we made.

Performance audits

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. It provides Parliament with assurance about specific issues or programmes and how well these are managed by the relevant public entity or entities. We also do other studies that may result in published good practice guidance on topical issues of public sector accountability and performance to assist public entities to better manage these issues.

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);
- major expenditure including service delivery expenditure (focusing on health, education, and social security and welfare); and
- local government (focusing on major asset management, infrastructure expenditure, delivery of services, and amalgamation of the Auckland councils).

Our output measures and standards for carrying out performance audits are shown in Figure 13.

Figure 13
Performance audits – output measures and standards

Measures and standards of output delivery for 2010/11 (and forecast for 2011/12 and 2012/13)	2008/09 Actual	2007/08 Actual
We complete 19 to 21 reports on matters arising from performance audits and other studies, and inquiries.	19	22
Select committees and other stakeholders are satisfied with the proposed work programme of performance audits (as indicated by feedback on our draft annual work programme).	We sought feedback on our proposed 2009/10 work programme on two occasions under section 36(1) of the Public Audit Act 2001. The feedback mainly supported the approach we had taken to determining the proposed work programme.	Feedback was sought on two occasions under section 36(1) of the Public Audit Act 2001. Feedback mainly supported the approach we took to the proposed work programme and gave us guidance on the scope and relative emphasis we should place on one or two key studies.
At least 85% of the stakeholders that we seek feedback from rate our performance audit reports (relevant to their sector or interest) as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> • quality; and • usefulness. 	Quality: 100% Usefulness: 67%	Quality: 50% Usefulness: 66%
Our performance audit methodology reflects good practice for undertaking such audits, as assessed every second year by the Australian National Audit Office.	The Australian National Audit Office reviewed two performance audits and confirmed areas in which the quality of our reports is strong and areas for us to improve.	N/A
Each year, independent reviews of two performance audits are undertaken. These reviews confirm the quality of the reports in terms of the presentation of administrative and management context, report structure, presentation, and format (including use of graphics and statistics), and the reasonableness of the methodology used and the resulting conclusions and recommendations.	Independent reviews of two performance audits confirmed areas in which the quality of our reports is strong and areas for us to improve.	Independent reviews of two performance audits confirmed the quality of reports.

Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried during a three-year period.)	There was no internal review this year.	Internal review confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.
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In the next three years, we will focus on:

- **Choosing a cross-cutting theme for 2012/13:** We will carry out consultation and work programme development in 2010/11 and 2011/12 to choose the theme for our discretionary effort in 2012/13 that we will report on and that will make a lasting difference to the New Zealand public sector.
- **Auckland:** We will prepare and present to Parliament in 2012 a report on the amalgamation of eight local authorities into one “super” council.
- **Performance measures:** We will continue to publish examples of better practice during 2010–13, and will look to prepare a performance audit report that demonstrates the uses and usefulness of external performance information.

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 her own initiative and when correspondence from the public draws 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.

We classify inquiries into three categories – routine, sensitive, and major – depending on how serious the issues raised are. A routine inquiry involves straightforward issues, and can often be carried out either by a review of documents or through correspondence and 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 we 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 the public entity's files and may also formally interview people. We may report the results of these inquiries publicly, as well as advising the correspondent and the public entity.

Our output measures and standards for carrying out the inquiries function are shown in Figure 14.

Figure 14
Inquiries – output measures and standards

Measures and standards of output delivery for 2010/11 (and forecast for 2011/12 and 2012/13)	2008/09 Actual	2007/08 Actual
80% of our findings on inquiries are reported to the relevant parties within: <ul style="list-style-type: none"> • three months for routine inquiries; • six months for sensitive inquiries; and • 12 months for major inquiries. 	84% (99 routine inquiries, 83 reported within three months). 73% (11 sensitive inquiries, 8 reported within six months). 0% (two major inquiries, both reported within 13 months).	91% (115 routine inquiries, 105 reported within three months). 82% (11 sensitive inquiries, 9 reported within six months). No major inquiries were carried out.
For enquiries under the Local Authorities (Members' Interests) Act 1968, we complete 80% of enquiries within 30 working days.	87% (53 received, 46 reported within 20 working days).	95% (103 received, 98 reported within 30 working days).
Responses to requests for inquiries and our administering of the Local Authorities (Members' Interests) Act 1968 requests are in accordance with relevant policies, procedures, and standards, as confirmed by internal quality assurance review. (The nature, extent, and frequency of the quality assurance review are determined based on risk. The review is carried out during a three-year period.)	No internal quality assurance review was undertaken in 2008/09.	Review was completed and confirmed that requests are undertaken in accordance with relevant policies, procedures, and standards.

