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Parliamentary paper

Annual Report 2009/10

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Annual Report for the year ended 30 June 2010

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

October 2010

ISSN 1179-8963 (print)

ISSN 1179-8971 (online)

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Auditor-General's overview



I am pleased to present my first annual report as Auditor-General. I started my term in October 2009, and have found a well-run Office carrying out its statutory role of completing financial audits and public reporting to Parliament. The Office's spirit and collegiality, its commitment to quality and shared values, and the inclusive culture and openness to debate are among the strengths that I remember from my earlier years working in the Office, and I am pleased that those attributes have endured.

My staff and contracted audit service providers can be proud of their efforts throughout the year, having achieved good results in the auditing and reporting of public sector performance.

Public sector audits in 2009/10

Financial reporting standards in the public sector

Despite the stabilising of generally accepted accounting practice (GAAP), we continue to be concerned about the cost and appropriateness for the public sector of New Zealand equivalents to International Financial Reporting Standards. During the year, we have contributed to the reviews being carried out by the Ministry of Economic Development (MED) and the Accounting Standards Review Board. The outcome of these reviews is very important for future financial reporting in New Zealand. A principle proposed by the MED's review, with which I agree, is that every public entity should continue to be required to present annual reports that comply with GAAP.

Timeliness of annual reporting

A significant achievement for which I wish to thank Audit New Zealand and my other contracted audit service providers has been continued improvement in the number of audit reports issued on time. For 2009/10, audits issued on time again improved, to 88%. On taking up my position, I was concerned about the increasing number of audits in arrears (which peaked at 453 at 30 June 2008) – a concern shared by my leadership team. I have set a goal to significantly reduce the backlog

and, at 30 June 2010, the number of audits in arrears has reduced to 313, and the percentage of arrears due to inaction on our part has also reduced during the last two years. This improving trend largely reflects the collective efforts of all my auditors to better manage audit arrears. There is still progress needed to clear this backlog of audits, and I am pleased that a credible start has been made.

Service performance and cost-effectiveness

The reporting of service performance is challenging, and I see many people across the public sector making significant efforts to raise the quality of their organisations' reporting.

As an Office, we are keen to play our part in ensuring that public entities' external reports are meaningful and useful to their readers, providing a basis for assessing the cost-effectiveness of public services. Many of our annual audits encompass attesting to service performance achievements. To better play our part, we have revised my standard that sets expectations of auditors in attesting to service performance information. Progressively in the next three years, we will attest to the appropriateness of the information disclosed.

During 2009/10, for the first time, we graded service performance information and associated systems and controls within our financial review advice to select committees on government departments and Crown entities. We also carried out development and training with our local government auditors in preparation for local authority audit opinions that will be issued under our revised standard during 2010/11.

This work is challenging us as an Office, and we are looking to relate more with preparers of service performance information to understand and resolve issues. My general sense is that our increased focus in this area is helping us to better understand public entities and bring more insight into our work about their operations and their longer-term performance and financial management issues.

Auckland

The amalgamation of eight local authorities into one "super" council on 1 November 2010 is a huge exercise, with major implications for the whole country. While the new Auckland Council is yet to come into existence, our preparations during 2009/10 for its advent were well under way. Our immediate effort is focused on the audit of Auckland Council's unique Planning Document, which is due to be in place by 1 November 2010. Our efforts are also focused on the 16-month dissolution/termination audits of entities that cease to exist on 31 October 2010 as part of the Auckland reform process.

Audit allocation and fees

In recent years, international demands for changes to auditing and accounting standards and the mobility of the audit workforce have continued to affect us as part of the international audit community. As a consequence, there continues to be upward pressure on audit fees. I am committed to ensuring that audit fees are reasonable while having regard to the requirements on me to meet professional standards and the broader expectations of my statutory mandate.

I am equally committed to ensuring that the Office responds to the wider calls for the public sector to offer value for money and is transparent about audit fees. We are exploring how we can do even more in this regard.

My initial discussions with auditors and leaders in the public sector led me to initiate a review of the model that the Office uses to allocate audits, to ensure that the principles used encourage audit quality while also ensuring that audits are cost-effective and facilitate transparent reallocation of audits when warranted.

Public reporting

Reporting on public sector performance to the public of New Zealand through the presentation of reports to Parliament is the unique audit role of this Office. It is important that these reports deal with matters of significance that can improve our public sector and/or provide assurance about public entities' performance.

During the year, we published 20 major reports – 11 performance audits, seven inquiries, and two other studies – in addition to reports on the results of our audits in central and local government. These reports are listed in Appendix 1 and are available on our website. They cover such diverse topics as special education, aged care, ministerial expenses, forecast demand for drinking water, conflicts of interest, and civil aviation. The feedback I have personally received, as well as that provided through our stakeholder feedback interviews and client surveys, confirms that our reports are helping to improve the public sector.

The increasing demand for us to carry out inquiries that we have observed in earlier years has continued and, within this, there has been a significant growth in the number of major and sensitive inquiries, from 13 in the previous year to 21 this year. We will continue to consider how best to resource and manage our ongoing inquiries work.

Each of our reports draws on the collective knowledge and experience of the people in this Office, and represent a significant body of work by the teams responsible for producing each report. I appreciate the efforts of everyone who

has contributed to the 20 major reports, and thank them for the contribution they have made to improving accountability in, and ultimately the performance of, the public sector.

The journey ahead

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 the economy is improving and most Kiwi households have managed to ride out the global recession, there has been a major, lasting effect on core government. We are experiencing a level of national debt that will see the country's Budget in deficit for the early part of my term as Auditor-General. There is a strong drive for value for money, with the public sector looking to do more with the same or less, and there is greater concern about achieving cost-effective performance, while safeguarding public assets and services.

In this environment, public entities and their stakeholders increasingly expect answers and insights that are authoritative and timely. I expect the Office to be in touch with the realities of the world within which we operate, to provide answers and insights, and to be flexible when we need to be. We will be looking to adapt our ways of working to issue results 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. We are looking to build on a strong base of audit information and provide more sectoral information and opinions that are of value across the public sector.

Concluding comments

First, I would like to extend my thanks to the Deputy Auditor-General, Phillippa Smith. Phillippa shouldered the responsibility for stewardship and care of the Office before I started my term and during the first few weeks in which I got to know the Office. As my Deputy, she provides me with invaluable support and I, along with the staff of the Office, were pleased to be able to congratulate her on her reappointment in June 2010 for a second five-year term as Deputy-Auditor General.

I acknowledge my predecessor, Kevin Brady, as most of the achievements this year were initiated during his term of office. I wish Kevin all the best in his retirement.

The Office, as part of the public sector, faces a challenging year in which the wider economic environment means that we must focus on being even more effective and insightful about the opportunities for improvement in the public sector. I am proud of the contribution the Office has made in 2009/10, and am confident that we have a strong basis for continuing to make that contribution.

I would like to again thank the staff of the Office and our wider community of contracted audit service providers for their efforts during the year and congratulate them on their achievements. With their support, I look forward to the challenges and opportunities of 2010/11.



Lyn Provost
Controller and Auditor-General

30 September 2010

Part 1
Background

Nature and scope of the Auditor-General's functions

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

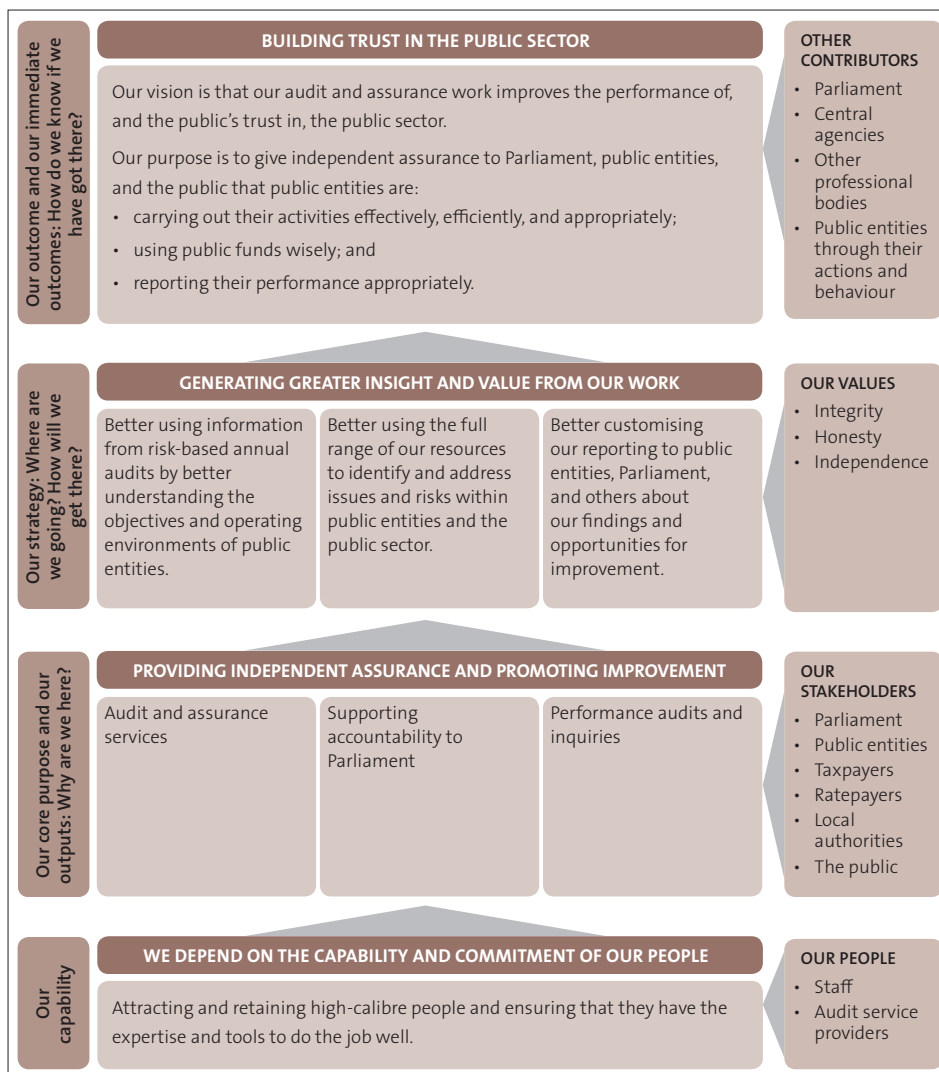
The audit work carried out and the resulting assurance helps public entities to improve their use of, and account to Parliament and the public for their use of, their public resources and powers.

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”.

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

Figure 1
Summary of our outcomes, our outputs, and our strategy



Main measures and standards for achieving our outcomes

Our measure for the degree of trust in the public sector is that New Zealand’s score in the annual Transparency International Corruption Perception Index is maintained or improved during the next three years. In 2009, New Zealand’s score was 9.4, which was ranked first on the index.

We assessed progress towards our intermediate outcomes (see Figure 2) by using information that we gather:

- during the course of delivering our services; and
- through the results of research commissioned by the State Services Commission (SSC) – specifically, the Integrity and Conduct Survey¹ and the Kiwis Count Survey².

Figure 2

Main measures and standards for achieving our outcomes

| Main measures and standards for 2009-12 | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|---|--|--|---|
| Waste | | | |
| The biannual Kiwis Count Survey shows improved (or at least maintained) rates of respondents reporting that their most recent public service experience was an example of good value for tax dollars spent. | 64% agree 18% neutral 18% disagree | The survey was not carried out in 2008/09. | 55% agree 21% neutral 24% disagree |
| Probity and Authority | | | |
| The Integrity and Conduct Survey shows improved (or at least maintained) rates of State servants who reported that: <ul style="list-style-type: none"> • State service agencies promote their standards of integrity and conduct; and • where they observed misconduct breaches in the past year, they reported it. | The survey was carried out in March 2010, and the results were reported in August 2010. 51% of State servants surveyed said they knew where to get advice about integrity and conduct issues. 56% said that integrity training is provided by their organisation. Of the 29% who said they had observed misconduct, 63% reported it. | The survey was not carried out in 2008/09. | The survey was carried out in April 2007 and the results were reported in October 2007. 50% of State servants surveyed said they know where to get advice about integrity and conduct issues. 45% said that integrity training is provided by their organisation. Of the 33% who said they had observed misconduct, more than half reported it. |

1 The Integrity and Conduct Survey is an independent survey on how State servants observe standards of integrity and conduct across the State services.

2 The Kiwis Count Survey is an all-of-government national survey to ask New Zealanders about their perceptions and experiences of public services as a whole. It involves a postal survey of a random sample of 6500 New Zealanders.

| | | | |
|---|---|--|--|
| The biannual Kiwis Count Survey shows improved (or at least maintained) rates of public trust in public services. | 33% agree 48% neutral 19% disagree | The survey was not carried out in 2008/09. | 29% agree 49% neutral 22% disagree |
| Performance | | | |
| The biannual Kiwis Count Survey shows improved (or at least maintained) rates of public satisfaction with: their most recent public service experience; and public services experienced in the last year compared with non-government services. | Satisfaction of experience of public services received a mean score of 69 compared to 65 for non-government services.* While not directly comparable, the results confirm that public service experiences continue to be rated better than non-government service experiences. | The survey was not carried out in 2008/09. | 68% 62% for public services compared to 58% for non-government services |
| Accountability | | | |
| The number of audited financial reports for public entities issued within the statutory time frame improves (or is at least maintained), compared to each of the previous two years. | Total audits due for completion: 3940 Percentage completed on time: 88% | Total audits due for completion: 3908 Percentage completed on time: 82%** | Total audits due for completion: 3946 Percentage completed on time: 79%** |
| The number of audited financial reports for public entities that contain qualified audit opinions is reduced (or at least maintained), compared to each of the previous two years. | 112 (2.8%) | 95 (2.4%) | 91 (2.3%) |

* The 2009 survey results for experience of public services compared with non-government services were reported differently to those of the 2007 survey. In 2009, the results were reported as the mean score from responses collected on a five-point scale (0, 25, 50, 75, and 100).

** These are not the same results reported in our 2008/09 annual report because the comparative figures for State-owned enterprises and Crown Research Institutes have been amended to reflect the legal position applicable to reporting by subsidiaries in these two sectors. In previous years, we have assessed the timeliness of completion of subsidiaries based on the statutory deadline of their parent entities (that is, within three months of balance date). The assessment of timeliness of completion of subsidiaries is now correctly based on a statutory deadline of five months after balance date.

These results suggest that overall high levels of trust in, and satisfaction with, the public sector are being maintained.

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

In the statement of service performance (Part 2 on pages 19-66), we set out our performance measures and standards and results, which we use to consider whether our work has had a positive effect on the public sector.

Our annual audit and other assurance work suggest that the quality of financial reporting and management in the public sector is being maintained, as the percentage of audit reports being issued on time improved to 88% (compared to 82% in 2008/09 and 79% in 2007/08). At 2.8%, the percentage of audit reports being qualified was also similar to previous years. We think the improving trend in the number of audit report being issued on time largely reflects the settling in of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and the collective efforts of our auditors to better manage audit arrears.

We were encouraged to see last year's acceptance of Audit New Zealand's recommendations in annual audit management reports to public entities of 79% maintained in 2009/10.

Our assessments of central government entities' management control environment and financial information systems and control showed slight improvement against the previous year. We graded service performance information and associated systems and controls for the first time under our revised standard as part of the 2008/09 audits carried out in 2009/10. Performance measures and our audit work on these have been a focus for the Office.

We maintained or exceeded the majority of our Audit and assurance services performance expectations. We are particularly pleased to see a significant reduction in the overall level of audit arrears compared with the prior year's position (313 compared to 429). We are also seeing a slow decline in the arrears that are due to our inaction, and expect this trend to continue as we continue to reduce the overall level of arrears.

Our high level of timeliness in issuing management reports to entities – 93% – was maintained over the last three years while we continued to deliver quality audits. This was confirmed by our quality assurance reviews and the increase in levels of client satisfaction from 80% last year to 83% for 2009/10.

Reflecting the economic environment, changes in audit fees due to charge-out rate increases were largely held in 2009/10. The annual independent review of our processes again confirmed the probity and objectivity of the methods and systems

that we use to allocate and tender audits, and monitor the reasonableness of audit fees. We have initiated a review of our audit allocation model to ensure that the principles used encourage audit quality while ensuring that audits are cost-effective.

Audit fee revenue and other income was higher than forecast, due to our higher level of completion of audit arrears and increases to fee and overhead contribution revenue being higher than budgeted because of changes in audit hours.

Our Supporting accountability to Parliament and Performance audits and inquiries results also suggest that our work is achieving its desired effect. We surveyed select committee members, who said that our advice assists them in their Estimates examinations and financial reviews, with all select committee members surveyed agreeing that the Office's work helps build and maintain public trust in the effectiveness and efficiency of the public sector.

We also followed up on recommendations we made in our reports on performance audits and inquiries, to understand and confirm that public entities had taken action in response to those recommendations.

Ratings by select committee members for the quality and usefulness of advice remained at 86%, with all members agreeing that the Office was proactive in alerting their committee to significant issues. 90% of our stakeholders agreed that our staff have an excellent understanding of their sectors. The results of the stakeholder feedback interviews are pleasing, as they show the Office continuing to play an important part in supporting accountability to Parliament, while increasing the number of advisory reports we provide to Parliament.

For our performance audits, our indicators suggest that we maintained the number produced as well as the quality of reports and the underlying methodology for their preparation. We received improved stakeholder ratings compared with the previous two years for the usefulness of our performance audits, while ratings for the quality of our performance audit reports dropped to 80% in 2009/10 from 100% the year before, falling just below our target of 85%.

We again observed a trend of increasing numbers of inquiries and, within this, the complexity and profile of inquiries. Given that major inquiries require senior staff involvement, it is pleasing that we have managed to maintain the flow of routine inquiry work.

For 2009/10, our revenue was higher than forecast, as we sought revenue for certain inquiries that were specifically requested by entities concerning matters related to their own decision-making and management practices.

Overall, our total expenditure was lower than budgeted. This was partly due to timing of professional development and reprioritisation of the performance audit programme. We also sought to make business improvement savings in general administrative costs, including through less recruitment due to lower staff turnover, lower IT costs arising from contract reviews, and travel savings.

We conclude that the Office has generally achieved its performance intentions, and that our work has had a positive impact for the public sector.

Part 2

**Our output classes, performance
measures, and targets (including
Statement of service performance)**

Our output classes and the outputs within those classes are:

- Audit and assurance services
- Supporting accountability to Parliament
 - Parliamentary services
 - Controller function
- Performance audits and inquiries
 - Performance audits
 - Inquiries.

Audit and assurance services

Background and context

In 2009/10, annual audits and other assurance services accounted for 87% of our total expenditure. The major portion of the output class relates to annual audits of public entities that are required by statute to be carried out.

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

There are two main products from an annual audit:

- the audit report; and
- the management report.

For some public entities, there is also a financial review report.

The audit report is addressed to the readers of the financial statements and, where applicable, of the service performance information. It provides the auditor's independent opinion (the audit opinion) on whether the financial statements (and, where applicable, the service performance information) fairly reflect the public entity's financial performance and position. If the financial statements fairly reflect the public entity's financial performance and position (and, where applicable, the service performance information), the auditor will issue an audit report with an unqualified opinion. However, if the auditor identifies a material misstatement in the financial statements or service performance information, the auditor will issue 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 a select committee, we also 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.

In carrying out annual audits, auditors consider matters of authority, probity, performance, waste, and accountability. Where appropriate, they make recommendations for improvements 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.

Key processes supporting annual audits

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.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors to carry out the annual audits of all public entities. These auditors are appointed from a group of about 50 audit service providers. The group includes Audit New Zealand and private sector accounting firms, which range from the four major chartered accounting firms to sole practitioners. Most audits are allocated directly to an auditor, but from time to time an auditor is appointed to carry out an audit after a competitive tender.

Because we mainly use an allocation model, we monitor audit fees at the point of negotiation between the appointed auditor and the public entity. We also provide a comparative analysis to help resolve any concerns about proposed audit fees. Our objective in monitoring fees is to ensure that fees are reasonable in that they are based on:

- realistic hours (that is, hours that reflect the nature and extent of work required);
- an appropriate audit team mix; and
- charge-out rates that are in line with market rates.

We aim for fees that are fair to the public entities and also provide a fair return to the auditors for the work required by them to meet the Auditor-General's Auditing Standards.

During 2009/10, the Auditor-General appointed or reappointed auditors (except where a change of auditor was made within the same audit service provider) to conduct audits of 2456 schools and 392 other public entities and their subsidiaries.

