Controller and Auditor-General
Tumuaki o te Mana Arotake

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Central government: Results of the 2013/14 audits

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Auditor-General's overview

This report sets out the results of my audit of the *Financial Statements of the Government of New Zealand for the year ended 30 June 2014* (the Government's financial statements) and of carrying out the Controller function. Both are essential components of New Zealand's public financial management system.

I am pleased to report that I have issued an unmodified audit opinion on the Government's financial statements. The financial statements provide an aggregate and high-level record of the Government's financial performance and position. Put simply, they give an account of what the New Zealand Government earns, spends, owns, and owes.

My role is to provide assurance to Parliament that the way the Treasury has reported in the Government's financial statements fairly reflects the Government's financial performance and position. The Controller work complements that. As the Controller, I check that government departments do not spend more money than Parliament has approved and that they have spent money for its intended purposes.

These are not trivial matters. Establishing that the Government's books are trustworthy is fundamental to public accountability, as is the principle that the Government spends only what Parliament has approved.

The Government's financial statements do not exist in isolation. This report draws on the many individual audits of central government organisations. Many specific issues covered in individual audits are not significant enough to feature in this report.

Some of issues that I highlight in this report are of interest not only from a financial reporting perspective. They indicate the complexity of issues that concern a large number of New Zealanders – assessing the cost of the Canterbury rebuild is a prime example.

Rebuilding Canterbury

Since 2011, my reports on the audits of the Government's financial statements have identified significant uncertainties with the estimated costs of the Canterbury rebuild. My reports have given reassurance that the Treasury has reasonably estimated the total cost and potential liabilities. However, significant uncertainties still remain.

In other reports, we have discussed specific aspects of the Canterbury rebuild, including how effectively the repair of infrastructure and homes has been managed. I plan to maintain that focus. This year, my Office is carrying out work on the overall governance and management of publicly funded community projects that are part of the recovery work in Christchurch.

Solid Energy New Zealand Limited

The other significant matter arising from my audit of the Government's financial statements was the consideration of the effect of Solid Energy's financial performance. New Zealand's State-owned enterprises generate significant revenue and are responsible for managing major assets and infrastructure. It is important that their assets and liabilities are appropriately included in the Government's financial statements.

Accounting for assets

The accounting treatment for assets is another example of how financial reporting is relevant to the effective operation of the public sector. In Part 2, we discuss the revaluation of the state highway network and the accounting treatment of public private partnership assets. As the Government progresses public private partnerships in the transport and justice sectors, I expect financial reporting practice around assets to evolve. How we account for assets can affect decisions about investment and maintenance, which in turn influence the services our assets can deliver to New Zealanders over time.

Further improving our financial management system

This report gives New Zealanders, at a high level, assurance that our financial management system is robust, that reporting can be trusted, and that the Government complies with the parameters for spending set by Parliament.

These are important foundations that need to be in place if we want to make our financial management system even more effective. In my 2012 report, *Reviewing financial management in central government*, I discussed the importance of financial management for dealing with future challenges. These challenges include the possibility of more shocks, the ageing population, increasing diversity, inequality, and pressures on our natural resources.

It is vital that New Zealand's financial management is strategic, supports effective planning, and helps the public sector to maximise the value it gets from its income and assets.

I would still like to see a reduction in expenditure not authorised by Parliament. I accept that most of the unauthorised expenditure in 2013/14 was connected to uncertainties arising from the Canterbury rebuild. The amount of unauthorised expenditure in 2013/14 accounted for only 0.26% of the total funding approved through the 2013 Budget – but I consider that, with good processes and the right approach to planning, government departments can still do better.

There were few instances of unauthorised expenditure, and we could detect them and impress on departments the need to improve. These are signs of a public finance system that is in good health.

With strong foundations in place, the public sector should aspire to improve the value provided by good planning, management, and reporting on the implementation of the Government's priorities.

The proposed theme for my 2015/16 work programme, *Investment and asset management*, is how my Office can contribute, as we explore how the public sector plans for, funds, manages, and maintains infrastructure and other assets to optimise services for New Zealanders.

In the meantime, I am pleased to highlight the main matters arising from my annual audit of the Government's financial statements and from carrying out the Controller function.

Lyn Provost
Controller and Auditor-General

3 December 2014

1 The operating environment for central government

1.1 This Part briefly describes the operating environment for central government agencies in 2013/14 to provide some context for this report – in particular, for our audit of the financial statements of the Government of New Zealand (the Government's financial statements).[1]

1.2 Overall, 2013/14 was marked by the continuity of the Government's high-level priorities. This includes a continued focus on responsible financial management and better public sector performance, including the continued drive for greater effectiveness and efficiency. However, some of the governance and institutional arrangements changed in 2013/14. These changes were designed to help the public sector operate more effectively.

