Controller and Auditor-General
Tumuaki o te Mana Arotake

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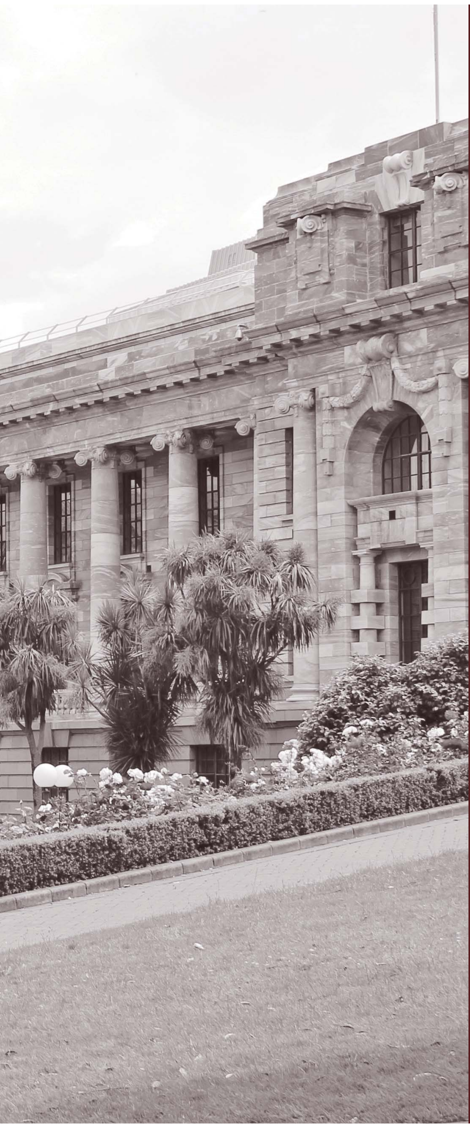
Central government: Results of the 2012/13 audits (Volume 1)



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Central government: Results of the 2012/13 audits (Volume 1)

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

December 2013

ISBN 978-0-478-41050-1 (print)
ISBN 978-0-478-41051-8 (online)

Contents

Auditor-General's overview

This report presents the results of our audit of the Government's 2012/13 financial statements and reports on the results of our review of whether government expenditure was appropriately authorised.

I intend to report in early 2014 on the 2012/13 audit results for central government entities. I will publish separate reports on the results of our audits of the social and health sectors, schools, and State-owned enterprises.

Financial statements of the Government

I issued a standard audit report, which included an unmodified opinion on the financial statements of the Government. This marks a change from the previous two years, when I drew attention to uncertainties resulting from the Canterbury earthquakes. Although some uncertainties remain, I consider that they are now less significant to the Government's financial statements.

My audit considered the accounting treatment of Solid Energy Limited's assets and liabilities, given the company's uncertain financial situation. I am satisfied that Solid Energy's assets and liabilities have been appropriately included in the Government's financial statements. Solid Energy is now expected to continue to be able to operate for the foreseeable future following the finalisation of a capital restructuring agreement subsequent to 30 June 2013, although this agreement has been subject to legal challenge.

The recovery from the Canterbury earthquakes remains a significant focus for central and local government in 2012/13. My Office has published two reports this year looking at aspects of the recovery process and it will remain a focus for me in future years because of the magnitude of the exercise and the level of public expenditure involved. In the context of my audit of the Government's financial statements, I considered the accounting treatment of the Government's share of costs:

- to repair Canterbury infrastructure assets; and
- to repair local roads in Canterbury.

I am satisfied with the treatment in both instances. My staff will continue to focus on developments as they prepare for and carry out our 2013/14 audit.

Another significant consideration in the 2012/13 audit was the accounting for and disclosure of minority interests in certain Crown companies, including Mighty River Power Limited. I am satisfied that the minority interest disclosures appropriately explain the effect of the partial sale of shares in Mighty River Power during the year.