The Vote estimate for the Performance audits and inquiries output class in 2010/11 is \$6.587 million.

Part 5

**Forecast financial statements for
2010/11**

Part 5

Forecast financial statements for 2010/11

Introduction

The Controller and 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 Controller and 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 Controller and Auditor-General reasonably expects to occur, associated with the actions she 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 46-62 have been compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Controller and Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Controller and 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, and 2010/11 is not an LTCCP audit year.
- 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 Controller and Auditor-General will continue to use audit expertise from both Audit New Zealand and private sector accounting firms.

These assumptions are adopted as at 1 April 2010.

Statement of accounting policies

Reporting entity

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

The Controller and Auditor-General's activities include work carried out by the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office"), and contracted audit service providers. The Office has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IRFS).

Measurement base

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

Statement of compliance

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

The forecast financial statements for 2010/11 comply with the applicable financial reporting standards, which include NZ IFRS and other applicable financial reporting standards, as for a public-benefit entity.

Accounting policies

Income

Income is measured at the fair value of the consideration received. Income 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 funding is recognised in the period to which it relates.

Fee revenue generated by the Office for audit and assurance services is recognised as the work progresses and time is allocated within work in progress to public entities.

Income of audit service providers

Fee revenue generated by contracted audit service providers for audits of public entities 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.

Interest

Interest income is recognised using the effective interest method.

Expenditure

Expenses of audit service providers

Fees for audits of public entities carried out by 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.

Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year.

Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. All leases entered into by the Office are operating leases.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Comprehensive income statement.

Financial instruments

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the Comprehensive income statement.

Cash and cash equivalents

Cash includes cash on hand and highly liquid short-term deposits with banks.

Work in progress

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Office will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Comprehensive income statement. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Plant and equipment

Plant and equipment consists of furniture and fittings, office equipment, IT hardware, and motor vehicles. Plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

Additions

Individual assets, or group of assets, are capitalised if their cost is greater than \$1,000.

The cost of an item of plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

In most instances, an item of plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Comprehensive income statement.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Office and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and fittings	4 years (25%)
Office equipment	2.5 - 5 years (20% - 40%)
IT hardware	2.5 - 5 years (20% - 40%)
Motor vehicles	3 - 5 years (20% - 33%).

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs that are directly associated with the development of software for internal use by the Office are recognised as an intangible asset. Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Comprehensive income statement.

The useful life and associated amortisation rate of computer software is estimated at between 2.5 and 5 years (20% to 40%).

Impairment of non-financial assets

Plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through either continued use or disposal. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An intangible asset that is not yet available for use at balance date is tested for impairment annually.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the Comprehensive income statement. Any reversal of an impairment loss is also recognised in the Statement of financial performance.

Creditors and other payables

Creditors and other payables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest method.

Income in advance

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

Employee entitlements*Short-term employee entitlements*

Employee entitlements that the Office expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

The Office recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Office anticipates it will be used by staff to cover those future absences.

The Office recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 5.75% and a salary inflation factor of 2.75% are used in the calculation of present value.

Superannuation schemes

Obligations for contributions to the Auditor-General's retirement savings plan, Kiwisaver, and the Government Superannuation Fund are accounted for as defined contribution plans, and are recognised as an expense in the Comprehensive income statement as incurred.

Taxpayers' funds

Taxpayers' funds is the Crown's investment in the Office, and is measured as the difference between total assets and total liabilities.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of commitments at the value of that penalty or exit cost.

Goods and Services Tax

All items in the financial statements, including appropriation statements, are stated exclusive of Goods and Services Tax (GST), except for receivables and payables in the Statement of financial position, which are stated on a GST-inclusive basis.

Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of financial position. The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Output cost allocation

The Office has determined the cost of outputs using allocations as outlined below.

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

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

There have been no changes in cost allocation policies since the date of the last audited financial statements.

Judgements and estimations

The preparation of these forecast financial statements requires judgements, estimations, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other

factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The assessment of work in progress value is the most significant area where such judgements, estimations, and assumptions are made.

Changes in accounting policies

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

Prospective comprehensive income statement for the year ending 30 June 2011

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 62.

	2009/10		2010/11
	Budgeted* \$000	Estimated actual** \$000	Forecast \$000
Income			
Crown funding	9,913	9,859	9,948
Audit fees – Departments	9,467	8,374	8,145
Audit fees – Other	29,079	28,657	27,455
Income of contracted audit service providers	24,182	25,924	26,143
Total income	72,641	72,814	71,691
Expenditure			
Personnel costs	35,921	33,851	33,467
Operating costs	11,366	11,750	10,624
Depreciation and amortisation	1,007	1,007	1,117
Fees paid to contracted auditors for audits of public entities	24,182	25,924	26,143
Capital charge	165	264	302
Total expenditure	72,641	72,796	71,653
Total comprehensive income for the year	-	18	38

* Budgeted figures reflect the Main Estimates of Appropriations for 2009/10.

** The amounts in this column reflect actual results to 28 February 2010 and the forecast results for the remaining four months to 30 June 2010.

Prospective statement of movements in taxpayers' funds (equity) for the year ending 30 June 2011

	2009/10		2010/11
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Taxpayers' funds brought forward at 1 July	3,521	3,521	3,521
Surplus for the year	-	18	-
Provision for repayment of surplus to the Crown	-	(18)	-
Capital contribution	-	-	500
Taxpayers' funds at 30 June	3,521	3,521	4,021

Prospective statement of financial position as at 30 June 2011

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

	Budgeted as at 30 June 2010 \$000	Estimated actual as at 30 June 2010 \$000	Forecast as at 30 June 2011 \$000
Taxpayers' funds			
General funds	3,521	3,521	4,021
Total taxpayers' funds	3,521	3,521	4,021
Represented by:			
Current assets			
Cash and cash equivalents	2,216	2,765	3,271
Prepayments	210	210	205
Work in progress	2,293	2,293	2,201
Debtors and other receivables	4,778	4,778	4,514
Total current assets	9,497	10,046	10,191
Non-current assets			
Plant and equipment	1,468	1,286	1,604
Intangible assets	929	1,013	1,014
Total non-current assets	2,397	2,299	2,618
Total assets	11,894	12,345	12,809
Current liabilities			
Creditors and other payables	4,557	4,286	4,165
Repayment of surplus	-	18	38
Employee entitlements	3,161	4,000	4,055
Total current liabilities	7,718	8,304	8,258
Non-current liabilities			
Employee entitlements	655	520	530
Total non-current liabilities	655	520	530
Total liabilities	8,373	8,824	8,788
Net assets	3,521	3,521	4,021

Prospective statement of cash flows for the year ending 30 June 2011

This statement summarises the cash movements in and out during the year. It takes no account of money owed to or owing by the Office, and therefore differs from the Prospective comprehensive income statement.

	2009/10		2010/11
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Cash flows from operating activities			
Receipts from the Crown	9,913	9,859	9,948
Receipts from Departments	9,467	8,374	8,145
Receipts from other public entities	29,061	28,579	27,778
Payments to suppliers	(7,942)	(8,454)	(7,031)
Payments to employees	(35,844)	(33,752)	(33,367)
Capital charge paid	(165)	(264)	(302)
Net GST paid	(3,500)	(3,700)	(3,750)
Net cash flow from operating activities	990	642	1,421
Cash flows from investing activities			
Receipts from sale of plant and equipment	111	111	155
Purchase of plant and equipment	(907)	(899)	(1,202)
Purchase of intangible assets	(150)	(298)	(350)
Net cash flow from (used in) investing activities	(946)	(1,086)	(1,397)
Cash flows from financing activities			
Capital contribution	-	-	500
Repayment of surplus to the Crown	(150)	(486)	(18)
Net cash flow from (used in) financing activities	(150)	(486)	482
Total net increase/(decrease) in cash held	(106)	(930)	506
Cash at the beginning of the year	2,322	3,695	2,765
Cash at the end of the year	2,216	2,765	3,271

* The Prospective statement of cash flows does not include the contracted audit service provider audit fees because these do not involve any cash transactions within the Office.