Why is the operating environment important for an audit of the Government's financial statements?

1.3 The Government's financial statements represent a consolidation of all the many and varied organisations associated with central government – including government departments, State-owned enterprises, Crown entities (including schools, Crown research institutes, and district health boards), mixed ownership model companies, Offices of Parliament, Fish and Game Councils, the New Zealand Superannuation Fund, and the Reserve Bank of New Zealand.

1.4 We conduct an annual audit of each of these organisations. These individual audits then inform our work on the Government's financial statements. To make sure we are aware of significant issues and transactions for the Government's financial statements, we rank organisations into risk categories according to their size, their nature, and the sensitivity of their transactions. When we audit the Government's financial statements, we make sure that we have an audit return from the auditor of each organisation that we judged as significant.

1.5 Our annual audits of public sector organisations do not operate in a vacuum. They take into account the context for the organisation. The Government's priorities and expectations influence how organisations operate. In turn, this affects how we select and examine particular issues and risks as part of our annual audit work. This is why the operating environment matters.

Budget 2013: Setting the scene for 2013/14

1.6 Each year, the Budget sets clear parameters for the operations of public sector organisations. The Budget outlines the Government's spending intentions, what agencies are expected to deliver, and what funding they will have. This is the backdrop for our audit of the Government's financial statements, bearing in mind that the financial statements outline what the Government in a given financial

1 The audited financial statements of the Government are published by the Treasury each year – see *Financial Statements of the Government of New Zealand for the year ended 30 June 2014.*

year has earned, from what sources (such as taxes), what it has spent and on what (such as health services, schools, infrastructure), and changes to what it owns (assets) and owes (liabilities).

1.7 For 2013/14, the 2013 Budget reconfirmed the four priorities the Government had set for its term:

- responsibly managing the Government's finances;
- building a more productive and competitive economy;
- delivering better public services within tight financial constraints; and
- supporting the rebuilding of Christchurch.

Financial management

1.8 The Government's first priority is particularly relevant in the context of the Government's financial statements. The Government has set a target of returning to surplus in 2014/15, measured by the total Crown operating balance before gains and losses.

1.9 The Government's financial statements provide a comparison with the financial forecasts in the Economic and Fiscal Updates and with the financial statements of the previous year. The financial statements present a snapshot of the progress the Government has made in implementing its financial strategy. This allows Parliament to consider and debate the Government's financial performance and direction.

1.10 Set in that context, knowing that the Government's financial statements fairly reflect the Government's financial performance and position is a key enabler for a functioning system of public accountability. My audit report, described in Part 2 provides this assurance.

Better Public Services

1.11 The Government has reaffirmed its commitment to the Better Public Services programme (BPS) and its 10 specific targets that agencies are expected to deliver by 2017. The Government expects the public sector to improve service delivery and transform the way it operates. Major components include:

- a focus on results;
- people-centred service design and delivery;
- effective spending and delivering efficiencies; and
- building capability to deliver services in the best way.

1.12 The approach to BPS includes strong guidance and oversight from the "Centre". The State Services Commission (SSC), the Treasury, and the Department of the Prime Minister and Cabinet have assumed the role of working together as a "Corporate Centre". This "Centre" is responsible for providing strong and co-ordinated leadership to oversee and improve state sector performance. The SSC's Performance Improvement Framework (PIF) programme continued to be used to analyse performance challenges at an agency and system level. A State Sector Reform Leadership Group was also set up to help progress system reform.

1.13 The "Centre" has also implemented functional leadership for procurement, information and communications technology (ICT), and property management. The objective of functional leadership is to improve the effectiveness of common business functions and reduce their overall costs. For example, the Government Chief Information Officer exercises ICT functional leadership, and the *Government ICT Strategy and Action Plan to 2017* sets out a programme of actions to help transform service delivery and co-ordinate ICT investment.

1.14 Under BPS, agencies are expected to achieve greater effectiveness and efficiency in delivering public services. As part of its work, the SSC monitors the size of the public sector. A cap of 36,475 full-time equivalent core government administration positions remained in place in 2013/14.