Setting the Auditor-General's Auditing Standards

Section 23 of the Public Audit Act 2001 requires the auditing standards of the Auditor-General to be published, by way of a report to the House of Representatives, "at least once every 3 years". The Auditor-General's Auditing Standards were most recently published in May 2008. These standards are available on our website (www.oag.govt.nz).

Section 23 also requires each annual report of the Auditor-General to include a description of any significant changes made to the standards during the year. During 2009/10, we updated only Auditing Standard 1: *Reporting to the OAG* (AG-1), to clarify the requirements for appointed auditors to electronically report the results of annual audits to the OAG.

Work is currently under way to incorporate into the Auditor-General's Auditing Standards any changes considered necessary in respect of a new set of auditing standards that have been progressively introduced by the New Zealand Institute of Chartered Accountants for application in New Zealand (New Zealand equivalents to International Standards on Auditing). We intend to issue updated Auditor-General's Auditing Standards later this calendar year, which will be earlier than the next scheduled publication date of May 2011.

Maintaining auditor independence

High independence standards are set for both the Auditor-General's employees and appointed auditors from private sector accounting firms. Compliance with these standards is monitored regularly. Any threats to auditor independence that were identified during the year were subject to mitigation actions that the Auditor-General considered appropriate to either eliminate the threats or reduce them to an acceptable level.

Quality assurance

We carry out quality assurance reviews of appointed auditors to ensure that they have complied with the relevant professional standards, as well as the Auditor-General's own published auditing standards. We aim to review the performance of each of our appointed auditors at least once every three years. There are five levels of quality assurance rating, assessed using the reviewers' overall judgement of the quality of the audit work carried out. The five levels are "excellent", "very good", "good", "satisfactory", and "re-review".

We also carry out reviews of each firm's quality control systems that are designed to provide assurance over the organisational factors that affect audit quality. These reviews are carried out on a risk basis.

Main impact measures and standards

We report a range of impact measures and standards (see Figure 3 table and graphs), which are designed to help gauge the impact of our annual audits and other audits and assurance services.

Figure 3

Actual performance against impact measures and standards for output class: Audit and assurance services

| 2009/10 forecast main impact measures and standards | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|--|---|--|---|
| The number of audited financial reports issued for public entities within the statutory timeframe is improved (or at least maintained), compared to each of the previous two years. ^a | Total audits due for completion in year: 3940 On time: 88% | Total audits due for completion in year: 3908 On time: 82% ^b | Total audits due for completion in year: 3946 On time: 79% ^b |
| The number of audited financial reports for public entities that contain qualified audit opinions is reduced (or at least maintained), compared to each of the previous two years. | Total qualified opinions: 112 (2.8%) | Total qualified opinions: 95 (2.4%) | Total qualified opinions: 91 (2.3%) |
| Public entities' acceptance of Audit New Zealand's ^c management report recommendations is improved (or at least maintained), measured against each of the previous two years. | Accepted: 79% Rejected: 10% Noted, under consideration or not responded to: 11% | Accepted: 79% Rejected: 11% Noted, under consideration, or not responded to: 10% | Accepted: 72% Rejected: 4% Noted, under consideration, or not responded to: 24% |

| 2009/10 forecast main impact measures and standards | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|--|------------------|------------------|------------------|
| Central government entities' management control environment, and financial information and service performance ^d information systems and controls are improved (or at least maintained), measured against each of the previous two years. | See graphs below | See graphs below | See graphs below |

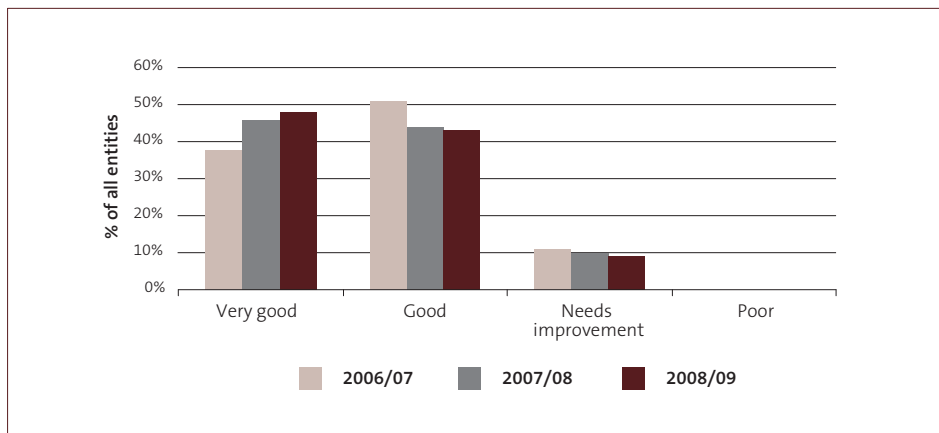
^a Audits may not have been completed for several different reasons, including that the entity has not produced financial statements for audit, that the audit of the previous year's financial statements has not been completed (and must be audited first), that there are delays on the part of the entity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

^b These are not the same results as those reported in our 2008/09 annual report because the comparative figures for State-owned Enterprises and Crown Research Institutes have been amended to reflect the legal position applicable to reporting by subsidiaries in these two sectors. In previous years, we have assessed the timeliness of completion of subsidiaries based on the statutory deadline of their parent entities (that is, within three months of balance date). The assessment of timeliness of completion of subsidiaries is now correctly based on a statutory deadline of five months after balance date.

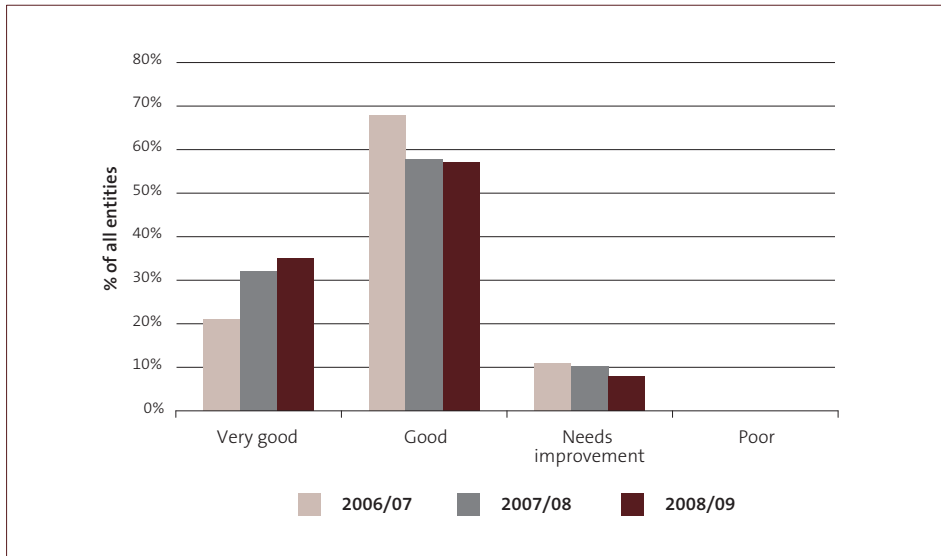
^c In future, we plan to report on public entities' acceptance of management report recommendations from our range of audit service providers, rather than just Audit New Zealand.

^d Service performance information and associated systems and controls were graded for the first time under the new framework as part of the 2008/09 audits carried out in 2009/10; comparative results are therefore not available for prior years.

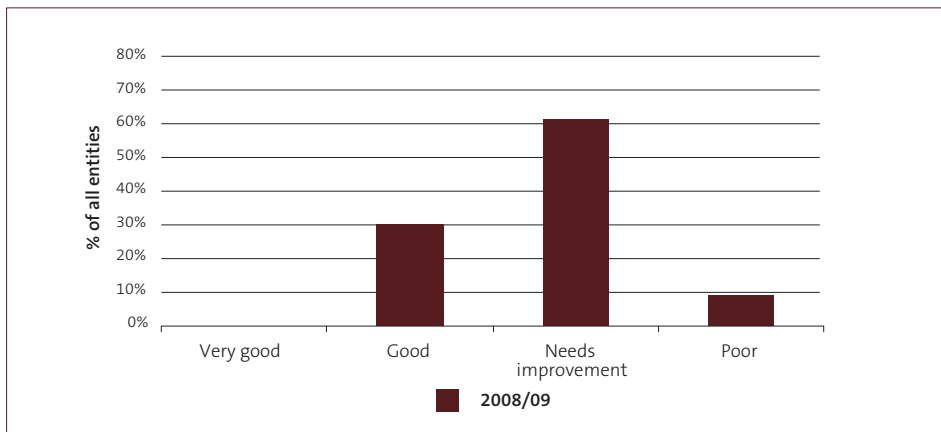
Management control environment – grades for 2006/07 to 2008/09, as percentages



Financial information systems and controls – grades for 2006/07 to 2008/09, as percentages



Service performance information and associated systems and controls – grades for 2008/09, as percentages



Overall comments on the impact of our annual audits and other audits and assurance services

We are generally pleased with the trends in our impact measures and standards as follows:

- an increasing percentage of audited financial statements being completed within statutory deadlines;
- a low percentage of qualified audit opinions being maintained;
- a high percentage of acceptance by public entities of our recommendations for improvement being maintained;
- a high percentage of “good” and “very good” grades assigned to public entities’ systems and controls being maintained.

Detailed comments on the impact measures

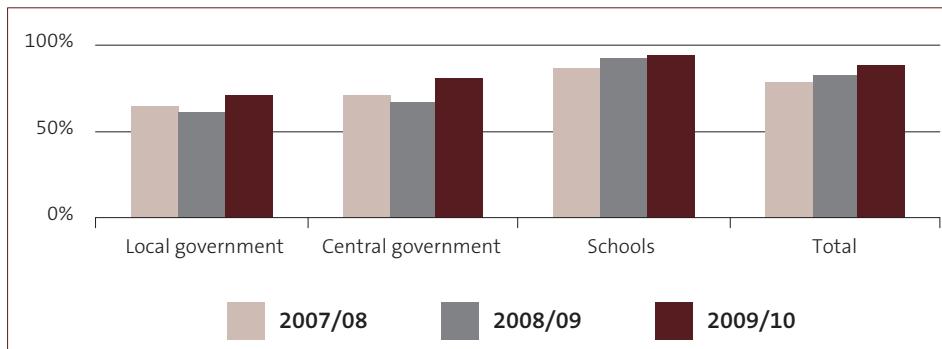
Completion of audited financial statements within statutory deadlines

An important aspect of the performance of public entities is issuing audited financial statements within statutory timeframes so that those interested in the accountability of public entities receive our audit assurance as soon as possible after the year end.

As Figure 4 shows, not all public entities met their statutory timeframes. However, the timeliness of audit completions improved from the previous year, with 88% of the audits due for completion in the year being finished within the statutory timeframe compared to 82% and 79% in the previous two years.

Figure 4 shows the number of audits completed on time, together with a breakdown by sector.

Figure 4
Audits completed on time



| Sector ^a | Total audits due in 2009/10 ^b | Number on time in 2009/10 | Percentage on time in 2009/10 | Percentage on time in 2008/09 | Percentage on time in 2007/08 |
|--|--|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| Central government | | | | | |
| Government departments | 41 | 41 | 100% | 100% | 100% |
| State-owned enterprises ^c | 127 | 119 | 94% | 85% | 70% |
| District health boards | 47 | 34 | 72% | 67% | 64% |
| Tertiary education institutions | 140 | 104 | 74% | 61% | 72% |
| Crown Research Institutes ^c | 61 | 59 | 97% | 61% | 68% |
| Other entities ^d | 317 | 226 | 71% | 61% | 67% |
| Central government total | 733 | 583 | 80% | 67% | 70% |
| Local government | | | | | |
| Local authorities | 85 | 84 | 99% | 91% | 88% |
| Other council organisations | 215 | 174 | 81% | 72% | 77% |
| Energy companies | 63 | 56 | 89% | 86% | 75% |
| Ports and airports | 60 | 52 | 87% | 82% | 80% |
| Licensing trusts | 44 | 32 | 73% | 41% | 64% |
| Fish and game councils | 14 | 14 | 100% | 100% | 100% |
| Other local government ^e | 207 | 76 | 37% | 26% | 37% |
| Local government total | 688 | 488 | 71% | 60% | 64% |
| Schools | 2519 | 2405 | 95% | 93% | 86% |
| Total for all sectors | 3940 | 3476 | 88% | 82% | 79% |

^a In all of the sectors except Government departments and Local authorities, we have included any related subsidiaries within the total of the main entities.

b “Total audits due” is the number of audits in each sector which had an expected completion date between 1 July 2009 and 30 June 2010.

c The comparative figures for State-owned enterprises and Crown Research Institutes have been amended to reflect the legal position applicable to reporting by subsidiaries in these two sectors. In previous years, we have assessed the timeliness of completion of subsidiaries based on the statutory deadline of their parent entities (that is, within three months of balance date). The assessment of timeliness of completion of subsidiaries is now correctly based on a statutory deadline of five months after balance date.

d The “Other entities” group in the central government sector includes Māori Trust Boards, Rural Education Activity Programmes, section 19 audits, subsidiaries of government departments, crown entities not separately identified, crown agents, and miscellaneous other central government entities.

e The “Other local government” group includes Administering Bodies, Domain and Reserve Boards, Public Hall Boards and Cemeteries.

Central government sector

In the central government sector, delays in completing subsidiary audits are the main reason for the overall number of audits not completed on time. Over the past year, we have worked with our appointed auditors to ensure that subsidiary audits are completed in a timely way. It is therefore pleasing to see the increase in the number of audits completed on time, particularly in the State-owned enterprise and Crown Research Institute sectors. We will continue to work with our appointed auditors in the year ahead to further improve the timely completion of audits, particularly in the district health board and tertiary education institution sectors.

Local government sector

In the local government sector, there has also been an improvement in audits completed on time.

As noted in last year’s annual report, the effect of diverting resources to the triennial audit of LTCCPs in 2008/09 contributed to a low clearance of annual audits within statutory timeframes. There was no such pressure in 2009/10. As a result, there was a substantial improvement in the number of audits in the local government sector being completed within the statutory timeframe compared with the previous two years.

Schools sector

The majority of the public entities subject to audit by the Auditor-General are schools. We aim to complete over 90% of school audits within the statutory timeframe and 99% within 12 months of balance date. The statutory date for school audits is 31 May, only a month before the end of our reporting year, so there will always be a reasonable number of school audits in arrears at 30 June.

We are pleased to report that, in 2009/10, we managed to achieve a higher level of performance than in any previous year, with more than 95% of audits being completed by the statutory deadline and more than 99% being completed within 12 months of balance date.

Results of our annual audit opinions

There are three types of qualified audit opinions – a disclaimer of opinion, an adverse opinion, and an “except for” opinion.

Figure 5 provides an analysis of all qualified audit reports issued in 2009/10. Information for the previous two years is provided for comparison.

Figure 5
Qualified audit reports issued

| Type of qualified audit report | 2009/10 | 2008/09 | 2007/08 |
|---|-------------|-------------|-------------|
| Disclaimer of opinion | 3 | 4 | 1 |
| Adverse opinion | 12 | 13 | 12 |
| “Except for” opinion | 97 | 78 | 78 |
| Total of qualified audit reports | 112 | 95 | 91 |
| Total of all audit reports due | 3940 | 3908 | 3946 |
| % qualified | 2.8% | 2.4% | 2.3% |

The proportion of qualified audit reports issued compared to the number of audits due for completion was slightly higher during 2009/10. This is due in part to the fact that we cleared a lot of audit arrears during 2009/10 that included qualified opinions.

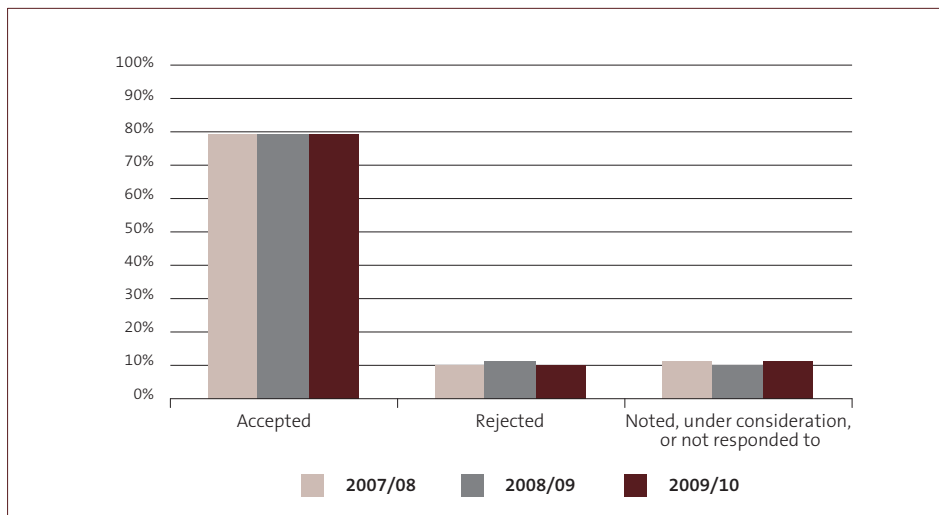
Details of the non-standard audit opinions issued in the 2009 calendar year are included in our parliamentary papers B.29[10a] and B.29[10c]:

- *Central government: Results of the 2008/09 audits*; and
- *Local government: Results of the 2008/09 audits*.

Acceptance of Audit New Zealand’s management report recommendations

Figure 6 provides an analysis of the acceptance by public entities of Audit New Zealand’s management report recommendations. We are pleased to note that the increased level of acceptance of our recommendations in 2008/09 has been maintained in 2009/10.

Figure 6
Acceptance of Audit New Zealand’s management report recommendations



In future years, we intend to report on acceptance of management report recommendations across the range of our audit service providers, rather than just Audit New Zealand.

Results of our grading of public entities’ systems and controls

The percentage of public entities receiving a grading of either “good” or “very good” has increased marginally during the year for our assessment of entities’:

- management control environment;
- financial systems and controls.

We have not previously graded service performance information and associated systems and therefore cannot comment on the trend in grading of this aspect.

Output measures and standards

We also report a range of output measures and standards (see Figure 7) that are designed to assess our own performance in carrying out annual audits and other audits and assurance services.

Figure 7
Actual performance against output delivery measures and standards for output class: Audit and assurance services

| 2009/10 forecast measures and standards of output delivery | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|--|---|---|---|
| Less than 10% of the outstanding audit reports at 30 June 2010 are because of inaction on our part. | Total arrears at 30 June: 313 Due to inaction on our part: 42 to 47%* | Total arrears at 30 June: 429 Due to inaction on our part: 49% | Total arrears at 30 June: 453 Due to inaction on our part: 55% |
| All management reports are issued within six weeks of issuing the audit report. | Issued within six weeks: 95% | Issued within six weeks: 93% | Issued within six weeks: 93% |
| 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 | Not applicable – LTCCPs are required to be adopted and audited every three years. | 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. |
| 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 a public entity's relationship with their audit service provider). | On a scale of 1 to 10, 83% of respondents gave overall service ratings of 7 or greater. | 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 42 QA reviews due were completed. Achieved satisfactory or better: 98% | All 45 QA reviews due were completed. Achieved satisfactory or better: 100% | All 44 QA reviews due were completed. Achieved satisfactory or better: 93% |

| | | | |
|--|--|--|--|
| An annual independent review of our processes confirms the probity and objectivity of the methods and systems that we use to allocate and tender audits, and monitor the reasonableness of audit fees. | Review undertaken and confirmation provided. | 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. | 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. |

* This year, we have estimated the percentage of arrears due to inaction on our part. This is because we are not near our target of 10% and it is an expensive measure to produce. We have given our estimate as a range, as it is not a precise measure. For 2010/11, our target is 30%, so we will measure the result as accurately as possible for our 2010/11 annual report.

Overall comments on our performance in carrying out annual audits and other audits and assurance services

We are generally pleased with the trends in our output measures and standards as follows:

- a significant reduction in the number of audits in arrears at 30 June;
- a continuing decline in the percentage of audit arrears being due to inaction on our part;
- a slight improvement in the timeliness of issuance of management reports to public entities following the completion of our audits;
- a continuing improvement in the level of client satisfaction as expressed by a sample of public entities;
- maintenance of a high percentage of appointed auditors receiving a quality assurance grade of “satisfactory” or better;
- confirmation from an independent review that our processes for audit appointments and audit fee monitoring have been carried out with due probity and objectivity.

Detailed comments on our own performance in carrying out annual audits and other audits and assurance services

Audit arrears

Overall, the number of arrears has reduced from 453 in 2008 to 429 in 2009 to 313 this year. This is because there has been a significant effort by appointed auditors to work with public entities in completing and auditing their annual reports. Figure 8 provides an analysis of these arrears.