Reconciliation of surplus in the Prospective comprehensive income statement to the prospective net cash flow from operating activities for the year ending 30 June 2011

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This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Prospective comprehensive income statement on page 54 to arrive at the net cash flow from operating activities disclosed in the Prospective statement of cash flows on page 57.

	2009/10		2010/11
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Surplus	-	18	38
Non-cash items			
Depreciation and amortisation	1,007	1,007	1,117
Total non-cash items	1,007	1,007	1,117
Working capital movements			
(Increase)/decrease in receivables and prepayments	-	38	269
(Increase)/decrease in work in progress	(15)	(98)	92
Increase/(decrease) in payables	(3)	(198)	(122)
Increase/(decrease) in current employee entitlements	18	(110)	55
Total net working capital movements	1	(368)	294
Investing activity items			
Loss/(profit) on disposal of assets	(18)	(18)	(38)
Total investing activity items	(18)	(18)	(38)
Movements in non-current liabilities			
Increase/(decrease) in employee entitlements	-	3	10
Total movements in non-current liabilities	-	3	10
Net cash flow from operating activities	990	642	1,421

Statement of forecast capital expenditure for the year ending 30 June 2011

This statement discloses the forecast capital expenditure for the 2010/11 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 2006	Actual June 2007	Actual June 2008	Actual June 2009	Budget June 2010	Estimated actual* June 2010	Forecast June 2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Plant and equipment							
Furniture and fittings	484	77	125	63	150	87	80
Office equipment	11	17	7	20	50	10	20
Motor vehicles	507	429	382	184	395	464	509
Computer hardware	373	445	114	318	311	338	593
Intangible assets							
Computer software	176	254	151	927	150	298	350
Total	1,551	1,222	779	1,512	1,056	1,197	1,552

* Actual for the 8 months to 28 February 2010 plus forecast for the period March-June 2010.

Forecast details of non-current assets by category as at 30 June 2011

	As at 30 June 2010		Forecast Position as at 30 June 2011		
	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	194	201	2,740	2,588	152
Office equipment	123	99	678	337	341
Motor vehicles	761	601	1,343	638	705
Computer hardware	390	385	2,957	2,551	406
Intangible assets					
Computer software	929	1,013	3,667	2,653	1,014
Total	2,397	2,299	11,385	8,767	2,618

Prospective appropriation statement for the year ending 30 June 2011

This statement breaks down the expenditure reported in the Prospective comprehensive income statement (on page 54) and the Forecast output class operating statements (on page 62) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2010/11 in the Estimates of Appropriations (parliamentary paper B.5, Vol. 1).

	\$000
Appropriations for output expenses	
Legislative auditor (multi-class output appropriation):	
Supporting accountability to Parliament	2,460
Performance audits and inquiries	6,587
Total legislative auditor	9,047
Audit and assurance services (revenue-dependent appropriation)	61,705
Audit and assurance services – Crown-funded small entity audits	150
Total appropriations for output expenses	70,902
Other expenses to be incurred by the Office	
Remuneration of the Auditor-General and Deputy Auditor-General	751
Total other expenses	751
Total	71,653

Forecast output class operating statements for the year ending 30 June 2011

	Revenue Crown	Revenue Depts	Revenue Other	Total Revenue	Total expenses	Surplus
	\$000	\$000	\$000	\$000	\$000	\$000
Output expenses						
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.						
	-	8,145	53,560	61,705	61,705	-
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 output expenses	9,197					
Other expenses to be incurred by the Office						
Remuneration of the Auditor-General and Deputy Auditor-General						
	751	-	-	751	751	-
Total operating expenses	9,948	8,145	53,560	71,653	71,653	-

Appendix

Proposed work programme for 2010/11

Proposed performance audits and studies in 2010/11

In 2010/11, the Auditor-General proposes to start the performance audits and studies briefly described in the table on pages 65-70.