Controller's 2012/13 report

Almost all government expenditure during 2012/13 was authorised by appropriations in the usual way. However, there were 13 instances of expenditure that was not authorised, which amounted to about $49 million in total.

In five instances, expenditure was outside the scope of, or without any, appropriation. This expenditure totalled about $40 million. The Treasury incurred most of this unappropriated expenditure – $30 million – relating to a capital injection for Crown Asset Management Limited.

During the year, I considered a request about whether funding for a deregistered party was being spent within the scope and purpose for which it was appropriated. I confirmed that, for as long as the party was recognised as a party for parliamentary purposes under Standing Orders, there is lawful authority for the party to receive party funding under the relevant legislation.

I continue to encourage departments to pay close attention to whether they have authority before spending.

Lyn Provost
Controller and Auditor-General

2 December 2013

Part 1
Our audit of the Government's 2012/13 financial statements

1.1 In this Part, we report the results of our audit of the Government's 2012/13 financial statements, and discuss the significant and other matters arising from this audit. The significant matters relate to:

- valuation of Solid Energy Limited's assets and liabilities;
- accounting for the ongoing effects of the Canterbury earthquakes; and
- accounting for, and disclosure of, minority interests held in Crown companies.

1.2 The other matters arising from our audit relate to:

- valuation of the state highway network;
- consolidation of results for schools;
- discount rates used to calculate long-term liabilities;
- accounting policies for recognising tax revenue;
- assessing potential impairment of Crown assets;
- accounting for railway network assets;
- accounting for the Government's obligations under the Kyoto Protocol;
- accounting for the Emissions Trading Scheme;
- valuation of electricity generation assets;
- accounting for the Government's Treaty of Waitangi settlement obligations; and
- new accounting standards.

Our audit report

1.3 We issued our audit report on the Government's financial statements on 30 September 2013.

1.4 The audit report appears on pages 26 to 28 of the Government's financial statements. It includes our audit opinion that those statements:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Government's financial position as at 30 June 2013;
  - the results of the Government's operations and cash flows for the year ended 30 June 2013; and
  - the Government's borrowings as at 30 June 2013, and unappropriated expenditure, expenses, or capital expenditure incurred in emergencies, and trust money managed by the Government, for the year ended on that date.

1.5 We issued a standard audit report, which included an unmodified audit opinion on the Government's financial statements for the year ended 30 June 2013.

More certainty three years after the Canterbury earthquakes

1.6 In our 2011 and 2012 audit reports on the Government's financial statements, we drew attention to the uncertainties resulting from the Canterbury earthquakes. For 2013, we have concluded that it is no longer necessary to do this because, although uncertainties remain, they are not as significant to the Government's financial statements this year.

1.7 In particular:

- the Government's costs associated with the Canterbury earthquakes are significantly less at $0.5 billion this financial year, compared with $1.9 billion in 2011/12 and $9.1 billion in 2010/11;
- there was a reduced level of outstanding claims from the Earthquake Commission and Southern Response Earthquake Services as at 30 June 2013 compared with last year;
- there is increased certainty about the total Crown contribution to recovery costs for infrastructure assets in Canterbury; and
- the provision for buying red zone properties has reduced to $222 million compared with $745 million last year.

1.8 The changes made to note 30 in the Government's financial statements also provide better information than in previous years for assessing the uncertainty inherent in the earthquake-related assets and liabilities at 30 June 2013.

Significant matters arising from the 2012/13 audit

Accounting for Solid Energy Limited's assets and liabilities in the company's uncertain financial situation

1.9 We are satisfied that the assets and liabilities of Solid Energy Limited have been appropriately included in the Government's financial statements, on the basis that Solid Energy is expected to continue to operate for the foreseeable future. This means that, where appropriate, Solid Energy's assets have been valued at their value-in-use, rather than their disposal value.