1.15 Our audit of the Government's financial statements is focused on financial reporting. It does not provide insights into the effectiveness and efficiency of service delivery. We cover these aspects of public sector performance through agency or sector-specific pieces of work. For example, under our *Service delivery* theme, we have looked into how the Accident Compensation Corporation and the Ministry of Social Development manage complaints and cases. We have also looked at the set-up of Central Agencies Shared Services. We will publish more reports on this theme during the next few months.

Rebuilding Christchurch

1.16 The priority of rebuilding Christchurch also provides important context for the Government's financial statements. In its August *Pre-Election Economic and Fiscal Update 2014*, the Treasury estimated the total cost to the Crown would amount to $15.8 billion, with some costs falling outside the 2018 forecast period. More than $12 billion of the estimated costs are classed as operating expenditure. Under the Earthquake Commission Act, if the assets of the Earthquake Commission are not sufficient to meet its liabilities, the Crown is responsible for funding the deficiency by way of a grant or advance.

1.17 Reflecting the gravity of the event for the whole of New Zealand, it is important that the Government's financial statements appropriately account for the costs incurred to date and any liabilities related to the Canterbury earthquakes. Since 2011, we have discussed the significance of uncertainties arising from the Canterbury earthquakes in our audit reports on the Government's financial statements. This year is no different. This report covers in some detail significant matters related to the Canterbury earthquakes, and associated accounting issues, in paragraphs 2.11-2.25.

Changes to institutional and governance settings

1.18 In 2013, the Government made significant institutional changes to the state services. Amendments were made to the Public Finance Act 1989 (PFA), the State Sector Act 1988, and the Crown Entities Act 2004. The changes are closely related to the BPS agenda. They are intended to encourage greater collaboration between agencies. They are also intended to improve leadership throughout the system, at the sector level and at the agency level. In addition, the changes are designed to emphasise stewardship responsibilities. For example, sections 34, 35, and 45C of the PFA now specify in some detail the matters for which a chief executive must take formal responsibility.

1.19 The amendments to the PFA change aspects of the appropriation system. They also change the way in which departments can present information about their financial and service performance. Most of the changes take effect in 2014/15. However, in 2013/14, some big central government departments took up the option of putting in place Multi-Category Appropriations. These are designed to give departments greater flexibility in how they allocate resources between related categories of spending and to support a focus on a common purpose. New arrangements for the administration and use of appropriations between different departments have the same purpose of enhancing flexibility of resource use.

1.20 Reforms to public finance and state sector legislation have implications for governance roles and accountability within the core public sector. Because the Government's financial statements report on the aggregate financial position and flows, we do not expect these institutional changes to affect the Government's financial statements. However, we expect to see an effect on individual agencies and sectors.

1.21 We will monitor departments' use of the new arrangements and whether they comply with public finance requirements as part of our Controller work. Our annual audits will allow us to observe reporting changes and how agencies operating in a sector report on their collective performance. We expect to report on these matters as part of our 2014/15 work on governance and accountability.

2 Our audit of the Government's 2013/14 financial statements

2.1 In this Part, we report the results of our audit of the Government's financial statements for 2013/14, and discuss the significant and other matters arising from this audit. The significant matters relate to:

- valuation of Solid Energy New Zealand Limited's assets and liabilities; and
- continuing uncertainties due to the Canterbury earthquakes, and associated accounting issues.

2.2 The other matters arising from our audit relate to:

- accounting for, and disclosure of, minority interests held in Crown companies;
- discount rates for long-term liabilities;
- valuation of the state highway network;
- the review of accounting policies for recognising tax revenue;
- assessing potential impairment of Crown assets;
- valuation of electricity generation assets;
- accounting for KiwiRail Holdings Limited;
- accounting for the Government's Treaty of Waitangi settlement obligations;
- accounting for public private partnerships; and
- the effect of new accounting standards.

Our audit report

2.3 We issued our audit report on the Government's financial statements on 30 September 2014.

2.4 The audit report appears on pages 24 to 26 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 2014;
  - the results of the Government's operations and cash flows for the year ended 30 June 2014; and
  - the Government's borrowings as at 30 June 2014, and unappropriated expenditure, expenses, or capital expenditure incurred in emergencies, and trust monies managed by the Government, for the year ended on that date.

2.5 We issued a standard audit report, which included an unmodified audit opinion on the Government's financial statements for the year ended 30 June 2014.

Significant matters arising from the audit

Valuation of Solid Energy's assets and liabilities

2.6 We are satisfied that Solid Energy New Zealand Limited's assets and liabilities 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 based on their value-in-use rather than their disposal value.