Figure 8
Audits outstanding at 30 June

| Sector | Total audits due in 2009/10 | Arrears at 30 June 2010 | Percentage of arrears at 30 June 2010 | Arrears at 30 June 2009 | Arrears at 30 June 2008 |
|---------------------------------|-----------------------------|-------------------------|---------------------------------------|-------------------------|-------------------------|
| Central government | | | | | |
| Government departments | 41 | 0 | 0% | 0 | 0 |
| State-owned enterprises | 127 | 1 | 1% | 0 | 0 |
| District health boards | 47 | 14 | 30% | 12 | 12 |
| Tertiary education institutions | 140 | 32 | 23% | 42 | 23 |
| Crown Research Institutes | 61 | 1 | 2% | 0 | 4 |
| Other entities | 317 | 47 | 15% | 69 | 50 |
| Central government total | 733 | 95 | 13% | 123 | 89 |
| Local government | | | | | |
| Local authorities | 85 | 0 | 0% | 0 | 4 |
| Other council organisations | 215 | 14 | 7% | 24 | 17 |
| Energy companies | 63 | 7 | 11% | 8 | 12 |
| Ports and airports | 60 | 6 | 10% | 5 | 2 |
| Licensing trusts | 44 | 8 | 18% | 9 | 8 |
| Fish and game councils | 14 | 0 | 0% | 0 | 0 |

| | | | | | |
|-------------------------------|-------------|------------|------------|------------|------------|
| Other local government | 207 | 119 | 57% | 163 | 141 |
| Local government total | 688 | 154 | 22% | 209 | 184 |
| Schools | 2519 | 64 | 3% | 97 | 180 |
| Total for all sectors | 3940 | 313 | 8% | 429 | 453 |

In the local government sector, the last two years saw priority given to the audit work in larger public entities. This was at the expense of smaller audits, such as cemeteries and administering bodies (for example, hall boards). Clearing these smaller audits can vary substantially, and at times requires auditors to follow up on obtaining annual reports before the audits are completed. In the prior year, the ability to carry out this work was affected by the commitment of auditors to the triennial audits of LTCCPs. There was no such commitment in 2009/10.

Clearing small audits will continue to be a focus for appointed auditors in the year ahead.

Our estimate is that between 42% and 47% of the arrears at 30 June 2010 were caused by inaction on our part, compared with 49% at the end of the previous year. The target of less than 10% of the outstanding audit reports at 30 June being caused by inaction on our part is particularly challenging. We will continue to work with our audit service providers to ensure that the main obstacles to prompt completion of audits are removed, with the objective of significantly reducing the number of arrears in total and those that are our responsibility.

We have also decided to increase the target for inaction in 2010/11. Rather than only 10% of outstanding audit reports being caused by inaction on our part, we will be aiming for not more than 30%. This revised target is realistic, particularly if arrears are brought down to about 250 in total.

The number of audits in arrears in the central government sector has decreased to 95 in 2010 from 123 in 2009, but it is still higher than the 89 audits that were in arrears in 2008. While it is pleasing to see that progress in reducing the number of arrears has been made, particularly in the “other entity” sector, we also intend to focus on reducing arrears in the district health board and tertiary education institution sectors. A number of Māori Trust Board audits are still in arrears, some for more than a year. We continue to work with the sector to complete these audits, and have reported separately to Parliament on our work on this topic.

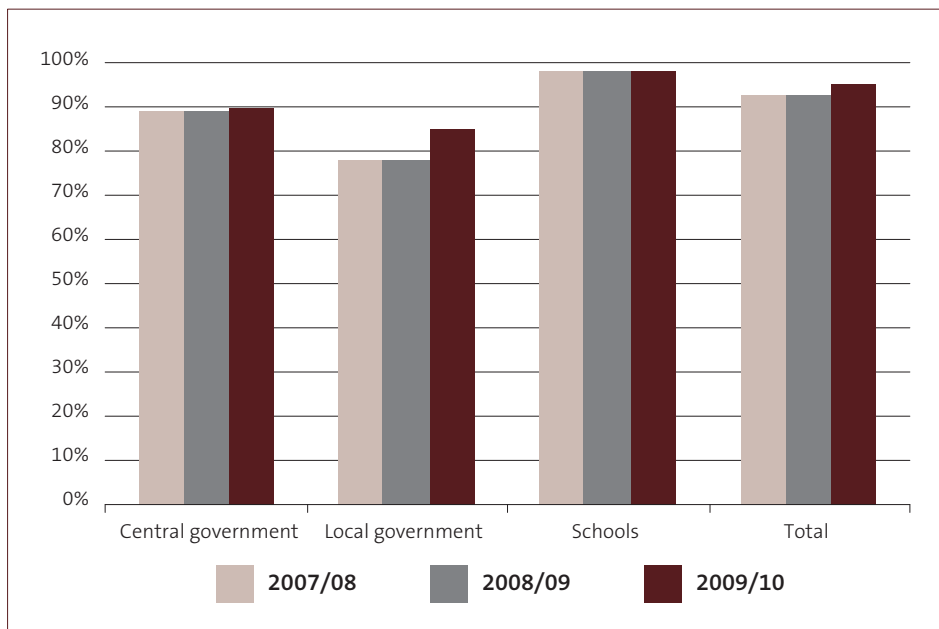
The number of audits in arrears in the local government sector has decreased to 154 in 2010 from 209 in 2009. This reflects the clearance of a number of arrears of small audits in this sector such as cemeteries and administering bodies.

The number of school audits outstanding at 30 June 2010 was the lowest on record for the end of our reporting period. We estimate that no more than 10% of the school arrears at 30 June 2010 were caused by inaction on the part of the appointed auditor or ourselves.

Management reports issued within six weeks

This year we issued 95% of our draft or final management reports within six weeks of signing the audit report, which is about the same level of performance as in the previous two years. See Figure 9.

Figure 9
Management reports issued within six weeks



| Sector* | Total due in 2009/10 | Total on time in 2009/10 | Percentage on time in 2009/10 | Percentage on time in 2008/09 | Percentage on time in 2007/08 |
|---------------------------------|----------------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
| Central government | | | | | |
| Government departments | 41 | 40 | 98% | 90% | 100% |
| State-owned enterprises | 128 | 116 | 91% | 97% | 87% |
| District health boards | 43 | 38 | 88% | 88% | 84% |
| Tertiary education institutions | 142 | 130 | 92% | 75% | 80% |
| Crown Research Institutes | 66 | 65 | 98% | 100% | 100% |
| Other entities | 322 | 279 | 87% | 89% | 90% |
| Central government total | 742 | 668 | 90% | 89% | 89% |
| Local government | | | | | |
| Local authorities | 85 | 66 | 78% | 70% | 64% |
| Other council organisations | 225 | 190 | 84% | 74% | 70% |
| Energy companies | 62 | 50 | 81% | 87% | 97% |
| Ports and airports | 54 | 45 | 83% | 87% | 81% |
| Licensing trusts | 50 | 44 | 88% | 51% | 67% |
| Fish and game councils | 14 | 14 | 100% | 93% | 100% |
| Other local government | 187 | 168 | 90% | 86% | 85% |
| Local government total | 677 | 577 | 85% | 78% | 78% |
| Schools | 2824 | 2781 | 98% | 98% | 98% |
| Total for all sectors | 4243 | 4026 | 95% | 93% | 93% |

* The total number of management reports due in 2009/10 is not the same as the "Total audits due in 2009/10" shown in Figures 4 and 8. This is because the due dates of management reports are dependent on, but different to, the dates that audits are completed. The dates used are audit reports issued between 20 May 2009 and 19 May 2010, which is six weeks before the year end.

We did not achieve our target of issuing all management reports within six weeks of issuing the audit report. However, our achievement rate of 95% was similar to the previous two years. The completion rate on the schools sector remained high at 98%. In the central and local government sectors, our completion rates were 90% and 85% respectively.

In the central government sector, while there has been an improvement in the number of management letters issued on time in the government department and tertiary education institution sectors, it is disappointing not to see an improvement in performance in other sectors. This is clearly an area that needs improvement, and we will work with appointed auditors to ensure that they fulfil their reporting obligations in a timely manner.

Consistent with the improvement in audits completed within statutory timeframes, there has also been an improvement in the percentage of management reports issued to public entities within six weeks in the local government sector. Again, this is a reflection of resources being diverted in prior years to the triennial audit of LTCCPs. We see this area as one that needs improvement and we will continue to follow this up with our auditors.

Client satisfaction survey

The results of our client satisfaction survey continue to exceed our target of 75% of respondents rating service as 7 or greater on a scale of 1 to 10. The client satisfaction survey resulted in an overall satisfaction rating of 83%, compared with 80% in 2008/09 and 78% in 2007/08. We intend to continue to focus our efforts on improving those areas identified by public entities as needing to improve, including:

- improving sector knowledge and understanding across audit teams;
- improving relationships with governing bodies;
- improving lead times and timeframes for audit work;
- being competitive on costs, particularly for smaller entities; and
- minimising the effect of staff turnover.

Quality assurance reviews

Our quality assurance reviews of appointed auditors continue to show generally pleasing results. Of those auditors subject to quality assurance review during the year, 98% achieved a grade of “satisfactory” or better against our target of 95%.

We will continue to focus on raising the general quality of audits performed on behalf of the Auditor-General.

Independent review of audit allocation and fee setting and monitoring

Our independent reviewer has again assessed our audit allocation and fee-setting and monitoring systems (the full report is included at pages 40-43). The reviewer concluded that the processes for allocating audits in the public sector and for setting fees in the financial year to 30 June 2010 have been carried out with due probity and objectivity.

During 2010/11, we intend to carry out a comprehensive review of the allocation of audits among the Auditor-General's audit service providers, including Audit New Zealand. We expect that this will result in some audits being reallocated between audit service providers. Where a change is proposed, we will consult with those public entities affected.

Audit fees

There continues to be pressure on audit fees. During 2009/10, fees for all types of audits continued to be affected by the residual and ongoing costs associated with changes in auditing and financial reporting standards (including NZ IFRS), in addition to the entity-specific issues that affect fees.

Figure 10 summarises the movements in audit fees from 2008/09 to 2009/10, based on those audit fees that had been agreed at the time when the analysis was prepared. It shows the movement by sector in both the hours and the average hourly cost of carrying out audits in the public sector.

Figure 10
Analysis of movements in audit fees

| | 2008/09 to 2009/10 | | | | 2007/08 to 2008/09 | | | |
|---------------------------|--------------------|-----------------------|--------------|------------------------|--------------------|-----------------------|--------------|------------------------|
| | Number of entities | Increase in total fee | Due to hours | Due to charge-out rate | Number of entities | Increase in total fee | Due to hours | Due to charge-out rate |
| Government departments | 34 | 1.7% | 3.3% | -1.6% | 40 | 6.7% | 1.9% | 4.8% |
| State-owned enterprises | 10 | 1.7% | -1.0% | 2.8% | 19 | 14.5% | 7.6% | 6.9% |
| Crown entities | 54 | 6.8% | 7.7% | -0.9% | 70 | 10.4% | 4.7% | 5.7% |
| District health boards | 14 | 3.9% | 0.9% | 3.0% | 21 | 7.2% | 7.2% | 0.0% |
| Crown Research Institutes | 6 | 4.1% | 3.6% | 0.6% | 9 | 16.3% | 4.8% | 11.5% |

| | | | | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Tertiary education institutions | 20 | 10.1% | 10.0% | 0.1% | 26 | 3.4% | 12.6% | -9.2% |
| Energy companies | 21 | 3.2% | -0.1% | 3.2% | 23 | 20.1% | 6.6% | 13.5% |
| Local authorities | 69 | 6.0% | 8.2% | -2.2% | 91 | 5.9% | 7.1% | -1.2% |
| Local government subsidiaries | 149 | 9.2% | 7.4% | 1.8% | 192 | 10.3% | 11.0% | -0.7% |
| Port companies | 10 | 5.2% | 2.2% | 3.0% | 11 | -0.8% | 6.0% | -6.8% |
| Licensing and community trusts | 16 | 4.8% | 1.8% | 3.0% | 16 | 7.3% | -5.8% | 13.1% |
| Māori Trust Boards | 6 | 7.6% | 9.1% | -1.5% | 6 | 11.3% | 0.8% | 10.5% |
| Schools | 2446 | 7.6% | 4.8% | 2.8% | 2445 | 0.6% | -2.6% | 3.2% |
| Other | 172 | 7.5% | 4.4% | 3.1% | 74 | 4.0% | 1.2% | 2.8% |
| Total | 3027 | 5.8% | 5.1% | 0.7% | 3043 | 6.7% | 3.4% | 3.3% |

Notes:

1. Movements in total audit fees comprise movements in audit hours and movements in charge-out rates of staff engaged on the audits.
2. Fee movements are based on those of entities with balance dates falling within the financial year of the Office (for example, fees for the 31 December 2009 audits of schools are included in the 2009/10 year).

Figure 11

Financial performance of output class: Audit and assurance services

| | 2009/10 Actual \$000 | 2009/10 Supp. Estimates \$000 | 2008/09 Actual \$000 | 2007/08 Actual \$000 |
|--------------------------|----------------------------|--|----------------------------|----------------------------|
| Income | | | | |
| Crown | 150 | 150 | 150 | 150 |
| Other | 63,939 | 62,955 | 60,483 | 58,505 |
| Expenditure | (62,736) | (63,087) | (60,602) | (58,624) |
| Surplus/(Deficit) | 1,353 | 18 | 31 | 31 |

From SIR DAVID GASCOIGNE

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12 August 2010

Ms Lyn Provost
Controller and Auditor-General
PO Box 3928
WELLINGTON

Dear Ms Provost,

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES

1. You have retained me as an independent reviewer of the basis upon which auditors are appointed to act on your behalf, and upon which appropriate levels of audit fees are determined.
2. This is my report on those processes for the financial year ended 30 June 2010. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented. No limitation has been placed upon the manner in which I carry out my assignment.
4. There are three distinct types of allocation process:
 - (a) an allocation made by the Auditor-General of an auditor for a given entity, in accordance with "the audit allocation model";
 - (b) an appointment of an auditor for a given entity, following a contestable tender; and
 - (c) a re-appointment for a further term of an approved auditor's contract to audit a particular entity.
5. **Allocations:** In the past financial year, the Auditor-General appointed auditors for 55 new entities. (These new entities include, for example, newly established Crown entities, new subsidiaries of existing entities, new entities resulting from mergers.) The "audit allocation model" under which those appointments were made has been the principal method of allocation since 2003. There is an established set of criteria for those appointments. There has been no evident dissatisfaction expressed by those entities either with the method or with the terms of any of the appointments effected during the year.
6. **Contestable Tenders:** The appointment of auditors through a contestable tender process is now reserved for large entities, generally those with a commercial focus, and for some schools. No appointments were made by means of this process during the past year.

2

7. **Re-appointments: generally:** Leaving aside the position as to auditors for schools (see the following paragraph 8), existing auditors were re-appointed during the financial year to audit 326 public entities and their subsidiaries for a further term. In addition, in 14 instances a change was effected, with a different auditor being appointed in place of an existing one. The circumstances leading to these latter appointments were various: for example, retirement of an auditor, rotation of auditors within a firm. Again, in the case of all 340 appointments covered by this paragraph 7, a careful process has been followed. There has been no evident dissatisfaction expressed as to the method or the terms of appointment.
8. **Reappointments: schools:** The term of appointment of auditors for many schools came to an end during the course of the year. Existing audit service providers were reappointed for 3 year terms in respect of some 2,165 schools. Appointments of new auditors in respect of 288 schools for a 3 year term were effected. Again, there was no evident dissatisfaction as to the process.
9. **Issues to fees:** During the course of the past year, a number of entities raised questions or made complaints about the level of increase in audit fees or occasionally about performance standards. Some of these have been informal in nature (and have been dealt with readily by means as simple as a telephone discussion). Others have been more formal in nature (with well articulated letters expressing the grounds for an entity's concern).
10. The basis for these claims is, generally, that in difficult financial times, when an entity's revenue may be static or falling, it is neither appropriate nor fair that an audit fee should be allowed to move sharply upwards.
11. The OAG has a detailed and increasingly sophisticated data-base. It provides an analysis of audit fees for all public entities. The contributing components (hours and rates) of the fees for all entities, year by year, individually and sector by sector, may be compared and contrasted. In particular, the movement in hourly rates and in time expended on an audit, or a range of audits, can be accurately identified.
12. The OAG uses this material, constructively, to help respond to enquiries or complaints received. The response is usually given by the OAG direct to the entity, though sometimes the auditor responds, using the data supplied by the OAG. In either case, the data which is relevant to a particular entity is recorded in an explanatory letter, along with a description of the factors lying behind the cost increases. Some of those factors include: shortages of suitable audit staff (leading to salary increases aimed at retention), increasing costs of regulatory compliance, additional work required to respond to new accounting, auditing and quality control standards.
13. In a number of cases, it is apparent that the actions of the entity itself have contributed to the increase in fees. For example, in some cases the materials that will require inspection are poorly presented, incomplete, contradictory or have several iterations. Those factors may result in an increase in fees.
14. In the great majority of cases, the detailed explanation given to entities by the OAG (or, in some cases, by an auditor using data supplied by the OAG) has led to a resolution, or to a withdrawal of the complaint, or to no further action being taken by the entity. In the year under review I inspected the records in respect of eleven entities which had expressed significant concerns about fee increases or performance standards. In all but two cases, it appeared to me that a resolution had been achieved or seemed about to be achieved. In those two cases, there is still some

distance to go. But there are statutory processes for achieving finality set out in the Public Audit Act 2001. I will keep those two cases under review.

15. In my report in respect of the past year ended 30 June 2009, I mentioned one instance where an entity remained dissatisfied with the process as to the setting of audit fees. (It is apparent to me that both parties' views were held in good faith.) The issue was ultimately referred to an independent arbitrator, a Queen's Counsel. The arbitrator's view was that the Auditor-General's assessment of an appropriate fee was reasonable, and that fee became the basis of his award.
16. In a climate of global financial stringency, it is only to be expected that a significant and persistent issue to be dealt with during the year has been about the level of fee increases. Viewed broadly, the role of the Auditor-General, acting through the OAG, is to ensure that audit fees are fair and reasonable. The OAG provides detailed information, when needed, with a view to assisting the entity and the auditor to come to an accord about this. As a former Auditor-General has said, it is important that an audit fee is struck in each case that gives the entity, the Auditor-General and Parliament "confidence that an audit may be conducted to the standards required of public sector entities and provides a fair return (but no more than that) to the auditor to do the job that all expect." Overall, my view is that that objective has been substantially achieved during the past year.
17. **Other issues:** During the course of the past financial year, a significant amount of work has been done by the OAG on two issues. Neither of them had a direct effect on the allocation of audits or the fixing of fee levels in the past year, but the work is important and will have future significance. I will briefly describe those two issues in the following paragraphs 18 to 23.
18. **Review of the allocation model:** Since your appointment as Auditor-General, one of the tasks that you have undertaken is to initiate and oversee a review of the audit allocation model. Such a review is timely. I have read the papers relating to the evolving review. There has been a re-formulation of the principles upon which the model should be based. And there is an awareness of the need to see that those principles also have a pragmatic outcome.
19. The aim is to ensure that public sector audits are allocated and conducted in a way that is professional, efficient, effective and sensibly priced. At the same time, the way in which the model is put into practice must recognise a variety of variables, such as the nature and scale of the entities, the availability and spread of audit resources, and so on.
20. Work on the review is not yet complete. And there will have to be extensive consultation. Nonetheless, the work has been done to this point seems to me to be well-considered and very useful.
21. **The Auckland transitions:** A good deal of work has been done by the OAG, under your supervision, to prepare for the changes that will be made to the audit of Councils and Council Controlled Organisations prior to and after the date that the Auckland local government reforms will be effected, that is 31 October 2010.
22. Some entities will be disestablished, some will continue, some will be significantly changed in size and scope, some new entities will come into existence. There will be changes in the appointment of some audit service providers. There will be changes in fees, some temporary, some permanent.