1.10 During 2012, it became apparent that Solid Energy was in financial difficulty. Falling international coal prices coupled with a strengthening dollar resulted in a significant reduction in revenue. As a result, there was a significant writedown in the value of Solid Energy's assets during the year to June 2013.

1.11 Negotiations with Solid Energy's banks started in February 2013 and, in September 2013, a capital restructuring agreement was reached that addresses Solid Energy's current solvency and liquidity. Note 36 in the Government's financial statements sets out details of this agreement. The capital restructure involves:

- restructuring most of Solid Energy's bank debt, including renegotiating covenant requirements;
- exchanging certain portions of bank debt and Medium Term Note facilities for $75 million of Redeemable Preference Shares;
- issuing $25 million of additional Redeemable Preference Shares to the Crown for cash;
- a new flexible working capital secured facility of $50 million to be provided by the Crown;
- a land mortgage secured facility of up to $50 million to be provided by the Crown; and
- a standby facility of up to $30 million in the event that Solid Energy is unable to discharge certain obligations.

1.12 The Government's financial statements note that challenges remain for Solid Energy, because of the scale of restructuring required and the company's inherent exposure to the United States dollar coal price and exchange rate. At the time of signing the Government's financial statements, the capital restructuring had yet to be put into effect and there remained certain risks, including that the agreement might be subject to dispute.

1.13 Although the main terms of the capital restructuring were agreed in September 2013, final settlement and documentation was not completed then. On 22 October 2013, Solid Energy received majority support from bank creditors and note holders for the capital restructuring. This agreement has since been the subject of a legal challenge.

Accounting for the Government's share of costs to repair Canterbury infrastructure assets

1.14 We are satisfied with the provision in the Government's financial statements for the Crown's contribution to the four affected local authorities in relation to response and recovery costs for water infrastructure assets (wastewater, stormwater, and freshwater) and river management. The Crown is obligated to fund up to 60% of those response and recovery costs after a natural disaster.

1.15 Provisioning has increased by $437 million this year, using more up-to-date information from November 2012 and a cost-sharing agreement between Christchurch City Council and the Crown signed on 24 June 2013. At November 2012, assessments had been carried out for about 60% of the infrastructure assets. The cost-sharing agreement sets out the Crown's initial contribution of $1.8 billion for costs associated with all infrastructure assets, including water and local roads. We are satisfied that the information in the agreement has been appropriately taken into account in estimating provisions at 30 June 2013 and that it has been appropriately disclosed.

1.16 The cost-sharing agreement is subject to peer review of costs, which is to be completed by December 2014. What the Crown contributes to infrastructure costs could differ from current estimates as a result of this review. We will monitor the progress of the peer review as part of our 2013/14 audit to consider whether there is any effect on provisions in the Government's 2013/14 financial statements.

Accounting for the Government's share of future costs to repair local roads in Canterbury

1.17 The earthquake costs accounted for in the Government's financial statements to date do not include costs associated with the future repair of local roads in Canterbury. These future costs are excluded because the first call for funding them is from dedicated revenue, including road user charges, fuel excise duties, and registration fees paid to the National Land Transport Fund. Although the Government is committed to repairing local roads in Canterbury, the effect of the Canterbury earthquakes has been to increase the priority of the work in Canterbury rather than to create a further obligation associated with local roads, which might need to be recognised in the Government's financial statements. If the Government's share of those future costs exceeds the amount available from the dedicated revenue, the Government has several options to allocate future revenue to fund these costs.

1.18 The Crown has agreed to pay some of the cost of repairing local roads in Canterbury above the $50 million a year that the New Zealand Transport Agency (NZTA) has agreed to fund from the National Land Transport Fund.

1.19 Considering the Government's funding decisions to date, we are satisfied that it is appropriate not to recognise a liability at 30 June 2013 for the Government's share of future costs to repair local roads in Canterbury.