The actual work programme we deliver in 2010/11 may differ from this proposed programme. 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 proposed audit is no longer relevant.

Reports on many of the performance audits and studies started in 2010/11 will be completed and presented to Parliament during 2010/11, while some will be presented in 2011/12.

For context, the table on page 71 lists the performance audits and studies that will have been started during 2009/10, and that we expect to report on to Parliament in 2010/11. Descriptions of these audits were provided in our Annual Plan for 2008/09 or 2009/10.

Performance audits and studies are grouped by the Office's core areas of interest. They may have been included in the work programme because of entity or sector specific reasons, or because it is an area of focus identified by the Auditor-General. The performance audits and studies we are proposing to start in 2010/11 are shown below, grouped according to the core areas of interest.

Major asset management or infrastructure spending/management

- ONTRACK follow-up audit: Maintaining and renewing the rail network;
- Freshwater quality in New Zealand: Effectiveness of management responses;
- New Zealand Transport Agency: State highway maintenance – Part 2;
- Transpower: Managing the national grid; and
- Housing New Zealand Corporation: Maintenance of state housing follow-up.

Major public investment/liability management

- Accident Compensation Corporation: Management of funds; and
- The Treasury: Administration of the Retail Deposit Guarantee Scheme.

Major public revenue management or generation

- New Zealand Customs Service: Effectiveness of the customs revenue assurance strategy and programme; and
- Inland Revenue Department: The voluntary compliance strategy.

Major expenditure (including service delivery expenditure)

- Quality assurance and administration of internally assessed standards for the National Certificate of Educational Achievement;
- Ministry of Health and district health boards: Provision of home-based support services for older people;
- The role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools;
- Management of care and protection services for children and young people in care;
- District Health Boards: Contract management practice;
- The effectiveness of responses to Māori housing needs and demand; and
- Review of reported performance information.

Local government

- The demand for water – Auckland region;
- Matters arising from our audit of the Auckland planning document; and
- Observations on the audits of Auckland entities being dissolved.

Performance audits and studies to be started in 2010/11

No	Title	Description
1	ONTRACK follow-up audit: Maintaining and renewing the rail network	<p>Our 2008 report <i>Maintaining and renewing the rail network</i> identified that ONTRACK has significantly more work to do before its systems, plans, policies, and procedures for maintaining and renewing the rail network are complete, connected, and able to be used together where necessary. The report included 10 key recommendations.</p> <p>We propose to carry out a follow-up audit to check ONTRACK's progress in implementing the recommendations in our 2008 report.</p>
2	Freshwater quality in New Zealand: Effectiveness of management responses	<p>Deteriorating fresh water quality has been widely identified as one of the most critical environmental issues for New Zealand. This deterioration creates economic risks, social and cultural risks, and environmental risks. Regional councils are responsible for managing freshwater quality through administering the Resource Management Act.</p> <p>The audit will examine the effectiveness of management responses designed to maintain or enhance water quality.</p>
3	New Zealand Transport Agency: State highway maintenance – Part 2	<p>The New Zealand Transport Agency (NZTA) spends about \$400 million annually on maintaining state highways and motorways. We intend to conduct a performance audit to examine how NZTA delivers maintenance and renewal work on the state highway network, with a focus on the procurement and contract management procedures it uses for this work.</p> <p>This is the second of two audits we are conducting into NZTA's maintenance and renewal of the state highway network. The first, to be published in early 2010/11, focuses on the effectiveness of NZTA's understanding of the nature and condition of the state highway network, and its planning for maintenance and renewal work.</p>
4	Transpower: Managing the national grid	<p>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.</p>