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23. Not everything can be foreseen. But the work that has so far been done seems to me to be both comprehensive and practical.
24. **Conclusions:** I now state my overall conclusions. These follow from what I have said in paragraphs 1 to 16 of this letter. My conclusions are:
- (a) On the basis of the written material I have seen and the explanations I have been given by OAG personnel, I consider that the processes adopted by the Auditor-General and by the OAG in relation to the allocation and appointment of auditors for audits falling within the Auditor-General's mandate, during the financial year to 30 June 2010, have been appropriate for their purpose, and have been applied in a way which is fair and responsible, having regard to the respective interests of the parties concerned;
 - (b) That observation applies both to the way in which auditors have been appointed or re-appointed, and to the way in which questions as to the appropriateness of a proposed audit fee have been dealt with;
 - (c) In cases where issues have been raised by entities as to fee levels or as to performance standards, those issues have been, or are being, dealt with fairly and professionally.
25. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated and fees have been set, in the financial year to 30 June 2010, have been carried out with due probity and objectivity.

Yours sincerely



Sir David Gascoigne, KNZM, CBE

Supporting accountability to Parliament

This output class includes two outputs:

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

Advice and assistance

Through our annual audits, performance audits, and inquiries, the Auditor-General has a broad overview of public entities – 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 we provide this advice and assistance are:

- reports and advice to select committees to assist their financial reviews of government departments, Crown entities, and State-owned enterprises;
- 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 central agencies, government departments, 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, being a member of various committees of the International Organisation of Supreme Audit Institutions, 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).

Measuring our performance for output: Parliamentary services

Figure 12
Actual performance against impact measure and standard for output:
Parliamentary services

| 2009/10 forecast main impact measure and standard | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|---|---|---|---|
| Select committees confirm that the Office’s advice assists them in Estimates of Appropriations 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 feedback interviews. | 100% of respondents rated us as 4 or better on a scale of 1 to 5 as assessed through our stakeholder feedback interviews. | 100% of respondents rated us as 4 or better on a scale of 1 to 5 as assessed through our stakeholder feedback interviews. |

Figure 13
Stakeholder feedback on Parliamentary services impact

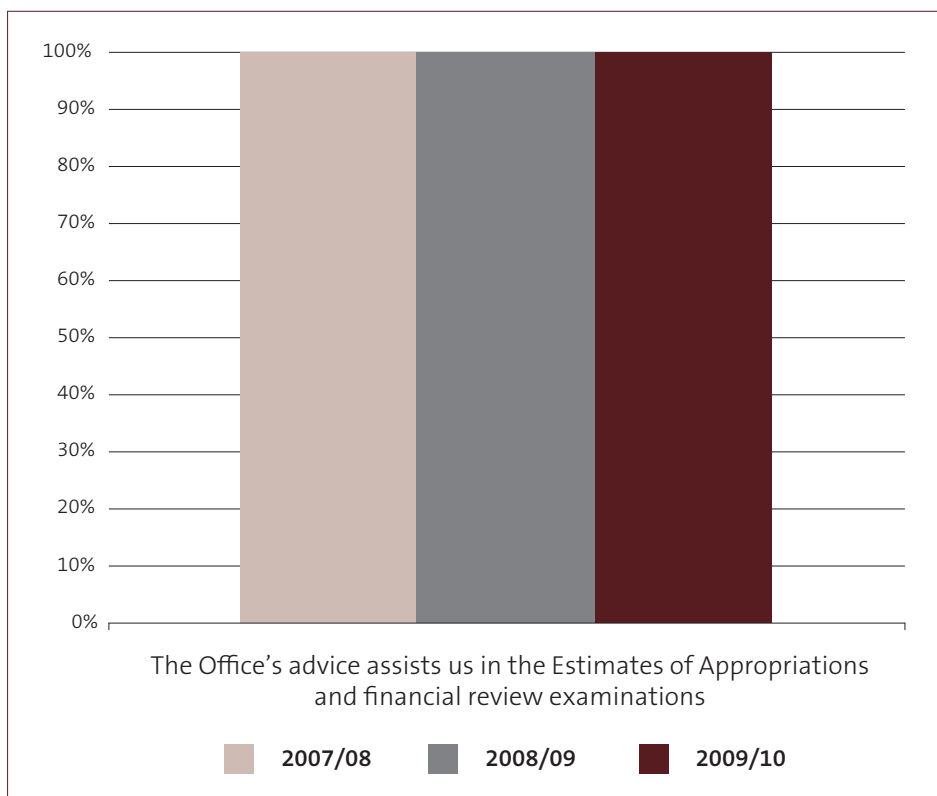
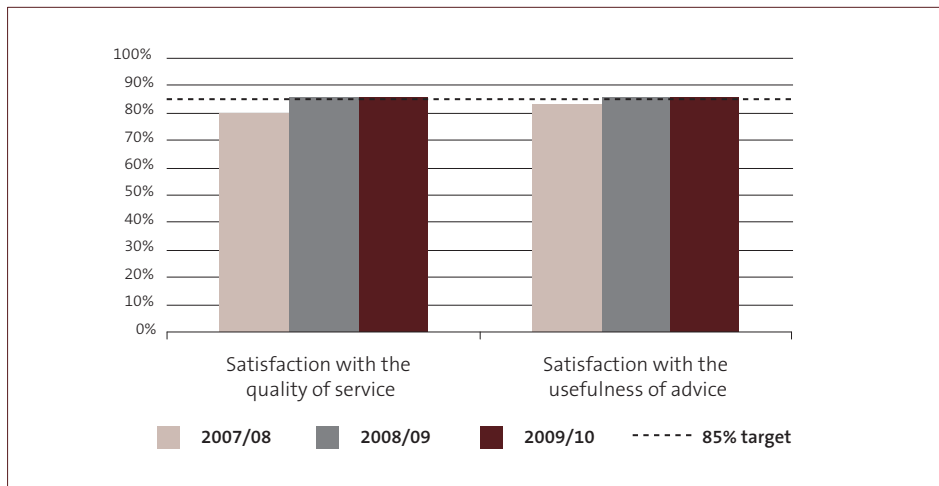


Figure 14**Actual performance against output delivery measures and standards for output:
Parliamentary services**

| 2009/10 forecast measures and standards of output delivery | 2009/10 Actual | 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% | 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 determined based on risk. The review is carried out during a three-year period.) | There was no internal review this year. | There was no internal review this year. | Confirmed by internal review of a sample of reports. |
| At least 85% of select committee members we seek feedback from rate the advice they receive from us as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> • quality; and • usefulness. | 86% 86% | 86% 86% | 80% 83% |
| At least 85% of other stakeholders we seek feedback from rate the advice they receive from us as 4 or better on a scale of 1 to 5 for relevance and usefulness. | 100% | 100% | 100% |

Figure 15
Stakeholder feedback on Parliamentary services outputs



To assess the relevance, value, and timeliness of our advice and assistance to select committees, and other stakeholders, we commissioned independent stakeholder feedback interviews (conducted for 2009/10 in June 2010). Stakeholder ratings for the quality and usefulness of advice to select committees remained at 86% and above our target of 85% of select committee members rating our advice as 4 or better on a scale of 1 to 5 (see Figures 14 and 15).

Our measure of the extent to which our advice assists select committee members in their Estimates examinations and financial reviews has remained the same as last year – with all stakeholders who provided feedback rating us as 4 or better on a scale of 1 to 5 (see Figures 12 and 13). The stakeholder feedback report noted that the results show that the Office is continuing to perform at a high level, and that stakeholders value the professional, impartial advice and guidance they receive from the Office.

The report recommended that the Office assess the improvements suggested, but noted that:

... stakeholders commented that, while they were happy to suggest improvements, these were minor compared with their overall satisfaction and respect for the Office and the quality of its work.

Ninety per cent of stakeholders also agreed that our staff have an excellent understanding of their sectors, and all select committee members agreed that the Office was proactive in alerting the committee to significant issues. All select

committee members also agreed that the Office's work helps build and maintain public trust in the effectiveness and efficiency of the public sector.

The Auditor-General visited all select committee chairpersons soon after her appointment and received similar feedback about what select committees value about the work we do for Parliament. Suggestions for improvement provided to the Auditor-General were similar to those reflected in the stakeholder feedback interviews (discussed below).

The results of the stakeholder feedback study are pleasing, as they show that the Office plays an important part in supporting accountability to Parliament. It is also pleasing that we have sustained these results when there continues to be an increase in the number of advisory reports we provide to Parliament.

The improvements suggested by stakeholders include encouraging the Office to look for ways to provide benchmarking information in its advice, being clear about the significance of issues, making the oral presentations shorter and sharper, and considering how the Office can play a greater part in the financial review process. Select committees also recognise that the Office has to maintain its independence while carrying out its advisory role.

In 2010/11, we are planning to review the various advisory products we prepare for select committees to ensure that the reports are targeted, relevant, and useful, and that we continue to play our part to the fullest extent in helping Parliament hold the Executive to account.

Controller function

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

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

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

Measuring our performance for output: Controller function

Figure 16

Actual performance against impact measure and standard for output: Controller function

| 2009/10 forecast main impact measure and standard | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|---|--|--|--|
| Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Where there is a breach or suspected breach, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury. | 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. | The operation of the monthly Controller process and the appropriation audit were carried out to ensure that this measure was achieved. |

In 2008/09, there were 39 instances of unauthorised expenditure amounting to more than \$927 million. This was an increase in both number and value of such instances from the previous year (32 instances amounting to \$567 million) but represents only a small part of total government expenditure during the year. However, unauthorised expenditure is always a concern, and we continue to emphasise the need for departments to pay closer attention to ensure that they have authority before incurring expenditure.

The final figures for the 2009/10 year are not yet available, but the information from the monthly Controller reports indicates a pattern consistent to last year.

Figure 17**Actual performance against output delivery measures and standards for output: Controller function**

| 2009/10 forecast measures and standards of output delivery | 2009/10 | 2008/09 | 2007/08 |
|---|---|--|---|
| 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 time frames achieved. | All monthly procedures have been followed, and agreed time frames achieved. | All monthly procedures have been followed, and agreed time frames achieved. |
| Internal quality assurance is conducted to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately. | Review to be carried out in the first quarter of 2011/12, at the end of Controller function work for 2010/11. | 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 monthly processes operated effectively. There was considerable improvement in the appropriation audit approach and documentation to demonstrate compliance with the auditing standard. | Review to be carried out in the first quarter of 2008/09, at the end of Controller function work for 2007/08. |

Figure 18**Financial performance of output class: Supporting accountability to Parliament**

| | 2009/10 Actual \$000 | 2009/10 Supp. Estimates \$000 | 2008/09 Actual \$000 | 2007/08 Actual \$000 |
|--------------------------|----------------------|-------------------------------|----------------------|----------------------|
| Income | | | | |
| Crown | 3,122 | 3,122 | 3,176 | 3,064 |
| Other | 0 | 0 | 7 | 6 |
| Expenditure | (3,004) | (3,122) | (3,173) | (3,014) |
| Surplus/(Deficit) | 118 | 0 | 10 | 56 |

Performance audits and inquiries

This output class includes two outputs:

- Performance audits – reporting to Parliament and other constituencies on matters arising from performance audits and other studies, including good practice guides; and
- Inquiries – carrying out, and reporting on, inquiries relating to central and local government entities.

Performance audits, other studies and inquiries

The Public Audit Act 2001 provides the Auditor-General with the discretion to carry out performance audits, other studies, 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, other studies, and inquiries 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. Other studies include good practice guides and discussion papers.

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 19.

Measuring our performance for output: Performance audits

Figure 19

**Actual performance against impact measure and standard for output:
Performance audits**

| 2009/10 forecast main impact measure and standard | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|--|--|--|--|
| Entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of the reports of performance audits published in the previous calendar year. Results of this review are presented to the Officers of Parliament Committee. | <p>The actions taken by entities in response to the findings of 12 performance audits we completed in 2008 were reported to Parliament in April 2010. Our recommendations, and the entities' responses to them, had contributed to improvements in:</p> <ul style="list-style-type: none"> • planning, implementing, monitoring, and evaluating services and activities; • how data was collected and used to identify risk and improve service delivery; • data and information reporting; • providing resources and training to staff to help them carry out their roles more effectively; • specifying roles both within organisations and in inter-agency situations; and • prioritising work and risk management. | <p>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.</p> | <p>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.</p> |

Performance audits and other studies

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. It provides Parliament with assurance about specific issues or programmes and 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 public 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).

Results of major and significant inquiries are also often reported to Parliament.

Figure 20**Actual performance against output delivery measures and standards for output: Performance audits**

| 2009/10 forecast measures and standards of output delivery | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|--|--|---|---|
| We complete 19 to 21 reports on matters arising from performance audits and other studies, and inquiries. | 20 | 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 2010/11 work programme under section 36(1) of the Public Audit Act 2001. The feedback mainly supported the proposals we made and the approach we had taken in determining the proposed 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. | We sought feedback on two occasions under section 36(1) of the Public Audit Act 2001. The feedback mainly supported the approach we had taken 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. | 80% 100% | 100% 67% | 50% 66% |
| Our performance audit methodology reflects good practice for carrying out such audits, as assessed every second year by the Australian National Audit Office. | N/A | 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 |

Reports on performance audits, other studies, and major inquiries completed during 2009/10

In 2009/10, we completed 20 reports on matters arising from performance audits, other studies, and major inquiries. Since we set the target of completing 19 to 21 reports each year, we are very pleased to have consistently achieved this. Each of the reports that we complete is unique and requires a different level of time and resource, so the number of reports that we produce can be expected to fluctuate from year to year. The reports we completed during 2009/10 are listed in Figure 21. Appendix 1 on pages 115-125 summarises each of these reports. Copies of published reports are available on our website: www.oag.govt.nz.

Figure 21

Performance audits, other studies, and major inquiries completed in 2009/10

Performance audits and other studies from our 2009/10 annual plan:

- Effectiveness of arrangements to check the standard of services provided by rest homes;
- Effectiveness of arrangements for co-ordinating civilian maritime patrols;
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report; and
- Performance audits from 2008: Follow-up report.

Performance audits and other studies from previous annual plans:

- New Zealand Defence Force: Progress with the Defence Sustainability Initiative;
- Ministry of Social Development: Changes to the case management of sickness and invalids' beneficiaries;
- Ministry of Education: Managing support for students with high special educational needs;
- Defence acquisitions: Pilot major projects report;
- Ministry of Justice: Supporting the management of court workloads;
- Local authorities: Planning to meet the forecast demand for drinking water; and
- The Civil Aviation Authority's progress with improving certification and surveillance.

Major inquiries and other studies not in our 2009/10 annual plan or previous annual plans:

- How the Ministry of Education managed the 2008 national school bus transport tender process;
- Auditor-General's decision on parliamentary and ministerial accommodation entitlements;
- How the Thames-Coromandel District Council managed leasing arrangements for Council land in Whitianga;
- Investigation into conflicts of interest of four councillors at Environment Canterbury;
- Auckland Regional Council: Management of the LA Galaxy event at Mount Smart Stadium;
- Auckland City Council: Management of footpaths contracts;
- Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services – Part 1;
- Local government: Examples of better practice in setting local authorities' performance measures; and
- District Health Boards: Improving external service performance information reporting.

Performance audits, other studies, and major inquiries under way during 2009/10

In addition to those reports completed during 2009/10, we had work on 25 performance audits, other studies, and major inquiries at various stages of completion at the end of the year.

Progress with completion of our 2009/10 annual plan

On pages 69-75 of our *Annual Plan 2009/10*, we listed the performance audits and other studies that we proposed to conduct in 2009/10. Our actual work programme varies from that planned in response to changing priorities, such as urgent work on new inquiries, and changes in government policy or entity circumstances affecting the timing or relevance of audits. Figure 22 shows the progress we have made in completing the proposed work programme set out in our 2009/10 Annual Plan.

Figure 22

Progress with completion of our 2009/10 annual plan

Performance audits and other studies completed during 2009/10:

- Effectiveness of arrangements to check the standard of services provided by rest homes;
- Effectiveness of arrangements for co-ordinating civilian maritime patrols;
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report; and
- Performance audits from 2008: Follow-up report.

Performance audits and other studies under way during 2009/10 and due to be completed in 2010/11:

- Inland Revenue Department: Managing child support debt;
- District health boards: Availability and accessibility of after-hours services;
- Department of Internal Affairs: Grants administration;
- Defence Acquisitions: Major Projects Report;
- Sport and Recreation New Zealand: Promoting participation in sport and physical recreation;
- Ministry of Social Development: Management of debt;
- Ministry of Health and district health boards: Provision of home-based support services for older people;
- Social marketing campaigns; and
- The role of teacher registration and initial teacher education course approval processes in ensuring the quality of teaching in New Zealand schools.

Performance audits and other studies due to be started in 2010/11 or later:

- Deferred, so that they are better timed to add value:
 - ONTRACK follow-up audit: Maintaining and renewing the rail network; and
 - The demand for water – Auckland region.
- Deferred, while changes in the respective sectors are introduced. We will review whether the proposed performance audits and other studies remain relevant and valuable after the changes have been introduced:
 - Department of Building and Housing: Effective management of tenancy services; and
 - Department of Corrections: Managing prisoner employment.

In addition, we have decided to defer the performance audits and other studies listed below from previous annual plans and not previously notified in our annual report as deferred. We have decided to defer these performance audits and other studies while changes in the respective sectors are introduced. We will review whether the proposed performance audits and other studies remain relevant and valuable after the changes have been introduced:

- Ministry of Education: Effective management of the Crown's financial interests in integrated schools; and
- Tertiary Education Commission: Monitoring of tertiary education institutions.

Performance audits and other studies cancelled:

- Cancelled, because there have been major reviews or changes in the areas concerned that mean our proposed work would not add value at this time:
 - Ministry of Foreign Affairs and Trade: Overseas property management.

In addition, we have decided not to proceed with the performance audits and other studies listed below from previous annual plans and not previously notified in our annual report as cancelled. We have decided to cancel these performance and other studies because there have been major reviews or changes in the areas concerned that mean our proposed work would not add value at this time, or because we have re-evaluated our priorities:

- District health boards: Asset management planning; and
- Legal Services Agency: Administration of legal aid.

The relevance and usefulness of our work programme

We consult select committees and other stakeholders on our proposed annual work programme. Consultation with Parliament helps us to ensure that the work we do is relevant and useful to Parliament, public entities, and the public. The feedback we received this year on our proposed 2010/11 work programme mainly supported the proposals we had made and the approach we had taken in determining the proposed work programme, with a specific suggestion made for future years being the performance of the New Zealand Police in road safety enforcement.

We are 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. In this wider environment, we will consider amending specific proposals or substituting other work should the need arise.

The strength of our methodology

Every second year, our performance audit methodology is assessed by the Australian National Audit Office. The Australian National Audit Office last reviewed two of our performance audits in 2008/09, and their next review is scheduled for 2010/11.

We also conduct internal quality assurance reviews on selected performance audit reports to confirm that reports are prepared in keeping with our performance audit methodology. The nature, extent, and frequency of the quality assurance review are based on risk, and the review is carried out during a three-year period. The last internal review, in 2007/08, confirmed that appropriate systems and controls were in place and that reports were prepared in keeping with our performance audit methodology.

The quality and usefulness of our reports

Each year, we seek the views of a small sample of select committee chairpersons, deputy chairpersons, and other stakeholders on the quality and usefulness of the performance audit reports that we have published. A summary of our performance in the last three years against our target for stakeholder satisfaction with the quality and usefulness of our performance audit reports is shown in Figure 23.

For 2009/10, we are pleased that all of the stakeholders we surveyed rated the usefulness of our performance audits highly, an increase from the previous two years and exceeding our target. The proportion of stakeholders rating the quality of our performance audit reports highly has fluctuated over the last three years and dropped to 80% in 2009/10 from 100% the year before, falling below our target of 85%. One person thought that we could make our recommendations more succinct and identify which were the priorities.

Figure 23

Stakeholder satisfaction with the quality and usefulness of our reports



Each year, we also have two of our performance audit reports independently reviewed to assess 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. For 2009/10, strengths of our reports identified by the reviewers included:

- a logical, clear, and concise structure and writing style;
- an executive summary covering the main messages; and
- clear and informative conclusions supported by the evidence.

There were some common themes identified by the reviewers for how we could improve the quality and usefulness of our reports and comments from some of our stakeholders that were surveyed. We will take action on the feedback from our stakeholders and the suggestions of our independent reviewers. Both pointed to the scope for our reports to be more analytical and sharper in their findings – for example, through:

- presenting more data in graphs and tables and other graphics where relevant; and
- including entity financial reporting information, resource statistics, and performance indicators to provide more information on the context the entity is operating in.

We are committed to adding value through insightful assessment of the effectiveness and efficiency of the activities we report on and to continuously strengthening the depth and relevance of our performance audits and other studies. As we continue to sharpen our approach, this will be reflected in the methods we use, the size of our reports, how we resource them, and how many we produce.