Accounting for, and disclosure of, minority interests

1.20 We are satisfied that the Government's financial statements appropriately reflect and explain the effect of the partial sale of shares in Mighty River Power. The share of the Crown's net worth attributable to minority interests has increased significantly following the partial sale of Mighty River Power in May 2013.

1.21 We understand that the Treasury needs to use appropriate fiscal indicators, while ensuring that the Government's financial statements comply with generally accepted accounting practice. However, we have some concerns about certain aspects of the disclosure of minority interests in the Government's financial statements, including the presentation in the Statement of Financial Performance, which we plan to discuss with the Treasury in the context of the 2013/14 audit. We also noted some minor errors in the calculations that the Treasury did not have time to correct.

1.22 We have recommended that the Treasury review the disclosure of minority interests in the Government's 2014 financial statements. We also recommended that the Treasury ensure that the minor calculation errors are corrected in 2013/14 to reflect the Government's indirect shareholdings held by the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund.

Other matters from the audit

Valuation of the state highway network

1.23 We are satisfied that the valuation of the state highway network uses the best information available to NZTA at the time of the valuation. However, we note that "brownfield" costs, such as the cost of traffic management, are not fully accounted for as part of the valuation. We also note that the quality of some of the underlying data used in the valuation is uncertain.

1.24 In 2010, we recommended that NZTA review the reasonableness and validity of the assumptions used to value state highways and that brownfield costs be incorporated into the valuation. Unfortunately, NZTA's work to date has not provided reliable enough information to adjust the state highway valuation for brownfield costs.

1.25 The valuation of the state highway network is based on valuing each of the various components (such as land, formation, and bridges) and adding these together. As in previous years, it is uncertain whether the underlying data include the right quantity of some components, account for all the costs of some components, and record an accurate estimate of the useful life of some components.

1.26 The disclosures in note 20 in the Government's financial statements about uncertainty in valuation of the state highway network have been improved this year.

1.27 We understand that NZTA plans to improve the accuracy of the asset data and to identify other costs that should be included in future valuations. NZTA's plan includes completing a stocktake of all state highway assets during the next three years to 30 June 2016. This work will help to improve future valuations.

1.28 We will continue to monitor NZTA's work as part of our audit to ensure that, as better information becomes available, it is used in future valuations of the state highway network.

Consolidation of results for schools

1.29 We are satisfied that the Government's financial statements fairly reflect the financial results for schools.

1.30 We note that delays in completing audits of schools because of problems with the Novopay school payroll system affected the completeness of information for the schools' consolidation. In the end, the information included in the schools' consolidation incorporated the actual 2012 results for 80% of schools, with the other 20% being estimated based on 2011 results. (In 2011/12, the actual results for 97% of schools had been used.)

1.31 We estimated the effect of any potential errors in the schools' consolidation and determined that they would not be material to the Government's financial statements.

1.32 Our audit identified several problems with the initial consolidation of schools' results. This meant a second consolidation had to be prepared and audited close to the statutory deadline for the Government's financial statements.

1.33 We question whether the Ministry of Education fully appreciates the effect that errors in the consolidation process can have on the Treasury's processes in relation to the Government's financial statements.

1.34 We have recommended that the Treasury work with the Ministry of Education to ensure that the school consolidation process is robust and timely.

Discount rates for long-term liabilities

1.35 We are satisfied with the discount rates and consumer price index (CPI) assumptions used to value the significant long-term liabilities of the Government.

1.36 We reviewed the Treasury's table of risk-free discount rates and CPI assumptions as at 30 June 2013 and concluded that the Treasury had worked out the rates and assumptions in keeping with the *Methodology for Risk-free Discount Rates and CPI Assumptions for Accounting Valuation Purposes* and that they were appropriate for the Government to use.