No	Title	Description
5	Housing New Zealand Corporation: Maintenance of state housing follow-up	<p>In 2008, we audited how Housing New Zealand Corporation (the Corporation) maintained state houses. Our 2008 audit found that the Corporation's existing systems could not provide detailed information about the condition of state housing properties, which limited the effectiveness of its planning for maintenance.</p> <p>This would have been a significant concern if the Corporation had not already identified and put in place a process to address the problem, and to renew its systems. This new audit will follow up on the work the Corporation has done since our original audit.</p>
6	Accident Compensation Corporation: Management of funds	<p>We propose to carry out a performance audit to examine whether the Accident Compensation Corporation (ACC) is effectively and efficiently managing the investment funds it is building up to pay for the treatment of injured people, the future costs of their injuries, and the provision of compensation to them.</p> <p>ACC operates six accounts that are used to meet these payments. Each of these accounts is split between an investment in ACC's short-term "cash portfolio", which is used to meet near-term expenditure requirements, and its longer-term "reserves portfolio", which is set aside to meet the future costs of existing claims. It is important that these accounts are managed effectively and efficiently.</p> <p>However, ACC's governance and oversight of these investments is currently being considered as part of a stocktake of ACC announced by the Minister for ACC in August 2009. We will therefore determine the scope and timing of our audit when the outcome of the ACC stocktake is known.</p>
7	New Zealand Customs Service: Effectiveness of the customs revenue assurance strategy and programme	<p>The New Zealand Customs Service (the Service) is expected to collect over \$10 billion in 2009/10, which is about 15% of the Crown's total revenue. The Service collects the revenue with a voluntary compliance regime, which encourages individuals and organisations to comply with requirements.</p> <p>In 2007, we audited the Service's arrangements for collecting customs revenue and found that they were sound. This new audit will look at the policies, procedures, and practices of Trade Assurance, which is the part of the Service that examines whether the voluntary compliance regime is effective.</p> <p>The audit will focus on one of our core areas of interest – public revenue management or generation. It is the second of our rolling programme of audits about the Service's revenue collection work. We aim to give Parliament assurance that the Service's approach to collecting the customs revenue owed is effective and efficient.</p>

No	Title	Description
8	Quality assurance and administration of internally assessed standards for the National Certificate of Educational Achievement	<p>The National Certificate of Educational Achievement (NCEA) was fully implemented as the main secondary school qualification in 2004. The Ministry of Education (the Ministry) and the New Zealand Qualifications Authority (NZQA) share responsibilities for the ongoing development and administration of NCEA.</p> <p>In 2008, NZQA implemented a national external moderation process for the NCEA standards assessed internally by schools. We consider it timely to consider whether the Ministry and NZQA have effective and efficient processes to help ensure the fair and consistent development, assessment, and moderation of internally assessed NZEA Achievement and Unit Standards.</p>
9	Ministry of Health and district health boards: Provision of home-based support services for older people	<p>District health boards (DHBs) are responsible for providing and funding home-based support for older people. The Ministry of Health is responsible for providing strategic direction for DHBs in this area. As the population ages and the preference of older people to stay in their own homes for as long as possible is increasingly recognised, the demand for home-based support for older people will increase.</p> <p>We propose to examine how effective the Ministry of Health and DHBs are in ensuring that, where appropriate, older people get the support they need to remain independent as long as possible. This performance audit will be the second we have carried out in the area of health services for older people. In 2009/10, we carried out a performance audit of arrangements to check the standard of services provided by rest homes.</p>
10	The role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools	<p>Having teachers who are well equipped with the necessary skills to teach in our schools is a significant objective of the education system, given the role of the system in preparing our youth for the future. Research has shown a correlation between initial teacher education, quality of teaching, and student achievement.</p> <p>A range of stakeholders contribute to ensuring that graduate teachers are well equipped when they enter the classroom, including the New Zealand Teachers Council, the Ministry of Education, the Tertiary Education Commission (TEC), and the New Zealand Qualifications Authority, among others.</p> <p>We can contribute to effective teaching by providing assurance on activities that are designed to enhance the quality of teaching in the classroom. This performance audit will therefore assess the effectiveness and efficiency of the processes for assuring the quality of teacher graduates – from the approval of initial education provider programmes through to the provisional registration of teachers. The audit will examine TEC's initial teacher education programme approval (and re-approval) process and the teacher registration process. It will also examine other key functions, such as TEC's funding role, and the degree to which the various entities understand their roles and responsibilities, and co-ordinate their efforts to achieve an optimal outcome.</p>