Inquiries

Inquiries allow the Auditor-General to investigate in detail particular issues of concern with the activities of public entities. In many cases, inquiries will result in assurance to the organisation or the public that the organisation has managed a situation appropriately. In some cases, a public report on an inquiry will enable accountability for failures within an organisation and draw attention to the need for improvements.

Inquiries can be large or small, and cover a wide range of issues. We can carry out inquiries on our own initiative or when correspondence from the public draws attention to potential issues. Each year, we usually receive:

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

The Auditor-General has discretion about which matters to inquire into. Our resources are also limited. We therefore choose carefully which requests for inquiries we follow up with in-depth investigation and reporting. We do not see the Auditor-General's office as an avenue for resolving individual complaints or concerns about how a public entity has handled a particular matter. As the auditor of these entities, our focus is on financial and organisational matters.

We examine requests and carry out preliminary work to identify whether the issues raised suggest financial impropriety, problems with the organisation's overall governance and management, or other systemic or significant concerns that may be important for the organisation or the sector, or may be of general public interest.

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 of the results of our work.

Figure 24
Actual performance against impact measure and standard for output: Inquiries

| 2009/10 forecast main impact measure and standard | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|---|--|---|--|
| <p>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.</p> | <p>We followed up on four of the 13 inquiries within these categories from the previous year that contained recommendations or suggestions for action.</p> <p>Where we focused on a particular entity and particular problems, we saw a high acceptance of our views and comments, contributing to significant change in the relevant entities. Two less significant comments had received an adequate response.</p> | <p>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.</p> | <p>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.</p> |

Measuring our performance for output: Inquiries

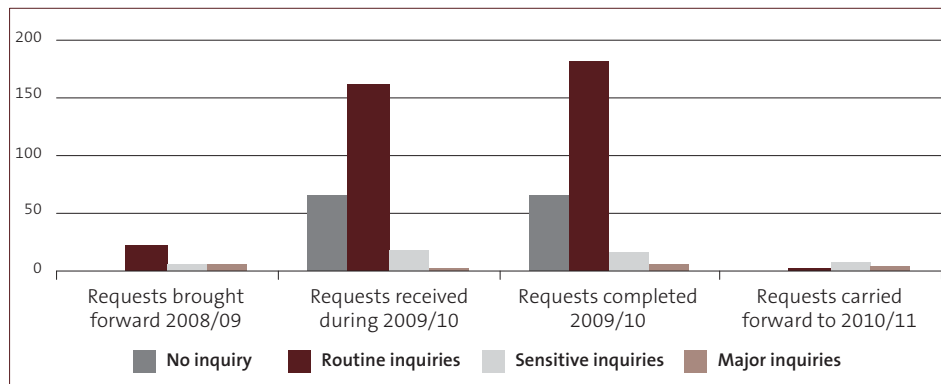
Figure 25

Actual performance against output delivery measures and standards for output: Inquiries

| 2009/10 forecast measures and standards of output delivery | 2009/10 Actual | 2008/09 Actual | 2007/08 Actual |
|---|---|--|--|
| <p>80% of our findings on inquiries are reported to the relevant parties within:</p> <ul style="list-style-type: none"> • three months for routine inquiries; • six months for sensitive inquiries; and • 12 months for major inquiries. | <p>86% (182 routine inquiries, 157 reported within three months)</p> <p>94% (16 sensitive inquiries, 15 reported within six months)</p> <p>80% (five major inquiries, four reported within 12 months)</p> | <p>84% (99 routine inquiries, 83 reported within three months)</p> <p>73% (11 sensitive inquiries, eight reported within six months)</p> <p>0% (two major inquiries, both reported within 13 months)</p> | <p>91% (115 routine inquiries, 105 reported within three months)</p> <p>82% (11 sensitive inquiries, nine reported within six months)</p> <p>No major inquiries were carried out</p> |
| <p>We complete 80% of enquiries under the Local Authorities (Members' Interests) Act 1968 within 30 working days.</p> | <p>85% (80 completed, 68 within 30 working days)</p> | <p>87% (53 received, 46 reported within 30 working days)</p> | <p>95% (103 received, 98 reported within 30 working days)</p> |
| <p>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.</p> <p>(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.)</p> | <p>No internal quality assurance review was undertaken in 2009/10.</p> | <p>No internal quality assurance review was undertaken in 2008/09.</p> | <p>Review was completed and confirmed that requests are undertaken in accordance with relevant policies, procedures, and standards.</p> |

Last year, we reported that we were receiving a higher number of requests, and that the issues we were being asked to examine were more complex. In particular, the demand for us to carry out inquiries that we classified as major or sensitive was growing. We noted that the increased pressure on our inquiries workload was starting to have an effect on our performance and in particular our timeliness in completing inquiries. Figure 26 shows the number of requests, analysed according to the category of inquiry.

Figure 26
Summary of requests for inquiries dealt with during 2009/10



That pattern of growth in demand for inquiries has continued this year, up from 307 in 2008/09 to 349 in 2009/10. In 2007/08 there were 116 requests deemed as no inquiries, in 2008/09 142 requests were deemed as no inquiries, and in 2009/10 there were 66 requests deemed as no inquiries. We began the year with 11 sensitive or major inquiries under way, and added another 20 to those during the year. At the end of June 2010, we had completed 21 of these. Two more major inquiries were in their final publication stages at the end of the year. The number of routine inquiries, as opposed to matters that we can conclude almost immediately, has also increased.

The major inquiries that we completed or worked on during the year were:

- Inquiry into how the Ministry of Education managed the 2008 national school bus transport tender process (published October 2009):
- Auditor-General's decision on parliamentary and ministerial accommodation entitlements (published October 2009):
- Auckland Regional Council: Management of the LA Galaxy event at Mount Smart Stadium (published January 2010):
- Auckland City Council: Management of footpaths contracts (published February 2010):

- Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services – Part 1 (published March 2010):
- Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations (published July 2010):
- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board (published August 2010); and
- Inquiry into Vote Ministerial Services expenditure – Part 2 (departmental systems) (publication pending).

As we discuss below, we also completed and published a major investigation under the Local Authorities (Members' Interests) Act 1968 into the participation of Environment Canterbury councillors in council decisions when they had a pecuniary interest in those decisions.

Given that major inquiries, particularly those in the political sphere, require the involvement of senior staff, there have been flow-on effects on other parts of our work. However, it is pleasing that we have managed to maintain the flow of routine inquiry work.

Throughout the year, we have also been working on changes to the way in which we resource and manage our inquiries work. The key goals are to:

- streamline straightforward processes where we can;
- be clearer and more consistent on which issues warrant inquiry by us; and
- improve our timeliness in providing responses and reports.

In the coming year, we will be updating the information we make publicly available about this part of our work, to explain more fully the types of issues that we can usefully inquire into, and what people can expect from the Office.

Enquiries under the Local Authorities (Members' Interests) Act 1968

We also administer the Local Authorities (Members' Interests) Act 1968 (the Act), which governs the financial interests of members of local authorities. The number of enquiries that we dealt with during the year, and our timeliness in responding, are set out in Figure 26 above.

The main feature of the year in this work was our investigation into the participation of councillors in decisions taken by Environment Canterbury on changes to the charging regime for water consents, when they had a pecuniary interest in those decisions. This investigation attracted significant public interest, at a time when Environment Canterbury's work and future role were politically

controversial. We published a report on our investigation in December 2009.³ In it, we explained our conclusion that the four affected councillors had all breached the Act by participating, but that it would not be appropriate to prosecute them for that breach. We noted that this was the type of situation where we would have considered approving their participation, if they had realised in advance that they could not participate and had applied to us.

For the further council decisions that followed on the charging regime, the councillors applied for approval to participate. We approved their participation, except for one major decision where we concluded that one councillor's interest was too substantial for her participation to be appropriate.

We are aware that this set of events created some confusion in the sector and some concern about the potential scope of section 6 of the Act. Many councillors and council staff have approached us for advice or approvals on a range of situations in recent months. As a result, we have recently published a substantial discussion of our work under this Act, and the Environment Canterbury analysis, to provide the sector with further guidance.⁴

In that recent publication, we also reiterated our concern that the Act is out of date and increasingly impractical to administer. We have previously suggested that the contracting rule in section 3 of the Act achieved little, but added compliance cost and risk to the sector. We had suggested that this rule should be repealed, but that the participation rule in section 6 had merit. However, developments over the last two years now suggest that this rule is also becoming difficult to operate in practice. The Environment Canterbury decision, and the uncertainty that has followed, illustrate its problems. We have therefore suggested that the Act needs to be reviewed as a whole, from first principles, to assess whether it is still relevant or appropriate.

The Auditor-General and the President of Local Government New Zealand have recently written a joint letter to the Minister of Local Government, voicing their concerns about the Act.

We realise that any legislative reform would take some time. We are therefore continuing to administer the Act in a practical way, and to provide advice and guidance to those affected by it. Our experience is that the number of requests for advice or approvals under the Act increases at the time of the local authority elections, as candidates and new members seek to clarify their situations.

3 *Investigation into conflicts of interest of four councillors at Environment Canterbury*, available on our website www.oag.govt.nz.

4 Controller and Auditor-General, *Local government: Results of the 2008/09 audits*, Part 9, June 2010.

Figure 27
Financial performance of output class: Performance audits and inquiries

| | 2009/10 Actual \$000 | 2009/10 Supp. Estimates \$000 | 2008/09 Actual \$000 | 2007/08 Actual \$000 |
|--------------------------|----------------------------|-------------------------------------|----------------------------|----------------------------|
| Income | | | | |
| Crown | 6,587 | 6,587 | 6,587 | 6,407 |
| Other | 0 | 0 | 17 | 14 |
| Expenditure | (6,044) | (6,587) | (6,159) | (6,223) |
| Surplus/(Deficit) | 543 | 0 | 445 | 198 |

Part 3
**Organisational health
and capability**

Our operating model

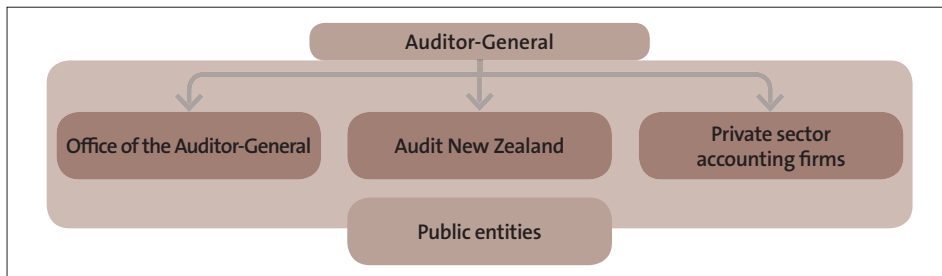
The Auditor-General’s staff are organised into two business units – the Office of the Auditor-General (OAG) and Audit New Zealand.

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. Figure 28 shows the Auditor-General’s operating model.

Figure 28
Our operating model



Size and scale of our operations

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

We employ about 350 staff in eight locations, and engage about 50 private sector accounting firms to carry out annual audits of public entities.

People

For the 2009/10 year, our overall staff turnover has been around 10%, – half historical levels. We attribute this drop to two factors: the worldwide recession and improved leadership development programmes. The recession has undoubtedly led to lower worldwide demand for accounting staff, which has reduced the number of our newly qualified auditors leaving to travel overseas. In Wellington in particular, the restraints on the public sector have also reduced the demand for our people. Our ongoing leadership development programme has also contributed to a reduction in attrition, because more senior staff have chosen to stay.

We use a resource planning model to forecast audit staff requirements in future years. This model has shown us that, even though attrition has lessened, we need to maintain a certain level of recruitment for graduates. However, we were able to reduce the recruitment of qualified employees. It also shows that we need to continue to supplement our internal staff with secondees from private sector accounting firms to help us through our peak workload periods.

Our recruitment initiatives and processes were again successful in 2009/10. Twenty-five graduates joined the Office during the year, including 19 who had worked with us as interns in the previous year.

In the past, we have recruited a small number of qualified auditors from the United Kingdom and South Africa, but our lower attrition levels and the success of our leadership development programme has meant that this was not needed this year. Two of the five senior appointments made in 2009/10 were from within the Office, and the other three resulted from our overseas recruitment programme in 2008/09.

Figure 29 provides a summary of staff numbers, their functional distribution, and staff turnover for the year.

Figure 29
Staff numbers, functions, and turnover

| As at 30 June | 2010 | 2009 | 2008 |
|--|------|------|------|
| Staff numbers (full-time equivalents) | | | |
| OAG | 62 | 61 | 57 |
| Audit New Zealand | 251 | 249 | 216 |
| Corporate Services | 41 | 44 | 38 |
| Total | 350 | 354 | 311 |
| Functional distribution | | | |
| Audit/assurance | 64% | 65% | 74% |
| Technical and advisory | 13% | 10% | 9% |
| Corporate support | 20% | 22% | 13% |
| Senior management | 3% | 3% | 4% |
| Turnover | | | |
| OAG | 8% | 19% | 19% |
| Audit New Zealand | 11% | 17% | 21% |
| Corporate Services | 9% | 24% | 21% |

Training and development

We aim to continue to improve the overall skill, leadership capability, and experience level of staff. This is of particular importance for audit staff, but applies to the whole organisation. Statistics on staff experience and training are shown in Figure 30.

Figure 30
Staff experience and training

| | 2009/10 | 2008/09 | 2007/08 |
|---|---------|---------|---------|
| Experience – average years in job (at 30 June) | | | |
| OAG | 6.9 | 7.6 | 7.2 |
| Audit New Zealand | 4.2 | 4.2 | 4.3 |
| Corporate Services | 3.8 | 2.9 | 5.4 |
| Training and development – average expenditure for each employee | | | |
| OAG (incl. Corporate Services) | \$1,186 | \$1,658 | \$1,884 |
| Audit New Zealand | \$2,661 | \$2,371 | \$4,509 |
| Pass rate of staff undertaking NZICA accreditation | | | |
| | 96% | 94% | 100% |

We have continued to develop our leadership development programmes, to improve staff retention and to broaden the skills of our current and future leaders. Our aspiring managers' programme and aspiring directors' programme, launched in 2008/09, are well recognised within the Office and continued strongly in 2009/10. These programmes target audit staff who have shown the capability and desire to take on more senior roles, focusing on self-development and leadership skills. The peak figure for 2007/08 reflects the investment we made in establishing leadership development programmes in that year.

Many staff members throughout the organisation have also received generic training, which includes plain English writing, presentation, and media liaison skills.

Professional development continues to be a high priority. In 2009/10, Audit New Zealand continued with its national professional development programme for all audit staff. The programme delivered 24 modules/courses to 407 course participants. These were highly rated by audit staff, with an average rating of 8.2 out of 10 – up from 7.9 in the previous year. The programme aims to improve the base professional competencies of audit staff. This equips them to work within:

- Audit New Zealand's national professional practice framework, audit methodology, and quality control systems;
- New Zealand generally accepted accounting practice; and
- the Auditor-General's auditing standards (including the audit of service performance reports).

Equal employment opportunities

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 opportunity to Māori, women, ethnic or minority groups, and people with disabilities.

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.

As shown in Figure 31, the diversity of our staff remains high.

Figure 31
Staff diversity

| As at 30 June | 2010 | 2009 | 2008 |
|---|------|------|------|
| Gender distribution – all staff | | | |
| Women | 53% | 52% | 52% |
| Men | 47% | 48% | 48% |
| Gender distribution – executive management | | | |
| Women | 50% | 42% | 42% |
| Men | 50% | 58% | 58% |
| Ethnicity distribution | | | |
| NZ European | 44% | 48% | 42% |
| NZ Māori | 2% | 2% | 4% |
| Pacific Islander | 3% | 3% | 3% |
| Asian | 10% | 12% | 12% |
| Other European | 11% | 7% | 12% |
| Other ethnic groups | 8% | 4% | 2% |
| Undeclared | 22% | 24% | 25% |

Organisational health and staff satisfaction

Each year, we survey our staff to understand trends in various aspects of our staff satisfaction. For the third year in a row, we used the Gallup Q12® employee engagement survey to survey our staff. Figure 32 gives a summary of the results.

We are particularly interested in the overall satisfaction and engagement of our staff, whether the organisation meets the basic needs of our people, the extent of support from management, the degree to which our people contribute as teams, and the opportunity for growth in the organisation.

We are pleased that the 2009 scores for engagement and satisfaction were maintained in 2010.

We consider it desirable and beneficial to continue improving our employees' engagement and satisfaction across the board, and will be working on this throughout 2010/11.

Figure 32
Staff survey results

| As surveyed in May | 2010 | 2009 | 2008 |
|---|------|------|------|
| Staff survey results (1 = low, 5 = high) | | | |
| Overall engagement | 3.8 | 3.8 | 3.7 |
| Overall satisfaction | 3.7 | 3.7 | 3.5 |
| Basic needs met | 4.0 | 4.0 | 4.0 |
| Management support | 3.7 | 3.7 | 3.5 |
| Teamwork | 3.7 | 3.7 | 3.5 |
| Growth | 4.1 | 4.2 | 4.0 |

Another indicator of organisational health is the average number of sick days taken by each employee. As shown in Figure 33, the figures for 2009/10 are somewhat higher than in previous years. We have analysed this increase but have not identified any particular cause, other than a heightened level of caution relating to H1N1 influenza.

Figure 33
Sick leave

| Sick leave taken – average days for each employee | | | |
|--|------|------|------|
| 12 months to 30 June | 2010 | 2009 | 2008 |
| OAG | 5.7 | 4.8 | 5.2 |
| Audit New Zealand | 5.1 | 5.1 | 5.5 |
| Corporate Services | 7.1 | 4.8 | 4.3 |

Business practices

We are increasingly aware that, in carrying out audits on every public sector entity, the information and knowledge that the Office gathers is unique. During the year, we increased our focus on improving our management of this information and knowledge, and the sharing of these assets among all our people. Improvements include the establishment of a sector-oriented knowledge-sharing space on our intranet, collecting certain audit information electronically instead of manually, and establishing “knowledge networks” in the organisation.

In 2009/10, we continued to work on improvements on a number of business policies and practices. These included:

- A comprehensive review of fourteen of our internal HR-related policies. This review sought to align our policies to current legislation and to good HR practice, and included a full staff consultation phase.
- Significant progress on our programme of work to better manage our records as set out in the Public Records Act 2005.

- Changes to our independence processes and systems that improve the effectiveness and relevance of independence checking for staff.

Facilities

In July 2009, we relocated the staff of the OAG and our shared corporate services staff (about half of our Wellington staff) to a single floor in another building. For the last few years, our 220 Wellington-based staff have been located on seven floors and in two buildings, significantly restricting the extent to which collaboration and sharing of ideas can naturally occur. Moving OAG and corporate services staff has reduced our Wellington accommodation to three floors in two buildings. This co-location has, as anticipated, improved our internal communications and collaboration.

We have previously identified the advantages of co-locating OAG and Audit New Zealand Wellington staff. We delayed our search for suitable premises in 2009/10, as we believed that the Wellington property market would continue to soften during the year. We expect to continue this work in 2010/11.

The Office's other facilities, including Audit New Zealand's other offices, continued to meet the needs of the organisation in 2009/10.

Information systems

The Office, especially Audit New Zealand, is highly dependent on information technology to complete its work. Audit staff working in the field need to have remote access and communications tools to ensure an effective, efficient, and customer-focused service. The OAG needs systems to manage the approximately 4000 audits we are responsible for.

Throughout the year, we continued to invest in maintaining and improving the infrastructure supporting our auditors. Our normal rolling programme of laptop computer replacement was continued, and this year we implemented an annual maintenance programme for those laptops not yet due for replacement. We have continued to improve the network and computing infrastructure in our regional offices, and have increased the capability and security of our remote access solutions. These programmes have led to a significant improvement in laptop and network reliability for our audit staff during 2009/10.

On 1 July 2009, the Office's new core financial system and integrated time and cost management system became operational. The new system replaced several separate systems that were no longer able to meet the information, management, and security needs of the Office. The replacement system contains increased functionality, including process workflow management and significantly improved

operational and management reporting functions. While some components went live later than planned, the new system has been a success.

Also in 2009/10, we completed enhancements to the Office's audit management system. This included new functionality that allows appointed auditors to enter the results and details of audits directly through the internet, reducing error rates, reducing double handling of documents, and increasing the timeliness and accuracy of information.

Finance

Details of our financial performance against measures established in the *Annual Plan 2009/10* are summarised in Figure 34.