1.37 Because of market conditions and other factors, the Treasury reduced the long-term interest rate from 6% to 5.5% but retained the long-term CPI inflation rate at 2.5%. However, the offsetting effect of the increase in short and mid-term interest rates as at 30 June 2013 outweighed the effect of the reduction in the long-term rate. This resulted in a combined actuarial discount rate gain of $1.7 billion (compared with a $7.9 billion loss in 2012) for the Government's two significant long-term liabilities – the ACC insurance obligations and the retirement obligations for members of the Government Superannuation Fund.

1.38 We followed up our observations from our reviews in previous years and were satisfied with the outcome. We will continue to monitor these observations next year because they might become subject to future technical developments or different market conditions.

Review of accounting policies for tax revenue recognition

1.39 In previous years, we have recommended that a thorough review of taxation revenue recognition policies be carried out with a view to finetuning the recognition of taxation revenue, where appropriate. This is an important project because of the complexities involved and the potential effect on the way the Government recognises tax revenue.

1.40 Inland Revenue completed a review of the PAYE and GST components in 2012, and the revised estimation approaches for PAYE and GST were used in the Government's 2011/12 financial statements.

1.41 During the year, Inland Revenue completed a review of the income tax component and has proposed to amend its revenue recognition policy. Inland Revenue proposes to recognise income tax based on taxpayer balance dates and provisional tax assessments, rather than payment due dates. This proposed change affects mainly how tax revenue is recognised during the year, rather than at the end of the financial year. We understand that Inland Revenue will introduce this change from 1 July 2015.

Impairment assessments

1.42 For most assets, public entities are required to assess every year whether there are indicators that the asset may be impaired and, if there are such indicators, to carry out an impairment test. For other assets, like goodwill, an impairment test is required to be carried out every year, regardless of any specific indication of impairment. An impairment loss must be recognised if the recoverable amount of an asset (the higher of value-in-use and fair value less costs to sell) is less than the carrying amount.

1.43 We reviewed, and were satisfied with, the work carried out by the Treasury and other public entities to consider the assessments of recoverable amount for significant assets and goodwill, including:

- the Government's student loan portfolio;
- goodwill arising from the acquisition of Air New Zealand; and
- goodwill relating to the New Zealand Post Group's acquisitions during 2011/12.

Accounting for railway network assets not required for freight services

1.44 We are satisfied with the valuation and disclosure of railway network assets not required for freight services (including rail infrastructure assets used for metro passenger services).

1.45 The Government's financial statements and KiwiRail Holdings Limited's financial statements account for the "non-freight" portion of the network differently. KiwiRail accounts for this part of the network purely commercially because that is consistent with the Government's expectations of the company (to generate a commercial return from the use of the rail network). In the Government's financial statements, the portion of the network not necessary to run freight services is accounted for based on the service potential that those assets provide rather than the net cash flows that they could generate. This is because, despite the Government's expectations of KiwiRail, the primary purpose for the non-freight portion of the network at a whole-of-government level is a public benefit, such as reduced congestion on roads and reduced travel times, rather than the Government generating a commercial return from those assets.

1.46 The different accounting treatment of the non-freight portion of the network has resulted in this portion being valued $0.6 billion higher in the Government's financial statements than in KiwiRail's financial statements.

1.47 Last year, we identified a need to obtain better information to enable a more effective allocation of the rail network between those assets required for freight services and those not required for freight services. We are satisfied that our concerns about the allocation have been addressed this year.

Obligations under the Kyoto Protocol

1.48 We are satisfied that the Crown's asset in relation to the Kyoto Protocol has been recognised in keeping with accounting standards. However, there is some uncertainty about the asset because forecast surplus emission units and carbon prices can fluctuate.

1.49 Under the Kyoto Protocol, New Zealand is committed to reducing average net emissions of greenhouse gases during 2008–2012 (the first commitment period) to 1990 levels or to take responsibility for the difference.

1.50 The best estimate of New Zealand's position under the Kyoto Protocol at 30 June 2013 is a net asset of $53 million (based on 64.0 million forecast surplus tonnes of emission units at a carbon price for Kyoto units of $0.82 per unit). By comparison, in 2012, the net asset was $202 million (based on 35.4 million forecast surplus tonnes of emission units at a carbon price of $5.70 per unit).