No	Title	Description
11	Management of care and protection services for children and young people in care	<p>Children and young people in care are a particularly vulnerable group. The needs of these children and young people differ. The needs often contribute to subsequent difficulties in achieving a permanent placement for the child or young person.</p> <p>International research shows that the mental health and psychological well-being of children and young people can be damaged by multiple moves between foster care homes, and unsuccessful or temporary returns to the care of the family.</p> <p>We will audit how well Child, Youth and Family:</p> <ul style="list-style-type: none"> • assesses and responds to the needs of children and young people who are placed in foster care; • assesses the suitability of and supports the caregiver/ foster care parent; and • ensures the ongoing effectiveness of placements.
12	District Health Boards: Contract management practice	<p>In our <i>Annual Plan 2008/09</i>, we outlined our intention to audit procurement practice in district health boards (DHBs). DHBs collectively spend more than \$5 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.</p> <p>Through our work over recent years looking at policies and procedures for procurement, conflict of interest, and delegations in the health sector, we have found that many of the policies needed improvement, and we have reported this. Other work in the health sector has also indicated that there may be a systemic problem with how DHBs implement procurement policy in practice.</p> <p>Since we published our <i>Annual Plan 2008/09</i>, we have decided to split our work into two parts – one part examining purchasing practice (establishing the delivery of supplies or services, by raising a purchase order or establishing a formal contract for the supply or delivery of a service), and one part examining contract management practice (managing the delivery of the supplies and services).</p> <p>Our work on purchasing practice in DHBs is nearing completion, and we intend to publish our report in the near future. As well as completing this work, we are working collaboratively with the DHB sector to consolidate what we know about the state of contract management practice, identify what DHBs are doing to improve contract management practice, and identify good contract management practice across the DHB sector that can be usefully applied by all DHBs.</p>

No	Title	Description
13	Review of reported performance information	As part of our commitment to improve performance information produced by public entities, we have agreed to a three-year joint work programme with the Treasury, with the aim of supporting entities to improve their non-financial performance information and reporting. We also propose to review the published performance information produced over the last five years by selected entities, and will report the results of our work to Parliament. We anticipate that we will be able to identify lessons that can be shared with the wider public sector and can also be used to inform the development of future activity by this Office.
14	The effectiveness of responses to Māori housing needs and demand	As a population, Māori experience some of the worst housing conditions in the country. Māori, along with Pasifika peoples, are more likely than European families to live in overcrowded housing. Māori are disproportionately represented on Housing New Zealand Corporation waiting lists, and 27% of Accommodation Supplement recipients are Māori. The home ownership rate among Māori has declined sharply in the past ten years, faster than the decline in the home ownership rate for Europeans. We propose a performance audit to examine whether public sector organisations are addressing Māori housing needs effectively and efficiently.
15	The demand for water – Auckland region	Water is an essential service for safeguarding the health and well-being of residents and communities in a district or region. We previously reported on the ability of local government outside of Auckland to manage water demand and the optimal investment in assets. The reform of local government brings the full integration of all water and wastewater services into one subsidiary of the new Auckland Council – Watercare. This will involve integrating Watercare's existing water wholesale services with the distribution networks of the seven amalgamating territorial local authorities. Subject to the stage and status of these reforms of Watercare, we propose to review aspects of Watercare's water demand management strategy. Depending on the development of Watercare, this may focus on the effectiveness of the merging of the distribution assets and a review of integration of the related strategies. We expect to start our work in 2010/11, and to report on it in the following financial year.