Figure 34

Financial performance indicators for the year ended 30 June 2010

| Measure | 2009/10 Actual \$000 | 2009/10 Supp. Estimates \$000 | 2009/10 Annual Plan \$000 | 2008/09 Actual \$000 | 2007/08 Actual \$000 |
|---|----------------------------|--|------------------------------------|----------------------------|----------------------------|
| Operating results | | | | | |
| Income: other than Crown | 63,939 | 62,955 | 62,728 | 60,506 | 58,525 |
| Output expenditure | 71,784 | 72,796 | 72,641 | 69,934 | 67,861 |
| Surplus before capital charge | 2,278 | 264 | 165 | 750 | 549 |
| Surplus | 2,014 | 18 | 0 | 486 | 285 |
| Working capital management | | | | | |
| Current assets less current liabilities | 1,804 | 1,742 | 1,779 | 1,687 | 2,324 |
| <i>Current ratio</i> | 118% | 121% | 123% | 118% | 130% |
| <i>Average receivables and work in progress</i> | 42 days | 41 days | 38 days | 42 days | 42 days |
| Resource use | | | | | |
| Total plant, equipment, and intangible assets at year-end | 2,265 | 2,299 | 2,397 | 2,351 | 1,847 |
| <i>Additions as % of total</i> | 41% | 52% | 44% | 64% | 42% |
| Taxpayers' funds | | | | | |
| Level at year-end | 3,521 | 3,521 | 3,521 | 3,521 | 3,521 |
| Net cash flows | | | | | |
| Surplus on operating activities | 1,801 | 642 | 990 | 2,233 | 452 |
| Surplus/(Deficit) on investing activities | (801) | (1,086) | (946) | (1,428) | (652) |
| Surplus/(Deficit) on financing activities | (486) | (486) | (150) | (285) | (469) |
| Net increase/(decrease) in cash held | 514 | (930) | (106) | 520 | (669) |

Part 4
Risk Management

Risk management framework

Our risk management framework is the set of elements of our management system that we use to identify and manage risk. The framework is aligned to our business outcomes and the strategies designed to achieve these outcomes.

Identifying and managing risk is a key part of our planning. Our strategic planning defines plans and allocates resources to achieve certain objectives. An integral part of the planning is to identify anything that might threaten the achievement of those objectives.

We categorise the risks that we are exposed to as strategic or operational risks. All risks are managed within the same framework, because experience shows that inadequately managed operational risks can escalate to become strategic risks.

Strategic risks

We have identified our main strategic risks as being the loss of our independence, audit failure, loss of capability, and loss of reputation:

- Loss of independence – The risk that we lose independence, in fact or appearance, whether by failure on the part of the Auditor-General or appointed auditors to act independently or otherwise, As independence underpins the value of the Auditor-General’s work, loss of independence would undermine trust in our organisation.
- 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.
- 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.
- Loss of reputation – The risk that we lose reputation or credibility, which would affect our relationships with stakeholders.

These risks will always be present, but the way we do our work can greatly reduce them.

Strategic risk mitigation actions

The key mitigation actions are:

- the Auditor-General’s independence standards – the Auditor-General sets a high standard for independence for both employees and appointed auditors from chartered accounting firms;
- monitoring the independence of the two statutory officers, employees, and appointed auditors – the system includes regular declarations of interest and, where necessary, implementation of measures to avoid conflicts of interest;

- adhering to professional auditing standards;
- quality assurance procedures, including complying with NZICA's quality control standards;
- peer review and substantiation procedures – these include annual independent evaluation of our audit allocation and tendering processes, independent external review of two performance audits each year, stakeholder feedback interviews, and client surveys;
- an independent Audit and Risk Committee, comprising three external members and the Deputy Controller and Auditor-General; and
- ongoing training and development of our staff – including talent and capability management programmes, leadership development initiatives, and professional development programmes.

Operational risks

We identify specific risks during our annual planning by carrying out a review of the environment in which we operate. We consider economic, legal, social, environmental, and technological developments, and changes in the accounting and auditing professions that might affect us. We look too at the effect such matters might have on our stakeholders and the public entities that we audit.

Demand created by changes within the public sector and the accounting and auditing profession, together with the historic difficulty in finding and retaining suitably qualified and experienced staff, has meant that our audit work has had to focus more heavily on the financial statements of public entities. This has been at the expense of public interest audit work based on fuller consideration of the risks and challenges that entities face in their strategic, governance, and operational contexts.

We have been working to rebalance our audit effort to consider this fuller perspective in the audit of each public entity, to the extent judged appropriate by the entity's appointed auditor. These changes have been reflected in the revised Auditor-General's Auditing Standard on auditing service performance reports (AG-4) issued in July 2009, followed by our grading of service performance information and associated systems and controls within financial review reporting to select committees. This should result in a stronger emphasis on non-financial reporting and accountability. It may, over time, affect how our audits are costed, resourced, carried out, and reported.

In Part 3 of this report, we describe the efforts we are making to maintain and build our organisational health and capability to equip us to deal with the increased demands of our environment.

Refining our risk management framework

Our risk management framework comprises processes for managing risk, to ensure that all significant risks are identified, that mitigation measures are put in place where appropriate, and that responsibility for implementing those measures is clearly allocated.

There are two key steps in our risk management framework:

- an annual refreshing of our risks and controls, encompassing strategic, environmental, and business plan changes; and
- a six-monthly review of the identified risks and controls, with subsequent reporting to our leadership teams and our Audit and Risk Committee.

We continue to keep the framework under review, and to enhance it as appropriate.

Report of the Audit and Risk Committee for the year to 30 June 2010

Members:

John Hagen MBA, MCom, FCA, Investigating accountant – Chairman
Stephen Revill BA, LLB
Phillippa Smith BA, LLB, MPP, Deputy Controller and Auditor-General
Neil Walter MA, CNZM, Director

The Audit and Risk Committee is an independent committee established by and reporting directly to the Auditor-General. The Committee was established in 2003, as the Audit Committee. The reference to risk was included in the name of the Committee in December 2005, to better describe the Committee's role.

The purpose of the Committee is to oversee:

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

The Committee has no management functions.

During the past year the Committee:

- met on three occasions to fulfil its duties and responsibilities;
- received briefings from the Auditor-General and other senior managers on key business activities of the Office, as a basis for ensuring risks facing the Office are being appropriately addressed;
- oversaw the Office's continuing review of its risk management framework and the procedures underpinning the framework;
- discussed with the external auditors their findings from their audit work;
- monitored the implementation of recommendations made by the external auditor;
- received and considered reports from the internal auditors (KPMG), and monitored implementation of recommendations made by the internal auditors;
- reviewed the annual plan and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major judgmental areas, and compliance with legislation and relevant standards;

The Committee has reported to the Auditor-General on the above and other matters it has seen fit to do so. There are no outstanding or unresolved concerns which the Committee has brought to the attention of the Auditor-General.

John Hagen
Chairman
for the Audit and Risk Committee
28 July 2010

Part 5

Financial statements 2009/10

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Audit report



AUDIT REPORT

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

We have been appointed by the House of Representatives to carry out the audit of the financial statements and the statement of service performance included in the annual report of the Controller and Auditor-General for the year ended 30 June 2010.

Unmodified Opinion

In our opinion:

- The financial statements of the Controller and Auditor-General on pages 87 to 114:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Controller and Auditor-General's financial position as at 30 June 2010;
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Controller and Auditor-General on pages 20 to 39 and 44 to 66:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Controller and Auditor-General's service performance for the year, including:
 - its performance achieved as compared with the forecast targets outlined in the forecast statement of service performance for the financial year; and
 - its revenue earned and output expenses incurred as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance for the financial year.

The audit was completed on 30 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Controller and Auditor-General and our responsibilities, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with International Standards on Auditing (New Zealand).

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

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

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



Audit procedures generally include:

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

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

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. In evaluating the adequacy of the statement of service performance, we considered its presentation within the context of the Controller and Auditor-General's overall performance management framework, including how its outputs are intended to have an impact on its stated outcomes. We considered whether the information provided is sufficient to enable an informed assessment of the Controller and Auditor-General's service performance during the financial year. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Controller and Auditor-General and the Auditor

The Controller and Auditor-General is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Controller and Auditor-General as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect the Controller and Auditor-General's service performance, including its performance achieved as compared with the forecast targets outlined in the forecast statement of service performance. It must also fairly reflect the revenue earned and expenses incurred as compared with the forecast revenue and expenses outlined in the forecast statement of service performance. The Controller and Auditor-General's responsibility arises from sections 45A, 45B, and 45F of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the Institute of Chartered Accountants of New Zealand.

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

CST Nexia Audit

**CST Nexia Audit
Chartered Accountants
Manukau City, New Zealand**

audit and assurance services
Local focus, global reach

Statement of responsibility

In terms of the Public Finance Act 1989 and the Public Audit Act 2001, the Controller and Auditor-General is responsible for the accuracy and judgements used in the preparation of the financial statements, and for establishing and maintaining systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

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

- all transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.
- In my opinion, the information set out in the statement of service performance, the financial statements, and attached notes to those statements (on pages 20-39, 44-66, and 87-114) fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2010, and our financial position as at that date.

Signed:



Lyn Provost

Controller and Auditor-General

30 September 2010

Countersigned:



Maria Viviers

Financial Controller

30 September 2010

Statement of comprehensive income for the year ended 30 June 2010

This statement reports the income and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the income and expenditure of each output class are on pages 39, 50, and 66.

Explanations of significant variances against the main Estimates are detailed in Note 19.

| Actual 2009 \$000 | | Notes | Actual 2010 \$000 | Supp. Estimates 2010 \$000 | Main Estimates 2010 \$000 |
|-------------------------|--|-------|-------------------------|-------------------------------------|------------------------------------|
| Income | | | | | |
| 9,914 | Crown funding | 2 | 9,859 | 9,859 | 9,913 |
| 60,489 | Audit fee revenue and other income | 3 | 63,917 | 62,955 | 62,728 |
| 17 | Gain on sale of plant and equipment | | 22 | 0 | 0 |
| 70,420 | Total income | | 73,798 | 72,814 | 72,641 |
| Expenditure | | | | | |
| 35,817 | Personnel costs | 4 | 34,020 | 33,851 | 35,921 |
| 32,911 | Other operating costs | 5 | 36,602 | 37,674 | 35,548 |
| 942 | Depreciation and amortisation expense | 9, 10 | 898 | 1,007 | 1,007 |
| 264 | Capital charge | 6 | 264 | 264 | 165 |
| 69,934 | Total expenditure | | 71,784 | 72,796 | 72,641 |
| 486 | Net surplus/(deficit) | | 2,014 | 18 | 0 |
| 0 | Other comprehensive income | | 0 | 0 | 0 |
| 486 | Total comprehensive income | | 2,014 | 0 | 0 |

The accompanying notes form part of these financial statements.

Statement of changes in taxpayers' funds (equity)

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for the year ended 30 June 2010

| Actual 2009 | | Notes | Actual 2010 | Supp. Estimates 2010 | Main Estimates 2010 |
|----------------|---|-------|----------------|----------------------------|---------------------------|
| \$000 | | | \$000 | \$000 | \$000 |
| | Taxpayers' funds brought forward | | | | |
| 3,521 | at 1 July | | 3,521 | 3,521 | 3,521 |
| 486 | Total comprehensive income | | 2,014 | 18 | 0 |
| (486) | Repayment of surplus to the Crown | 12 | (2,014) | (18) | 0 |
| 3,521 | Taxpayers' funds at 30 June | | 3,521 | 3,521 | 3,521 |

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2010

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

Explanations of significant variances against the main Estimates are detailed in Note 19.

| Actual 2009 \$000 | | Notes | Actual 2010 \$000 | Supp. Estimates 2010 \$000 | Main Estimates 2010 \$000 |
|--------------------------------|--------------------------------------|-------|-------------------------|-------------------------------------|------------------------------------|
| Current assets | | | | | |
| 3,695 | Cash and cash equivalents | | 4,209 | 2,765 | 2,216 |
| 197 | Prepayments | | 178 | 210 | 210 |
| 2,195 | Work in progress | | 2,125 | 2,293 | 2,293 |
| 4,829 | Debtors and other receivables | 8 | 5,488 | 4,778 | 4,778 |
| 10,916 | <i>Total current assets</i> | | 12,000 | 10,046 | 9,497 |
| Non-current assets | | | | | |
| 1,211 | Plant and equipment | 9 | 1,227 | 1,286 | 1,468 |
| 1,140 | Intangible assets | 10 | 1,038 | 1,013 | 929 |
| 0 | Long term receivables | 8 | 16 | 0 | 0 |
| 2,351 | Total non-current assets | | 2,281 | 2,299 | 2,397 |
| 13,267 | Total assets | | 14,281 | 12,345 | 11,894 |
| Current liabilities | | | | | |
| 4,633 | Creditors and other payables | 11 | 4,391 | 4,286 | 4,557 |
| 486 | Repayment of surplus | 12 | 2,014 | 18 | 0 |
| 4,110 | Employee entitlements | 13 | 3,791 | 4,000 | 3,161 |
| 9,229 | <i>Total current liabilities</i> | | 10,196 | 8,304 | 7,718 |
| Non-current liabilities | | | | | |
| 517 | Employee entitlements | 13 | 564 | 520 | 655 |
| 517 | <i>Total non-current liabilities</i> | | 564 | 520 | 655 |
| 9,746 | Total liabilities | | 10,760 | 8,824 | 8,373 |
| 3,521 | Net assets | | 3,521 | 3,521 | 3,521 |
| Taxpayers' funds | | | | | |
| 3,521 | General funds | | 3,521 | 3,521 | 3,521 |
| 3,521 | Total taxpayers' funds | | 3,521 | 3,521 | 3,521 |

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2010

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

| Actual 2009 | | Notes | Actual 2010 | Supp. Estimates 2010 | Main Estimates 2010 |
|---|--|-------|----------------|----------------------------|---------------------------|
| \$000 | | | \$000 | \$000 | \$000 |
| Cash flows from operating activities | | | | | |
| 9,914 | Receipts from the Crown | | 9,859 | 9,859 | 9,913 |
| 39,361 | Receipts from public entities* | | 36,927 | 36,953 | 38,528 |
| 136 | Interest earned | | 144 | 0 | 0 |
| (9,312) | Payments to suppliers * | | (6,194) | (8,454) | (7,942) |
| (35,003) | Payments to employees | | (34,198) | (33,752) | (35,844) |
| (2,599) | Net GST paid** | | (4,403) | (3,700) | (3,500) |
| (264) | Capital charge paid | | (334) | (264) | (165) |
| 2,233 | <i>Net cash flow from operating activities</i> | 14 | 1,801 | 642 | 990 |
| Cash flows from investing activities | | | | | |
| 83 | Receipts from sale of plant and equipment | | 120 | 111 | 111 |
| (585) | Purchase of plant and equipment | | (676) | (899) | (907) |
| (926) | Purchase of intangible assets | | (245) | (298) | (150) |
| (1,428) | <i>Net cash flow from (used in) investing activities</i> | | (801) | (1,086) | (946) |
| Cash flows from financing activities | | | | | |
| (285) | Surplus repayment to the Crown | | (486) | (486) | (150) |
| (285) | <i>Net cash flow from (used in) financing activities</i> | | (486) | (486) | (150) |
| 520 | Total net increase (decrease) in cash held | | 514 | (930) | (106) |
| 3,175 | Cash at the beginning of the year | | 3,695 | 3,695 | 2,322 |
| 3,695 | Cash at the end of the year | | 4,209 | 2,765 | 2,216 |

* The statement of cash flows does not include the contracted audit service provider audit fee revenue or expenditure, as these do not involve any cash transactions with the Office.

** The GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying notes form part of these financial statements.

Statement of commitments as at 30 June 2010

This statement records expenditure to which the Office is contractually committed at 30 June 2010.

Non-cancellable operating lease commitments

The Office has long-term operating leases on its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 6-yearly.

Equipment lease commitments include leases of telephone exchange systems and software contracts. There are no restrictions placed on the Office by any of its leasing arrangements.

| Actual 2009 \$000 | | Actual 2010 \$000 |
|--|---|-------------------------|
| Non-cancellable operating lease commitments | | |
| Property lease commitments | | |
| 2,047 | Not later than one year | 1,978 |
| 2,439 | Later than one year and not later than five years | 2,445 |
| 99 | Later than five years | 40 |
| 4,585 | <i>Total property lease commitments</i> | 4,463 |
| Equipment lease commitments | | |
| 169 | Not later than one year | 283 |
| 175 | Later than one year and not later than five years | 139 |
| 0 | Later than five years | 0 |
| 344 | <i>Total equipment lease commitments</i> | 422 |
| 4,929 | Total operating lease commitments | 4,885 |

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets

as at 30 June 2010

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This statement discloses situations that existed at 30 June 2010, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2010 (nil as at 30 June 2009).

Contingent assets

There were no contingent assets as at 30 June 2010 (nil as at 30 June 2009).

Statement of output expenses, other expenses, and capital expenditure against appropriations

for the year ended 30 June 2010

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

| Actual 2009 \$000 | Vote Audit | Actual 2010 \$000 | Supp. Estimates 2010 \$000 |
|--|---|-------------------------|-------------------------------------|
| Appropriations for output expenses | | | |
| <i>Multi-class output appropriations</i> | | | |
| Legislative auditor | | | |
| 2,457 | Supporting accountability to Parliament | 2,342 | 2,460 |
| 6,159 | Performance audits and inquiries | 6,044 | 6,587 |
| 8,616 | Total legislative auditor | 8,386 | 9,047 |
| <i>Annual and other appropriations</i> | | | |
| 150 | Audit and assurance services | 150 | 150 |
| 60,452 | Provision of audit and assurance services (revenue-dependent appropriation) ¹ | 62,586 | 62,937 |
| 69,218 | Total appropriations for output expenses | 71,122 | 72,134 |
| Other expenses to be incurred by the Office | | | |
| 716 | Remuneration of the Auditor-General and Deputy Auditor-General ² | 662 | 662 |
| 1,512 | Capital expenditure | 921 | 1,197 |
| 71,446 | Total | 72,705 | 73,993 |

- 1 Revenue-dependent appropriation – Provision of audit and assurance services. In 2009/10, the Office earned \$63.475 million from audit and assurance services – refer Note 3. The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation.
- 2 Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

Statement of unappropriated expenditure for the year ended 30 June 2010

The Office incurred no unappropriated expenditure during the year ended 30 June 2010 (nil for the year ended 30 June 2009).

Statement of trust money for the year ended 30 June 2010

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

A trust account records the financial transactions the Office carries out on behalf of PASAI. All trust money transactions are recorded on a cash basis.

None of the transactions associated with the PASAI trust account are recorded in the statement of comprehensive income or the statement of financial position.

| Actual 2009 \$000 | Actual 2010 \$000 |
|--------------------------------------|-------------------------|
| 22 Opening balance at 1 July | 11 |
| 60 Receipts | 116 |
| (71) Payments | (117) |
| 11 Closing balance at 30 June | 10 |

Notes to the financial statements

for the year ended 30 June 2010

Note 1: 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 purposes 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 IFRS).

In addition, the Office has reported on trust money that it administers.

The financial statements of the Office are for the year ended 30 June 2010. The financial statements were authorised for issue by the Controller and Auditor-General on 30 September 2010.

Basis of preparation

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

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for a public benefit entity.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The 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 (\$000). The functional currency of the Office is New Zealand dollars.

There have been no changes in accounting policies during the financial year.

The Office has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- NZ IAS 1 *Presentation of Financial Statements* (revised 2007) replaces NZ IAS 1 *Presentation of Financial Statements* (issued 2004). The revised standard

requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Office has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly

- NZ IAS 24 *Related Party Disclosures* (revised 2009) replaces NZ IAS 24 *Related Party Disclosures* (issued 2004) and is effective for reporting periods commencing on or after 1 January 2011. The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The Office has elected to early adopt the revised standard and its effect has been fewer related parties and, hence, fewer related parties transactions disclosed.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Office include:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Office has not yet assessed the effect of the new standard and expects it will not be early adopted.

Accounting policies

Income

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

Crown funding

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Fee revenue generated by the Office for audits and other assurance work

Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised.

Fee revenue generated by contracted audit service providers for audits

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 revenue 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.

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 (including those for which forward foreign exchange contracts are held) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Capital Charge

The capital charge is recognised as an expense in the period to which the charge relates.

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 surplus or deficit.

Cash and cash equivalents

Cash includes cash on hand and funds on deposit with banks and is measured at its face value.

Work in progress

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

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 surplus or deficit. 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 surplus or deficit.

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 less estimated residual values of the plant and equipment 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 | 3-4 years (25% - 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 surplus or deficit.

The useful life and associated amortisation rate of computer software is estimated at between 2.5 and 5 years (20% - 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 surplus or deficit. Any reversal of an impairment loss is also recognised in the surplus or deficit.