1.51 Although the number of surplus tonnes of emission units has increased by 28.6 million, the value of the Kyoto asset has decreased because of the significant fall in the carbon price.

1.52 In the transition period 2013 to 2020, countries have the option of signing up to a second commitment period under the Kyoto Protocol or taking pledges under the Convention Framework. In November 2012, the Government announced that New Zealand would take its next commitment under the Convention Framework. In August 2013, the Government announced a commitment to reduce New Zealand's greenhouse gas emissions to 5% below 1990 levels by 2020.

1.53 The Government's financial statements do not recognise a liability for periods beyond 2012 because there are no clear fiscal consequences of deviating from an emissions reduction target under the Convention Framework.

1.54 It remains uncertain whether international agreements will come into effect. This creates uncertainty about the future use and value of any surplus emission units held. We have accepted that the market takes this uncertainty into account in working out a price for emission units, and this is reflected in the net asset position at the end of the year.

Accounting for the Emissions Trading Scheme

1.55 We are satisfied with the accounting treatment and disclosures for the Emissions Trading Scheme in the Government's financial statements.

1.56 The Scheme was set up to encourage a reduction in New Zealand's greenhouse gas emissions. The scheme operates in the forestry, stationary energy, industrial processes, and liquid fossil fuels sectors. Two new sectors – waste and synthetic gases – entered the Scheme during the year.

1.57 The provision of $179 million as at 30 June 2013 has decreased by $196 million from last year, largely because of the significant fall in the carbon price for New Zealand units to $1.80 (from a high of $5.73). The price decrease was offset to some extent by an increase in the number of New Zealand units.

1.58 The valuation methodology for pricing New Zealand units will need to be kept under review, particularly if decisions are made to auction New Zealand units or to change the eligibility of international units into the Scheme.

Valuation of electricity generation assets

1.59 Additional disclosures in this year's financial statements show sensitivity effects in the valuation of electricity generation assets.

1.60 We will continue to work with the Treasury to improve the disclosure in the Government's 2013/14 financial statements. We would like to see greater consistency in the information provided by entities and consideration given to additional disclosure of the sensitivity of electricity generation volume and future operating expenditure.

Accounting for the Government's Treaty settlement obligations

1.61 We are satisfied that the Crown's obligations as a result of relativity clauses in two previous Treaty of Waitangi settlements have been appropriately accounted for and disclosed in the Government's financial statements. That includes disclosure of an unquantifiable contingent liability for payments that may be required under the relativity clauses.

1.62 The deeds of settlement negotiated with Waikato-Tainui and Ngai Tahu included relativity clauses. Those clauses mean the Crown is liable to make payments to maintain the proportion of Waikato-Tainui's and Ngai Tahu's settlements at 17% and 16.1% respectively of all Treaty settlements.

1.63 In October 2012, the Government said that the relativity mechanism had been triggered. Later, Waikato-Tainui and Ngai Tahu made claims under the relativity mechanism and received an initial payment.

1.64 We will continue to talk with the Ministry of Justice and the Treasury about the Crown's obligations as a result of relativity clauses in two previous Treaty of Waitangi settlements.

New accounting standards

1.65 The External Reporting Board is putting into effect a new financial reporting framework that will result in new standards and requirements for all public benefit entities in the public sector. The new public benefit entity standards were issued in May 2013 and apply for reporting periods beginning on or after 1 July 2014.

1.66 The new public benefit entity standards are not expected to result in much change to the Government's financial statements.

1.67 However, impending changes to the financial reporting framework and the new public sector public benefit accounting standards mean that the Treasury needs to consider whether any changes are required to the Government's accounting policies, disclosures, and data collection systems.