No	Title	Description
16	Matters arising from our audit of the Auckland planning document	<p>The Auckland Transition Agency (ATA) is charged with preparing, on behalf of Auckland Council, a planning document by 31 October 2010 that will enable the new Council to have a document against which it can assess policies and decisions as it begins its governance responsibilities. While the detail of the document is still subject to finalisation through the current “No. 3 Bill” before Parliament, the current intent is to enable Auckland Council to begin work with a longer-term plan consistent with the rest of local government. This represents a significant task for the ATA, and the Auditor-General is required to issue an audit opinion on the appropriateness of the planning document.</p> <p>We consider it a significant document, and intend to report to Parliament on matters arising from that audit engagement and observations that may be relevant in any future local government reorganisation.</p>
17	Observations on the audits of Auckland councils being dissolved	<p>The scale of change in the reform of Auckland local government is unprecedented and challenging. This includes the work and reporting of the eight councils that are being dissolved on 31 October 2010, with the new Auckland Council assuming the sole local government responsibility in the region from 1 November 2010.</p> <p>While dissolutions are a normal part of a restructure, they will still represent a significant challenge for the new Council to complete. They will form the basis for the opening balance sheet, not just of the new Council but also of its substantive subsidiaries. Their completion will represent a key milestone in the Auckland reforms, and we will report to Parliament on observations and lessons from the dissolution audits.</p>
18	The Treasury: Administration of the Retail Deposit Guarantee Scheme	<p>The Government introduced the Retail Deposit Guarantee Scheme (the Scheme) in October 2008 at a time of international financial market turbulence. The purpose of the Scheme was to maintain the confidence of retail depositors in New Zealand’s financial system.</p> <p>The Scheme was initially for a two-year period, but was amended in September 2009 and extended until the end of 2011. The Treasury is responsible for administering the Scheme. We propose to carry out a performance audit to examine selected aspects of how the Scheme was implemented and managed.</p>
19	Inland Revenue Department: The voluntary compliance strategy	<p>Inland Revenue uses a compliance model for the tax system with two main approaches:</p> <ul style="list-style-type: none"> • helping taxpayers to comply with their obligations of their own accord; and • taking proactive action when needed to encourage non-complying taxpayers to comply with their obligations. <p>The tax system is most effective and efficient when taxpayers comply voluntarily. This audit will examine how effectively and efficiently Inland Revenue is carrying out its strategy of promoting voluntary compliance by helping taxpayers to comply with their tax obligations of their own accord.</p>

Performance audits and studies started in 2009/10 and due to be finished in 2010/11

District health boards: Availability and accessibility of after-hours services
Ministry of Social Development: Management of debt
Sport and Recreation New Zealand: Promoting participation in sport and physical recreation
Reporting on the progress of major defence acquisitions
Elective surgical services study
Department of Internal Affairs: Grants administration
New Zealand Transport Agency: State highway maintenance – Part 1
Inland Revenue: Managing child support debt
Social marketing campaigns

Audits we have deferred or cancelled

There are four audits that we have deferred temporarily while changes in the respective sectors are introduced. Over the coming year, we intend to review whether these proposed audits remain relevant and valuable. The four audits are:

- Department of Corrections: Managing prisoner employment;
- Department of Building and Housing: Effective management of tenancy services;
- Ministry of Education: Effective management of the Crown's financial interests in integrated schools; and
- Tertiary Education Commission: Monitoring of tertiary education institutions.

There are three audits that we have decided not to proceed with, because there have been major reviews or changes in the areas concerned that mean our proposed audits would not add value at this time, or because we have re-evaluated our priorities. These are:

- Legal Services Agency: Administration of legal aid;
- Ministry of Foreign Affairs and Trade: Overseas property management; and
- District Health Boards: Asset management planning.

Publications by the Auditor-General

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

- Local government: Examples of better practice in setting local authorities' performance measures
- Local government: Results of the 2008/09 audits
- Statement of Intent 2010–13
- Performance audits from 2008: Follow-up report
- Effectiveness of arrangements for co-ordinating civilian maritime patrols
- Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services – Part 1
- Local authorities: Planning to meet the forecast demand for drinking water
- Central government: Results of the 2008/09 audits
- Auckland City Council: Management of footpaths contracts
- Investigation into conflicts of interest of four councillors at Environment Canterbury
- Effectiveness of arrangements to check the standard of services provided by rest homes
- Ministry of Justice: Supporting the management of court workloads
- How the Thames-Coromandel District Council managed leasing arrangements for Council land in Whitianga
- Auditor-General's decision on parliamentary and ministerial accommodation entitlements
- Ministry of Education: Managing support for students with high special educational needs
- Ministry of Social Development: Changes to the case management of sickness and invalids' beneficiaries
- Annual Report 2008/09

Website

All these reports are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

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