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 amounts billed are in excess of the amounts recognised as revenue.

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 future absences are expected to be greater than the sick leave entitlements earned in the future. The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that the Office anticipates those unused entitlements 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.

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 surplus or deficit 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.

Main Estimates and Supplementary Estimates

The Main Estimates figures are those included in the Office's annual plan for the year ended 30 June 2010. In addition, the financial statements also present updated figures from the Supplementary Estimates. The main estimates and supplementary estimates figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

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 those costs that cannot be identified in an economically feasible manner with a specific output. 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 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.

Assessing the value of audit fee revenue and associated work in progress or income in advance for engagements open at balance date is the most significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement may result in a different value being determined for revenue and also a different carrying value being determined for work in progress.

At 30 June 2010, there were a number of audits under way relating to disestablishment of entities associated with dissolving Auckland councils and council-controlled organisations. Due to the one-off nature of these engagements, it was not possible to reliably estimate the outcome of these engagements. Revenue for these engagements is therefore recognised at the level of direct costs incurred, resulting in associated income in advance of \$0.735 million.

Note 2: Crown funding

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

Note 3: Audit fee revenue and other income

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 39,086 | Fee revenue generated by the Office for audit and assurance services | 37,215 |
| 20,948 | Fee revenue generated by contracted audit service providers for audits of public entities* | 26,260 |
| 136 | Interest | 144 |
| 319 | Miscellaneous | 298 |
| 60,489 | Total audit fee revenue and other income | 63,917 |

* Revenue generated by contracted audit service providers does not involve any cash transactions with the Office.

Note 4: Personnel costs

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 32,996 | Salaries and wages | 33,010 |
| 1,167 | Other employee-related costs | 315 |
| 903 | Employer contributions to defined contribution plans | 967 |
| 751 | Increase/(decrease) in employee entitlements | (272) |
| 35,817 | Total personnel costs | 34,020 |

Employer contributions to defined contribution plans include contributions to the Auditor-General's retirement savings plan, Kiwisaver, and the Government Superannuation Fund.

Note 5: Other operating costs

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 62 | (Decrease)/Increase in provision for impairment of receivables | 23 |
| 92 | Fees to CST Nexia for the audit of the Office's financial statements | 85 |
| 35 | Fees to CST Nexia for other assurance services provided to the Office | 12 |
| 1,861 | Operating lease payments | 1,997 |
| 96 | Fees for audits of public entities carried out by CST Nexia* | 122 |
| 20,852 | Fees for audits of public entities carried out by other contracted audit service providers* | 26,138 |
| 0 | Net loss on disposal | 11 |
| 9,913 | Other expenses | 8,214 |
| 32,911 | Total other operating costs | 36,602 |

* Expenditure relating to audits carried out by contracted audit service providers does not involve any cash transactions with the Office.

Note 6: Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 31 May and 30 November each year. The capital charge rate is determined by the Treasury and for the year ended 30 June 2010 was 7.5% (2009 – 7.5%).

Note 7: Overdraft facility

The Office has the use of an overdraft facility to manage its seasonal cash flows during the second half of the financial year. The overdraft limit is \$500,000, and interest is charged on the daily balance at Westpac Banking Corporation's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (and none were drawn down in 2008/09).

Note 8: Debtors and other receivables

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 5,052 | Debtors | 5,749 |
| (223) | Less provision for impairment of receivables | (246) |
| 4,829 | Net debtors | 5,503 |
| 0 | Other receivables | 1 |
| 4,829 | Total receivables | 5,504 |
| | Represented by: | |
| 4,829 | Current | 5,488 |
| 0 | Non Current | 16 |
| 4,829 | Total | 5,504 |

The carrying value of debtors and other receivables approximates their fair value.

As of 30 June 2010 and 2009, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

| | 2009 | | | 2010 | | |
|------------------------|----------------|---------------------|--------------|----------------|---------------------|--------------|
| | Gross \$000 | Impairment \$000 | Net \$000 | Gross \$000 | Impairment \$000 | Net \$000 |
| Not past due | 3,768 | - | 3,768 | 520 | - | 520 |
| Past due 31-60 days | 454 | - | 454 | 3,819 | - | 3,819 |
| Past due 61-90 days | 186 | - | 186 | 850 | - | 850 |
| Past due 91-120 days | 226 | - | 226 | 178 | - | 178 |
| Past due >120 days | 418 | (223) | 195 | 383 | (246) | 137 |
| Carrying amount | 5,052 | (223) | 4,829 | 5,750 | (246) | 5,504 |

The impairment provision has been calculated based on expected losses for the Office's pool of debtors. Expected losses have been determined based on an analysis of the Office's losses in previous periods and review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 161 | Balance at 1 July | 223 |
| 62 | Additional provisions made during the year | 23 |
| 0 | Receivables written off during the period | 0 |
| 223 | Balance at 30 June | 246 |

Note 9: Plant and equipment

| | Furniture and fittings \$000 | Office equipment \$000 | IT hardware \$000 | Motor vehicles \$000 | Total \$000 |
|---|------------------------------------|------------------------------|-------------------------|----------------------------|----------------|
| Cost | | | | | |
| Balance at 1 July 2008 | 2,528 | 209 | 2,638 | 1,168 | 6,543 |
| Additions | 63 | 20 | 318 | 184 | 585 |
| Disposals | 0 | (1) | (595) | (181) | (777) |
| Balance at 30 June 2009 | 2,591 | 228 | 2,361 | 1,171 | 6,351 |
| Additions | 42 | 15 | 258 | 406 | 721 |
| Disposals | (63) | (4) | (168) | (273) | (508) |
| Balance at 30 June 2010 | 2,570 | 239 | 2,451 | 1,304 | 6,564 |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 July 2008 | 2,042 | 182 | 2,302 | 484 | 5,010 |
| Depreciation expense | 280 | 17 | 315 | 229 | 841 |
| Elimination on disposal | 0 | 0 | (596) | (115) | (711) |
| Balance at 30 June 2009 | 2,322 | 199 | 2,021 | 598 | 5,140 |
| Depreciation expense | 171 | 13 | 259 | 153 | 596 |
| Elimination on disposal | (63) | (4) | (168) | (164) | (399) |
| Balance at 30 June 2010 | 2,430 | 208 | 2,112 | 587 | 5,337 |
| Carrying amounts | | | | | |
| At 1 July 2008 | 486 | 27 | 336 | 684 | 1,533 |
| At 30 June 2009 | 269 | 29 | 340 | 573 | 1,211 |
| At 30 June 2010 | 140 | 31 | 339 | 717 | 1,227 |

Note 10: Intangible assets

| | Acquired software \$000 | Internally generated software \$000 | Total \$000 |
|---|-------------------------------|--|----------------|
| Cost | | | |
| Balance at 1 July 2008 | 2,494 | 120 | 2,614 |
| Additions | 927 | 0 | 927 |
| Disposals | (290) | 0 | (290) |
| Balance at 30 June 2009 | 3,131 | 120 | 3,251 |
| Additions | 200 | 0 | 200 |
| Disposals | (197) | 0 | (197) |
| Balance at 30 June 2010 | 3,134 | 120 | 3,254 |
| Accumulated amortisation and impairment losses | | | |
| Balance at 1 July 2008 | 2,300 | 0 | 2,300 |
| Amortisation expense | 85 | 16 | 101 |
| Disposals | (290) | 0 | (290) |
| Balance at 30 June 2009 | 2,095 | 16 | 2,111 |
| Amortisation expense | 278 | 24 | 302 |
| Disposals | (197) | 0 | (197) |
| Balance at 30 June 2010 | 2,176 | 40 | 2,216 |
| Carrying amounts | | | |
| At 1 July 2008 | 194 | 120 | 314 |
| At 30 June 2009 | 1,036 | 104 | 1,140 |
| At 30 June 2010 | 958 | 80 | 1,038 |

Note 11: Creditors and other payables

| | Actual 2009 \$000 | Actual 2010 \$000 |
|---|-------------------------|-------------------------|
| 1,382 Creditors | | 1,156 |
| 2,134 Income in advance | | 2,207 |
| 598 Accrued expenses | | 597 |
| 519 GST payable | | 431 |
| 4,633 Total creditors and other payables | | 4,391 |

Creditors and other payables are non-interest-bearing, and are normally settled on 30-day terms. The carrying value of creditors and other payables therefore approximates their fair value.

Note 12: Surplus payment due to the Crown

The Office is not permitted to retain operating surpluses under the Public Finance Act 1989. Thus, the surplus for the year of \$2,014,000 is repayable to the Crown, and is due to be paid by 31 October 2010.

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|---|-------------------------|
| 486 | Surplus current year | 2,014 |
| 285 | Surplus brought forward | 486 |
| (285) | Payment to the Crown | (486) |
| 486 | Total provision for payment to the Crown | 2,014 |

Note 13: Employee entitlements

| Actual 2009 \$000 | | Actual 2010 \$000 |
|--|-------------------------------------|-------------------------|
| Current employee entitlements comprise: | | |
| 1,721 | Salary and other accruals | 1,468 |
| 2,034 | Annual leave | 2,011 |
| 94 | Long service leave | 95 |
| 146 | Time off in lieu of overtime worked | 98 |
| 35 | Retiring/resigning leave | 39 |
| 80 | Sick leave | 80 |
| 4,110 | <i>Total current portion</i> | 3,791 |
| Non-current employee entitlements comprise: | | |
| 30 | Long service leave | 31 |
| 487 | Retiring/resigning leave | 533 |
| 517 | <i>Total non-current portion</i> | 564 |
| 4,627 | Total employee entitlements | 4,355 |

The measurement of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

The discount rate is based on NZ Government bond data at 30 June 2010. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$37,000 higher/lower.

If the salary inflation factor were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$52,000 higher/lower.

Note 14: Reconciliation of surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the statement of comprehensive income on page 87, to arrive at the net cash flow from operating activities disclosed in the statement of cash flows on page 90.

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|--|-------------------------|
| 486 | Surplus | 2,014 |
| | Non-cash items | |
| 942 | Depreciation and amortisation | 898 |
| 942 | Total non-cash items | 898 |
| | Working capital movements | |
| 3 | (Increase)/decrease in prepayments | 19 |
| (374) | (Increase)/decrease in receivables | (675) |
| 89 | (Increase)/decrease in work in progress | 70 |
| 354 | (Decrease)/increase in payables | (242) |
| 883 | (Decrease)/increase in employee entitlements | (319) |
| 955 | Total net working capital movements | (1,147) |
| | Investing activity items | |
| (17) | Loss/(profit) on sale of plant and equipment | (11) |
| 0 | Loss/(profit) on sale of intangible assets | 0 |
| (17) | Total net investing activity items | (11) |
| | Other items | |
| (133) | Increase/(decrease) in non-current employee entitlements | 47 |
| (133) | Total other items | 47 |
| 2,233 | Net cash flow from operating activities | 1,801 |

Note 15: Related party transactions

The Office is a wholly owned entity of the Crown. The Office transacts with government departments, Crown entities, and state-owned enterprises on an arm's-length basis. Examples of those transactions include the Office providing audit services, paying ACC levies, and purchasing airfares and postal services, all of which occur within a normal supplier or client relationship. The transactions are carried out on terms and conditions no more or less favourable than those which it is reasonable to expect the Office would have adopted if dealing with that entity at arm's length in the same circumstances, and therefore have not been disclosed.

During the year, there were transactions between the Office and close family members of key management personnel, as follows:

- Some close family members of key management personnel were employed by the Office. The terms and conditions of their appointment were no more favourable than the Office would have adopted if there were no relationship to key management personnel.
- Close family members of a member of key management personnel were directors in a company that provided services to the Office under a contract that was entered into prior to the appointment of the member. The cost of the services purchased was \$8,381 (2009 – \$6,800) and there was a balance outstanding at balance date of \$8,381 (2009 – \$6,800).

Key management personnel compensation

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|---|-------------------------|
| 2,946 | Salaries and other short-term employee benefits | 3,005 |
| 0 | Post-employment benefits | 0 |
| 0 | Other long-term benefits | 0 |
| 0 | Termination benefits | 0 |
| 2,946 | | 3,005 |

Key management personnel include the Auditor-General, the Deputy Auditor-General, and the ten members of the OAG and Audit New Zealand Leadership Teams.

Note 16: Financial instrument risks

The Office's financial instruments are limited to cash and cash equivalents, debtors and other receivables, and creditors and other payables. These activities expose the Office to low levels of financial instrument risks, including market risk, credit risk, and liquidity risk.

Market risk*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities, which are payable in a foreign currency were nil at balance date.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Office has no interest-bearing financial instruments and, accordingly, has no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Office, causing the Office to incur a loss.

In the normal course of the Office's business, credit risk arises from debtors and deposits with banks.

The Office is permitted to deposit funds only with Westpac, a registered bank with high credit ratings. For its other financial instruments, the Office does not have significant concentrations of credit risk.

The Office's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net debtors and other receivables (see Note 8).

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the Office will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Office closely monitors its forecast cash requirements with expected debtor receipts and cash drawdowns from the New Zealand Debt Management Office. The Office maintains a target level of available cash to meet liquidity requirements.

The Office's financial liabilities are outlined in Note 11: Creditors and other payables. These are all due to be settled within two months.

Note 17: Categories of financial instruments

The carrying amounts of financial instruments in each of the NZ IAS 39 categories are as follows:

| Actual 2009 \$000 | | Actual 2010 \$000 |
|-------------------------|---|-------------------------|
| | Loans and receivables | |
| 3,695 | Cash and cash equivalents | 4,209 |
| 4,829 | Debtors and other receivables (Note 8) | 5,504 |
| 8,524 | Total loans and receivables | 9,713 |
| | Financial liabilities measured at amortised cost | |
| 4,633 | Creditors and other payables (Note 11) | 4,391 |
| 4,633 | Total creditors and other payables | 4,391 |

Note 18: Management of taxpayers' funds (equity)

The Office's taxpayers' funds (equity) comprise general funds and is represented by net assets.

The Office manages its revenues, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which it has been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions.

Note 19: Explanation of major variances against budget

Explanations for major variances from the Office's forecast figures in the *Annual Plan 2009/10* are as follows:

Statement of comprehensive income

Audit fee revenue and other income was higher than forecast due to a higher level of completion of arrears audits, unbudgeted revenue received for certain inquiries, and increases to fee and overhead contribution revenue being higher than budgeted due to changes in audit hours.

Total expenditure was lower than budgeted due to a number of factors including timing of professional development, reprioritisation of the performance audits programme, savings made from moving to electronic distribution of some Office reports and savings made in general administrative costs including less recruitment due to lower staff turnover, lower IT costs arising from contract reviews and travel savings.

Statement of financial position

Current assets are higher than forecast which is mainly due to a higher cash balance arising from the operating surplus for the year. Debtors are also higher than forecast due to the timing of audit fee invoicing.

Current liabilities are higher than forecast, which is mainly attributable to the provision for repayment of surplus to the Crown and higher employee liabilities including annual leave and accrued salaries.

Note 20: Events after the balance sheet date

There were no significant events after balance date.

Note 21: Office accommodation statistics

The following statistics are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

| Actual 2009 | | Actual 2010 |
|--------------------|--|--------------------|
| 6144m ² | Area | 6250m ² |
| 354 | Number of staff (FTE) | 350 |
| 17.4m ² | Space allocation per person | 17.9m ² |
| \$1,825,284 | Total costs of leased office accommodation | \$1,991,626 |
| \$5,156 | Rent costs per person | \$5,690 |
| \$307 | Utility costs per person | \$291 |
| 0 | Vacant accommodation | 0 |

Appendix 1

Summary of reports on performance audits and other studies published in 2009/10

Performance audits

Effectiveness of arrangements to check the standard of services provided by rest homes

We carried out a performance audit to assess the effectiveness and efficiency of arrangements for checking the quality and safety of rest home services. Older people who live in rest homes are some of the most vulnerable in our society, so it is important to have effective arrangements to ensure that their care is appropriate. Rest homes must be certified and audited to ensure that the care they provide meets the *Health and Disability Services Standards* (the Standards). The Ministry of Health (the Ministry) is responsible for auditing and certifying rest homes and contracts out this work to eight designated auditing agencies (DAAs). We found that the auditing of rest homes by DAAs has been inconsistent and sometimes of poor quality. We also found that the Ministry's monitoring of the DAAs was weak. Rest homes are also monitored by district health boards. Monitoring of rest homes by district health boards has not been well co-ordinated with the work of the Ministry. The Ministry has put in place a programme of work to address the issues found in our audit. However, it is too early to judge whether the changes being made will make auditing, certifying, and monitoring of rest homes more effective and efficient. We will follow up on progress with implementing our recommendations during 2011.

Effectiveness of arrangements for co-ordinating civilian maritime patrols

New Zealand has interests in the extensive oceans over which we have rights and responsibilities (the maritime domain). Maritime patrols are used to protect these interests, by detecting and deterring illegal activities, and by gathering information about activities that are occurring in the maritime domain. We examined how effectively the National Maritime Co-ordination Centre (NMCC) and other government agencies co-ordinate maritime patrols to support New Zealand's maritime interests. We found that, overall, NMCC had an appropriate framework to support the effective co-ordination of maritime patrols. Some improvements were needed so that the NMCC could enhance its whole-of-government co-ordination role and make the most effective use of improved patrol resources. These improvements included better strategic guidance for the NMCC, clarifying the mandate for separate patrol co-ordination arrangements, better understanding of the timing of agencies' patrol needs, and more robust data collection to show where gaps exist and where effort is effective. At the time of the audit, the NMCC was already working to address some of these issues. Because the NMCC is a whole-of-government arrangement, these matters required consideration not just from the NMCC but from all organisations involved or interested in maritime patrols.

Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report

In 2007, the Commission of Inquiry into Police Conduct (the Commission) released its report into Police conduct. We were invited to monitor the Police's response to the Commission's recommendations and published our first monitoring report in 2009. Our second monitoring report assesses whether the Police have effectively implemented the projects and initiatives set out in their work programme. We found that, while the Police had done a lot of work already to respond to the Commission's recommendations, the implementation of the Police's response is at a critical point. Without more concerted effort now, there is a risk that progress will stall. We found that the Police need to build on the high degree of commitment at senior levels to change, value and learn from the views of people external to the Police, and monitor the effect of change to the service being provided to the public. We also found that instances of behaviour inconsistent with the Police Code of Conduct are still occurring.

Performance audits from 2008: Follow-up report

Our vision is to provide audit and assurance work that improves the performance of, and the public's trust in, the public sector. We aim to do this through giving independent assurance to Parliament, public entities, and the public about whether public entities are carrying out their activities effectively, efficiently, and appropriately. We evaluate the effect of our performance audits by following up on how the entities have responded to, and implemented, our recommendations. This report sets out the actions public entities have taken in response to the recommendations made in performance audit reports that we published during 2008. Overall, we are satisfied with the responses to the findings of the performance audit reports we completed during 2008.

Ministry of Education: Managing support for students with high special educational needs

We carried out a performance audit to assess how well the Ministry of Education (the Ministry) manages four initiatives set up to support school-age students with high special educational needs. There are up to 20,500 students receiving support through these four initiatives. Overall, the Ministry's management of the four initiatives was reasonable, and the basic systems and resources were in place to enable the Ministry to deliver its support. We found that the Ministry needs to improve how it identifies and monitors students with high special educational needs. Our report encourages the Ministry to improve its information and provide consistent support. We also recommended that the Ministry improve its information and resources about the four initiatives and better collate data about the effectiveness of the initiatives.

Ministry of Justice: Supporting the management of court workloads

We carried out a performance audit to assess the effectiveness and efficiency of the Ministry of Justice (the Ministry) in its work to help District Courts and the High Court deal with their increasing workloads. Court workloads have increased significantly in recent years, and forecasts show that the number of cases brought before the courts will continue to grow. We found that, while the Ministry does not control the court system and has only limited ability to manage individual cases, it provides valuable advice and support to facilitate the efficient and expeditious management of cases. We found that the Ministry is well positioned to develop and provide support for increasing court workloads. The Ministry works closely and well with the rest of the justice sector and is responding well to challenges. It is important that the Ministry continues to do so, while recognising that it alone cannot resolve the issue of court workloads or the efficiency of the courts.