1.68 The Government's financial statements will adopt these new standards for the year ending 30 June 2015. This requires preparing an opening position as at 1 July 2013 and comparative financial information for the year ending 30 June 2014 that complies with the new standards. The Government's 2014/15 forecast financial statements and interim financial statements prepared during the 2014/15 period will need to comply with the new standards.

1.69 The Treasury has a project plan and team to help plan for the transition. It is important that the Treasury address the main matters arising from the transition for the Government's financial statements in a timely way. We will continue to talk with the Treasury about its plans for the transition to the new standards and our audit expectations.

1.70 Several changes to the accounting standards apply to for-profit entities in the public sector and will affect 30 June 2014 financial statements. The Government's financial statements include some for-profit entities, such as State-owned enterprises. We will talk with the Treasury about plans to ensure that adjustments are made for any material differences between the standards that apply to for-profit entities and the Government's accounting policies.

Part 2
The Controller function and the appropriation audit

2.1 The Controller function and appropriation audit are important aspects of the Auditor-General's work. They support the fundamental principle of Parliamentary control over government expenditure.

2.2 In this Part, we discuss the amount of unauthorised expenditure in 2012/13, and the changes to the public accountability regime that will affect the controller function and appropriation audit in the future.

The system of appropriation

2.3 The Public Finance Act 1989 (the Act) defines the system of appropriation, which is the main way that Parliament authorises the Executive to use public resources. Under this system, expenses and capital expenditure should be incurred only within an appropriation or other statutory authority. The net assets of government departments should not exceed the limits set in the relevant Appropriation Act.

2.4 The Controller function is a way of checking that the Government is operating within the financial authorities that Parliament has approved.

2.5 Audit work carried out on appropriations supports the formal operation of the Controller function. Section 15(2) of the Public Audit Act 2001 explicitly recognises this audit work as part of the basic work of the Auditor-General.

2.6 Our appointed auditors must carry out an appropriation audit in conjunction with the annual audit of each government department, to confirm that:

- expenses and capital expenditure have been incurred within the amount, scope, and period of an appropriation or other statutory authority;
- expenses have been incurred for lawful purposes; and
- any unappropriated expenditure is reported in the Government's financial statements and submitted to Parliament for validation in an Appropriation (Financial Review) Bill.

2.7 The Treasury provides useful guidance on the system of appropriations (see www.treasury.govt.nz). This guidance includes:

- *Guide to the Public Finance Act*;
- *Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System*;
- *Treasury Circular 2006/04: Unappropriated Expenditure – Avoiding Unintended Breaches*;

- *Treasury Circular 2011/10: Guidance for the Operation of Departmental Memorandum Accounts*; and
- *Treasury Instructions*.

2.8 Appropriations authorised almost all government expenditure during 2012/13 in the usual way.

Unappropriated expenditure in 2012/13

2.9 The Statement of Unappropriated Expenditure on pages 165-167 of the Financial Statements of the Government reports all expenses and capital expenditure that were incurred without, in excess of, or outside the scope of, existing appropriations.

2.10 There were four uses of section 26B of the Act, which enables the Minister of Finance to approve expenses that exceed an appropriation in the last three months of the financial year, if those additional expenses are within the scope of the appropriation and do not exceed the greater of $10,000 or 2% of the total appropriation. The additional expenditure approved in this way was $1.8 million.

2.11 In two instances, the Government used Imprest Supply to approve expenditure, with the decision too late in the year to be incorporated into Supplementary Estimates. This expenditure needs to be validated in the Appropriation (2012/13 Financial Review) Act. The larger of the two instances involved Land Information New Zealand, which incurred $25 million of unappropriated expenditure relating to proceeds from the sale of Transit New Zealand properties. NZTA administers these properties.

Unauthorised expenditure

2.12 In 2012/13, 13 instances of expenditure were not authorised by an appropriation or any other approval process. The total of this expenditure was about $49 million.

2.13 In eight of these instances, there was an appropriation authorising that type of expenditure, but the Government spent more than was authorised. For these eight instances, the total expenditure in excess of authority was slightly more than $9 million.

2.14 The other five instances involved expenditure that was outside the scope of, or without any, appropriation. The total expenditure in these instances was about $40 million. The Treasury incurred most of this unappropriated expenditure – $30 million – relating to a capital injection for Crown Asset Management Limited.

2.15 Expenditure in excess of or outside appropriation, and therefore without any parliamentary authority, is a small proportion of overall government spending.

2.16 We continue to encourage government departments to pay closer attention to ensuring that they have authority before incurring any expenditure. Departments should seek the necessary authority and approval as soon as they become aware that they have incurred unappropriated expenditure.

Consideration of matters relating to the authorisation of party funding

2.17 We considered one significant issue under the Controller function towards the end of the financial year. In June 2013, Hon Trevor Mallard asked the Controller and Auditor-General to confirm whether funding provided to Hon Peter Dunne's office was being spent within the scope and purpose for which it was appropriated. This request followed the de-registration of the United Future party by the Electoral Commission.

2.18 In a response published on 25 June 2013, the Controller and Auditor-General confirmed that there was lawful authority for the party to receive party funding under the relevant legislation, for as long as it was recognised as a party for parliamentary purposes under Standing Orders. Its funding entitlements would change if the Speaker ceased to recognise United Future as a party for parliamentary purposes.

2.19 Funding entitlements are administered by the Parliamentary Service under the Parliamentary Service Act 2000.

2.20 In considering Mr Mallard's request, the Controller and Auditor-General took into account the relevant appropriation, the Parliamentary Service Act 2000, the "Directions by the Speaker of the House of Representatives 2011", and the Speaker's ruling on 6 June 2013 that the United Future party is for the time being recognised under the Standing Orders of the House.

2.21 Later on 25 June 2013, the Speaker announced that he would no longer recognise United Future as a party for parliamentary purposes. Its funding changed accordingly. When the Electoral Commission registered the party again in August 2013, its parliamentary status and funding were also returned.

Net asset holdings

2.22 The Act sets a limit on the net assets that government departments may hold. Section 22(3) states:

> *The amount of net asset holding in a department must not exceed the most recent projected balance of net assets for that department at the end of the financial year, as set out in an Appropriation Act in accordance with section 23(1)(c).*

2.23 Net asset holdings in excess of a department's net asset authority are treated as breaches of appropriation. These breaches are listed on page 167 of the Financial Statements of the Government for the year ended 30 June 2013.

2.24 One department breached its net asset authority during 2012/13. This breach (by $742,000) was without the authority of an Imprest Supply Act.

Changes to the public accountability regime

2.25 Changes to the Public Finance Act 1989 and the Crown Entities Act 2004 were passed this year. Information about the amendments can be found on the Treasury's website. We will be monitoring and reporting on how public entities give effect to the legislation. Most of the changes to the use of appropriations and requirements for reporting against appropriations will not be evident until 2014/15.

Publications by the Auditor-General

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

- Summary: Inquiry into the Mangawhai community wastewater scheme
- Inquiry into the Mangawhai community wastewater scheme
- Regional services planning in the health sector
- Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch
- Earthquake Commission: Managing the Canterbury Home Repair Programme
- Using the United Nations' Madrid indicators to better understand our ageing population
- Annual Report 2012/13
- Using development contributions and financial contributions to fund local authorities' growth-related assets
- Commentary on *Affording Our Future: Statement on New Zealand's Long-term Fiscal Position*
- Annual Plan 2013/14
- Learning from public entities' use of social media
- Inquiry into Mayor Aldo Miccio's management of his role as mayor and his private business interests
- Managing public assets
- Insuring public assets
- Evolving approach to combating child obesity
- Public sector financial sustainability
- Education for Māori: Implementing *Ka Hikitia – Managing for Success*

Website

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

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