Defence acquisitions: Pilot major projects report

We have identified a need for the defence agencies to report more comprehensive and useful information about the progress of major defence acquisition projects to provide assurance to Parliament and other stakeholders that these projects are managed well, and deliver the expected capabilities. In partnership with the Ministry of Defence, New Zealand Defence Force, and the Treasury, and liaising closely with the Foreign Affairs, Defence and Trade Select Committee (the Committee), we have identified what information stakeholders expect to see reported about these projects. This has led to the development of the major projects report, which will outline this key information for eight of the most significant current major defence acquisitions projects. We (the OAG and the two defence agencies) developed a pilot report on one of these projects and presented it to the Committee in late 2009. We will complete the first full major projects report covering all eight projects later in 2010. The defence agencies intend to then update this report annually and include information about new major projects as they are introduced.

Local authorities: Planning to meet the forecast demand for drinking water

Access to good quality water for drinking, bathing, and clothes washing is essential to our health and well-being. It is important for local authorities to ensure that they have considered and planned for future demand for water supply so they will have adequate infrastructure and/or arrangements to meet community needs. We carried out a performance audit looking at eight local authorities to help us form a view about how well prepared the country is to meet the likely future demand for drinking water. All eight local authorities were able

to ensure the security of their drinking water supply at the time of our audit. Only three of the eight – Nelson City Council, Tasman District Council, and Tauranga District Council – were managing their drinking water supplies effectively to meet future demand for drinking water. The other five – Christchurch City Council, Opotiki District Council, Kapiti Coast District Council, South Taranaki District Council, and Central Otago District Council – had further work to do to improve the accuracy of their forecasts and implement their strategies to meet future demand. In some cases, this was a significant amount of work. However, they know what they need to do and are making progress to implement improvements. Provided those improvements continue, within the next 10 years these local authorities should be better placed to meet the forecast demand for drinking water.

Ministry of Social Development: Changes to the case management of sickness and invalids' beneficiaries

In 2008/09, the Ministry of Social Development (the Ministry) spent about \$1.9 billion on sickness and invalids benefits, providing income support to people who were unable to work because of ill health or a disability. In 2007, the Ministry introduced a number of changes to improve how it determined eligibility for sickness and invalids' benefits, and to actively manage cases through regular and effective contact with people receiving those benefits. We carried out a performance audit to assess how well the changes were operating and whether they were starting to have the intended effect. We found that the proposed changes were beginning to take effect, but they were not being delivered consistently. We recommended that the Ministry improve how it is monitoring the effect of the changes, so it will be able to assess how well the various initiatives are working and whether they are achieving the intended outcomes.

New Zealand Defence Force: Progress with the Defence Sustainability Initiative

We carried out a performance audit on the progress made by the New Zealand Defence Force (NZDF) in implementing the Defence Sustainability Initiative. We published two reports as a result of this audit – a classified report to NZDF and central agencies outlining our views on the implementation of the Initiative against specific technical measures, and a public report. We found that NZDF had developed clear areas of focus for planning and measuring its progress in implementing the initiative. NZDF had implemented significant improvements in the delivery of corporate services and also made good progress in completing projects designed to improve corporate capability and equipment shortages. We also found that some of the Defence Sustainability Initiative's objectives were not able to be achieved because rates of deployment were higher than anticipated.

Although we made some suggestions for further action to NZDF, we did not consider it necessary to make any formal recommendations in our report.

The Civil Aviation Authority's progress with improving certification and surveillance

The Civil Aviation Authority (the CAA) is the regulatory agency that safeguards civil aviation in New Zealand. The CAA controls which operators enter the civil aviation system (certification) and monitors operators' ongoing adherence to safety standards (surveillance). Since 1997, we have carried out four audits of the CAA's certification and surveillance functions for civil aviation operators. Our most recent audit found that, of the 10 recommendations we made in 2005, only one had been fully addressed, eight had been only partly addressed, and one recommendation had not been addressed. We considered that the CAA has failed to understand and effectively address the underlying causes of the weaknesses in its certification and surveillance work. We made a number of recommendations that are designed to improve the governance and accountability of the CAA's certification and surveillance functions, focus its regulatory actions, and improve its management practices. We also recommended that the Ministry of Transport, as the agency responsible for monitoring the CAA, take a more active role in ensuring that progress is made in addressing the recommendations in our most recent report.

Inquiries

Inquiry into certain types of expenditure in Vote Ministerial Services – Part 1

On 2 March 2010, the Auditor-General, released terms of reference for an inquiry into certain types of expenditure in Vote Ministerial Services that provide or have the potential to provide private benefit to a Minister. The inquiry was initiated by the Auditor-General after separate requests from the Prime Minister, Mr Phil Heatley MP, and the Department of Internal Affairs.

The purpose of the inquiry was to:

- audit the expenditure incurred by Mr Heatley's ministerial office from when he became a Minister in November 2008 until he resigned from his ministerial portfolios for Housing and Fisheries on 25 February 2010;
- review the rules, policies, and procedures to see whether they are appropriate and effective, and identify any improvements that can be made; and
- consider any other matters that the Auditor-General considers relate to, or arise from, the above.

This report addressed the first part of our inquiry's terms of reference. It summarised the general principles that apply to public expenditure where there could be private benefit and our overall findings and conclusions, followed by a detailed report about our audit of Mr Heatley's ministerial office expenditure.

Mr Heatley's overall ministerial office expenditure was reasonable compared to expenditure incurred by other ministerial offices for the period we looked at. We found that a total of \$1,402 of Mr Heatley's expenditure – \$608 in Vote Ministerial Services and \$794 in Vote Parliamentary Service – was outside the rules. In all cases, Mr Heatley thought that the expenditure was within the rules, but he did not understand the rules correctly. In the case of the expenditure in Vote Parliamentary Service, the Parliamentary Service was also administering a rule incorrectly for members of Parliament, and Mr Heatley is not the only member who will have been affected.

We will be reporting separately on the remaining terms of reference.

Auckland City Council: Management of footpaths contracts

In May 2009 we were asked to carry out an inquiry into the Council's management of its footpaths contracts. We agreed to do so because of the nature of the concerns being raised and because of the scale of the Council's footpaths work.

Our inquiry aimed to understand the wider context of the Council's footpaths work, and to address several specific concerns. Our staff looked in depth at the Council's management of footpaths contracts during the past eight years to see how the Council has developed its approach to footpaths work and whether there were any fundamental flaws in the systems and processes for current or historical contracts.

We concluded that the Council's processes and procedures for managing footpaths work – while still evolving – are reasonable and have been applied adequately. We were satisfied that the Council has protected the interests of ratepayers throughout its management of footpaths contracts.

We found no fundamental flaws or gaps in the Council's contract management processes, no apparent evidence of corruption at any level, and no waste. However, in keeping with most large and complex asset management systems, we did find some areas where the Council can tidy up its administrative processes and have made a number of comments and suggestions and four recommendations for improvement.

Auckland Regional Council: Management of the LA Galaxy event at Mount Smart Stadium

In December 2008, Auckland Regional Council (the Council) hosted an exhibition football match between LA Galaxy (a team that included international football star David Beckham) and an Oceania “All Stars” team at Mount Smart Stadium. The event resulted in a loss to the Council of \$1.88 million, essentially because far fewer people purchased tickets to the match than the Council expected. The chairman of the Council asked the Auditor-General to review the Council’s handling of the event.

We reviewed how the Council handled the event. We concluded that, despite the efforts of the council officers involved, the loss occurred because the LA Galaxy/Oceania “All Stars” match was in essence the wrong event, at the wrong time, for the wrong price.

Our inquiry focused particularly on the governance of the Mount Smart facility and its position in the Council’s structure and operations, and on the Council’s then lack of systems for monitoring and overseeing such events.

The Mount Smart operation was something of an orphan in the Council structure – it did not fit well with the Council’s other functions and operations, and the Council had not, at the time, considered or agreed on suitable governance and business models for it. Although there was a general view within the Council that Mount Smart Stadium needed to operate commercially, the decision to promote the LA Galaxy event was made without a formal business strategy or a clear policy about the level of commercial risk that the Council was willing to assume.

We were satisfied that the Council had correctly identified the problems with its governance and management of Mount Smart Stadium, and that it was taking appropriate steps to address those problems.

Investigation into conflicts of interest of four councillors at Environment Canterbury

In July 2009, we received a complaint that three councillors at Environment Canterbury (the Council) had breached section 6(1) of the Local Authorities (Members’ Interests) Act 1968 (the Act), by discussing and voting on a proposal to recover the costs of managing water resources in Canterbury (the proposal). In October 2009, the complainant told us that a fourth councillor might have breached the Act.

Section 6(1) of the Act prohibits members of a local authority from discussing or voting on a matter if they have a financial (or “pecuniary”) interest in it. Section 6(4) enables the Auditor-General to give a declaration that this prohibition will not

apply if its application impedes the business of the local authority or is against the interests of electors.

The Auditor-General is also responsible for taking enforcement action when the requirements of the Act are breached. A breach of section 6(1) is a criminal offence and the Auditor-General is the sole prosecuting authority. Therefore, we investigated the complaints made to us about the potential breaches of the Act. This report sets out our findings and conclusions.

We concluded that the four councillors have breached section 6(1) by participating in a decision when they had a financial interest in it. However, we decided that a prosecution would be unlikely to result in a conviction and that it would not be appropriate in these circumstances to seek to have the councillors prosecuted. We consulted the Crown Law Office before finalising our view. That Office agreed that the Act had been breached and that a prosecution was not warranted.

We subsequently worked with the Council and the individual councillors to help them deal more appropriately with conflicts of interest in later decisions on water management issues, and granted declarations in appropriate cases to enable councillors to participate.

How the Thames-Coromandel District Council managed leasing arrangements for Council land in Whitianga

The Auditor-General inquired into aspects of how the Thames-Coromandel District Council (the Council) has managed leasing arrangements for a block of land in Moewai Road, Whitianga. The block of land is commonly referred to as the Sherriff Block, and the Council has owned it since 2000. Our inquiry included considering the nature of the Council's leasing arrangements with Mr Dirk Sieling before he was elected to the Council in 2007 and the handling of his interest in the Sherriff Block after he became a Councillor.

We found that the Council was not effective in its management of the Sherriff Block because it did not formally document a lease agreement or have arrangements in place to manage its interests in the land. In our view, a formal lease agreement would have provided clarity about the terms and conditions of the lease of the Sherriff Block, including the requirement to pay rates.

We also concluded that the Council's administration systems did not adequately support the management of conflicts of interest in this matter. We understand that the Council has now addressed the way that it administers matters where there are conflicts of interest. For example, the staff member responsible for sending out papers for Council or Committee meetings takes steps to ensure that

Councillors do not receive information about matters in which they have declared a conflict of interest.

In our view, Councillor Sieling handled his interest in the land in a reasonable manner.

Auditor-General's decision on parliamentary and ministerial accommodation entitlements

In September 2009, the Auditor-General received some requests to inquire into the way parliamentary and ministerial accommodation entitlements are administered and how they have been applied in relation to Hon Bill English.

In relation to reimbursement of accommodation costs by the Parliamentary Service and Mr English's "primary place of residence", we concluded that Mr English had correctly completed the declarations he was required to as an MP, and provided other information on his accommodation arrangements, in order to claim Wellington accommodation costs. Mr English's various declarations and claims relating to his "primary place of residence" and accommodation costs were considered and approved as appropriate by the Parliamentary Service or successive Speakers. The fact that Mr English was being reimbursed for the cost of renting a house owned by his family trust was not exceptional, and the administrative system now includes protections such as a market evaluation of rent.

In relation to the provision of a ministerial residence, we concluded that Ministerial Services had not considered the status of a home owned by a family trust until Mr English asked if Ministerial Services could take over the lease of the property he was already renting from a family trust. Ministerial Services asked Mr English to sign a declaration that he did not have a pecuniary interest in the family trust. He did so, and attached a copy of the advice he had received about what amounted to a beneficial interest in a trust for the purposes of Standing Orders. Having received that declaration, Ministerial Services got a market evaluation of the rent, took over the existing rental agreement, and provided the house as a ministerial residence. In our view, the advice that Mr English relied on to make his declaration was not applicable to this situation and was based on too narrow a test for the Ministerial Services' situation. We considered that Mr English did have an indirect financial interest in the trust.

At Mr English's request, the rental agreement between Ministerial Services and the trust ended, and Mr English reimbursed the rent and other costs that had been paid.

The Prime Minister then announced that a new policy was to be implemented under which Ministerial Services would no longer provide accommodation directly for Ministers. Instead, Ministerial Services will simply provide a fixed level of financial assistance to Ministers, who will make their own accommodation arrangements. This approach will mean that the question of whether a Minister has a personal financial interest in a property will no longer be relevant, and may help to smooth the interface between the parliamentary and ministerial accommodation entitlements systems.

How the Ministry of Education managed the 2008 national school bus transport tender process

In February 2009, we announced the terms of reference for our inquiry into how the Ministry of Education managed the 2008 national school bus transport tender process. Our inquiry examined:

- how the Ministry prepared its overall procurement strategy and Request for Proposal (RFP) for the 2008 bus tender process;
- the extent to which the RFP reflected the Ministry's earlier consultation with stakeholders, where appropriate, and the clarity with which any important changes to the RFP were communicated to stakeholders;
- the extent to which the RFP rules were applied correctly and consistently by Ministry staff, contractors, and the Tender Evaluation Committee; and
- the extent to which the Ministry responded promptly and effectively when concerns were expressed about aspects of the 2008 bus tender process.

Overall, the Ministry's procurement approach was sound. No process is perfect, and we found a number of areas for improvement that we expect the Ministry to address in any subsequent bus tender processes. The errors and inconsistencies we found did not, in our view, undermine the overall outcome of the 2008 bus tender process. However, the Ministry must strengthen the quality assurance arrangements it has in place in subsequent bus tender processes.

Other studies

Local government: Examples of better practice in setting local authorities' performance measures

This report discusses examples of better practice that we saw in performance measures within local authorities' 2009-19 long-term council community plans. The intention of the report is to promote discussion about improvement rather than be a technical guide on performance measures for various activities.

The Auditor-General has a significant interest in improving public management. Improving local authorities' performance information – especially in relation to assessing performance and making decisions – is one way of improving such management. The Auditor-General's overview provides a useful perspective on the report and also comments on the relevance of the report to proposed changes to the Local Government Act 2002.

District Health Boards: Improving external service performance information reporting

Checklist for district health boards: Improving your statement of intent

Our paper was provided to district health boards (DHBs) to identify, and help them to consider, issues with the current state of non-financial performance reporting. We hope that the paper will help improve the quality of DHB statements of intent and, consequently, the annual reporting of actual performance. The checklist augments Part 7 of our report to Parliament, *Central government: Results of the 2008/09 audits*, in which we discuss DHBs' non-financial performance reporting in the context of their planning and accountability framework.

Our observations are drawn from our 2008/09 audits of DHBs, in which we reviewed the DHBs' 2009/12 statements of intent. We concluded that the quality of DHB service performance information was at the lower end of the scale, and the checklist sets out where, in our view, further effort from the DHB sector could result in significant improvement to the statement of intent (SOI) and annual report. To demonstrate their effectiveness and efficiency to external stakeholders (for example, Parliament and the public), DHBs need to ensure that they report on the range of services they are accountable for and on how well they are providing those services. This includes putting more effort into reporting on the quality of those services. DHBs also need to clearly and separately report on the effect they hope to achieve (that is, the impacts and outcomes resulting from their services). Improved performance reporting in their SOIs and annual reports will help ensure that DHBs are held accountable to Parliament and the public.

Appendix 2

Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act requires us to include in the annual report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

At 30 June 2010, arrangements had been entered into for audits of the following entities:

- Antarctic Institute: Andrill Joint Venture
- AUT/Millennium Ownership Trust
- Gisborne Laundry Services
- Greytown District Trust Lands Trust
- Literacy Aotearoa
- Māori Education Trust
- New Zealand Sports Foundation Charitable Trust
- Tokelau International Trust Fund
- Unipol Recreation Limited.

Appendix 3

Public entities not audited by the Auditor-General

Under section 5 of the Public Audit Act 2001, the Auditor-General is the auditor of every public entity, which includes any entity controlled by one or more public entities.

Section 5 uses both legal and financial reporting definitions of control. Section 5(2) says that an entity is controlled by one or more other entities if:

- (a) the entity is a subsidiary of any of those other entities; or*
- (b) the other entity or entities together control the entity within the meaning of any relevant approved financial reporting standard; or*
- (c) the other entity or entities can together control directly or indirectly the composition of the board of the entity within the meaning of sections 7 and 8 of the Companies Act (which, for the purposes of this paragraph, are to be read with all necessary modifications).*

Applying paragraph (b) requires us to consider the substance of the relationship between two entities to determine whether one controls another (within the meaning of any relevant approved financial reporting standard).

In a number of instances, entities have disagreed with our conclusion that they are public entities because they are controlled by one or more public entities. The following entities are not currently audited by the Auditor-General because they do not accept that they are public entities.

Canterbury Development Corporation Trust

Christchurch City Council was involved in setting up the Canterbury Development Corporation Trust (the Trust). The purpose of the Trust is generally to improve the well-being of people residing in the Canterbury region.

Canterbury Development Corporation

Canterbury Development Corporation Trust (the Trust) holds all the shares in the Canterbury Development Corporation (the Corporation). The Corporation is therefore a subsidiary of the Trust.

South Auckland Health Foundation

Counties Manukau Health Limited (which became Counties Manukau District Health Board) was involved in setting up the South Auckland Health Foundation (the Foundation). The purpose of the Foundation is mainly to support the provision of healthcare in the Counties Manukau area.

Te Wharekura O Rakaumangamanga Foundation Charitable Trust Board

Te Wharekura O Rakaumangamanga (a public school) set up Te Wharekura O Rakaumangamanga Foundation Charitable Trust Board (the Foundation). The purpose of the Foundation is mainly to promote education for the benefit of the school and its community.

Wellington Girls' Charitable Foundation

Wellington Girls' College (a public school) was involved in setting up Wellington Girls' Charitable Foundation (the Foundation). The purpose of the Foundation is mainly to assist and foster the educational and professional development of students and staff of Wellington Girls' College.

In addition, there are a number of other entities that we have initially assessed as being public entities. However, we are yet to reach a conclusion on these entities. We are working through a process with these other entities to reach a conclusion on whether we consider them to be public entities.

Appendix 4

Approach and method used for our stakeholder feedback interviews and client surveys

Stakeholder feedback interviews

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

Using an independent consultant, we seek feedback from a sample of stakeholders made up of 50% of select committees, a selection of central agencies, and other representative groups. For our 2010 feedback interviews, our consultant interviewed seven representatives of select committees and two representatives of our other stakeholders.

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

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

Client surveys

The Auditor-General uses an independent firm to conduct an annual client satisfaction survey of public entities audited by the Auditor-General. The firm surveys a random sample of public entities to measure the level of satisfaction and identify areas where we need to improve our audit services.

Representatives of a sample of public entities are invited to participate in a telephone interview to provide comment and to rate the following factors on a scale from 1 to 10, with 1 being very low and 10 being very high:

- audit service providers' understanding of public entities and the risks they face;
- audit service providers' core audit ability;
- audit service providers' staff knowledge;
- the way audit service providers' staff work with entities, including governing bodies and audit committees where relevant;
- the value that audit service providers add and the usefulness of the advice given; and
- the overall degree of satisfaction with the service received from audit service providers.

Appendix 5

Senior management

| | |
|---|--------------------------------------|
| Controller and Auditor-General | Kevin Brady (until 22 July 2009) |
| | Lyn Provost (from 5 October 2009) |
| Deputy Controller and Auditor-General | Phillippa Smith |
| OAG Leadership Team | |
| Assistant Auditor-General, Accounting and Auditing Policy | Greg Schollum |
| Assistant Auditor-General, Corporate Services | Peter Grant |
| Assistant Auditor-General, Legal | Nicola White |
| Assistant Auditor-General, Local Government | Bruce Robertson |
| Assistant Auditor-General, Parliamentary Group | Wendy Venter |
| Assistant Auditor-General, Performance Audit Group | Mike Scott |
| Assistant Auditor-General, Research and Development | Ann Webster |
| Audit New Zealand Executive Leadership Team | |
| Executive Director, Audit New Zealand | Stephen Walker |
| General Manager, Operations | Bethia Gibson |
| General Manager, Professional Practices | Chong Lim |

Appendix 6

Directory of offices

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Publications by the Auditor-General

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

- Effectiveness of the Get Checked diabetes programme
- Spending on supplies and services by district health boards: Learning from examples
- New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network
- District health boards: Availability and accessibility of after-hours services
- Matters arising from the 2009-19 long-term council community plans
- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board
- Inland Revenue Department: Managing child support debt
- Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations
- The Civil Aviation Authority's progress with improving certification and surveillance
- Annual Plan 2010/11
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report
- 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

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.

Mailing list for notification of new reports

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

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

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