2.7 During 2012, it became apparent that Solid Energy was in some financial difficulty. Falling international coal prices, coupled with a strengthening New Zealand dollar, resulted in a significant reduction in revenue. As a result, there was a significant write-down in the value of Solid Energy's assets during the year to June 2013. There have been further significant write-downs in the value of Solid Energy's assets during the year to June 2014 as a result of lower coal prices and higher exchange rates than previously forecast.

2.8 The signing of a Deed of Indemnity and Bond Facility agreement with the Crown after 30 June 2014 enabled the Directors of Solid Energy to continue to assert that the company is a going concern.

2.9 The Deed creates an asset for Solid Energy and a liability for the Crown, recognised on signing, of $103 million. Under this Deed, the Crown will reimburse the mining rehabilitation expenses of Solid Energy for post-1987 mining activities. This transaction strengthens Solid Energy's balance sheet, but does not directly affect the Government's financial statements because the transaction is between entities within the Government reporting entity.

2.10 The Crown had previously indemnified Solid Energy for rehabilitation expenses arising from coal mining operations carried out by State Coal Mines before 1 April 1987.

Continuing uncertainties due to the Canterbury earthquakes, and associated accounting issues

2.11 We are satisfied that the effects of the Canterbury earthquakes have been appropriately accounted for in the Government's financial statements.

2.12 However, significant uncertainties remain in the valuation of liabilities and associated insurance recoveries.[2] The uncertainties can be broadly categorised as follows:

- Uncertainties relating to estimating the earthquake-related outstanding claims liabilities and reinsurance receivables for the two insurance entities (the Earthquake Commission and Southern Response Earthquake Services Limited).

2 As explained in note 30 of the Government's financial statements.

The key sources of these uncertainties are:
- severe land damage and a complex land claims environment from both an engineering and legal perspective (this land aspect affects only the Earthquake Commission);
- the effect of multiple events on the Earthquake Commission's coverage and reinsurance coverage (with consequential effects on insurers, such as Southern Response); and
- estimations of the time to repair/rebuild and building cost inflation.

For the Earthquake Commission, the volatility of these claims is partially mitigated by the maximum settlement amounts for dwellings ($100,000) and contents ($20,000). However, the Earthquake Commission's claims in relation to residential land are not subject to a monetary limit and are subject to greater volatility.

- Uncertainties relating to the Crown's obligations to provide a support package to local authorities for repairing damaged infrastructure.
- Uncertainties relating to the red zone, in particular the insurance receivables assumed by the Crown as part of the Crown's offer to acquire property in the red zone.

2.13 The Crown's obligations relating to the above at 30 June 2014 total $6.4 billion, which represents about 4% of the Crown's total liabilities. This level of provisioning means these earthquake-related amounts are considerably less material to the whole-of-government position than they are to the individual entities that manage the liabilities.

2.14 There also continues to be uncertainty about measuring the Crown's obligation to fund a portion of the cost of damage to local authority infrastructure.

2.15 After the Canterbury earthquakes of 2010 and 2011, under the Civil Defence Emergency Management Plan and Guide (the CDEM Plan and Guide), the Government had an obligation to provide financial support for response and recovery costs. This included 60% of the repair (recovery) cost for water infrastructure assets (water, storm water and wastewater) owned by local authorities. In May 2011, a permanent legislative authority was put in place to replace the obligation under the CDEM Plan and Guide. This committed the Crown to funding 60% of the water infrastructure costs for Christchurch City Council, Waimakariri District Council, Selwyn District Council, and Environment Canterbury.

2.16 After this, the Crown entered into cost-sharing agreements with Christchurch City Council on 26 June 2013 and Waimakariri District Council on 2 December

2013. The purpose of the cost-sharing agreements was to establish a total value to which the Crown can commit, so the previous permanent legislative authority was able to be removed.

2.17 The most significant is the Christchurch City Council agreement and the Crown's associated obligation. A total value of $1.8 billion was agreed as the total Crown obligation. This obligation includes not only the obligation of the Canterbury Earthquake Recovery Authority (CERA) for the recovery of horizontal infrastructure (water infrastructure assets), but also the initial response costs under the CDEM Plan and Guide (which have been settled with the Department of Internal Affairs) and the repair costs for roading to be funded by the New Zealand Transport Agency.

2.18 The $1.8 billion is based on estimates from Christchurch City Council's three-year plan. The amount is subject to review, and could change after December 2014.

Treatment of roading costs from the Canterbury earthquakes

2.19 In accounting terms, repairs to local roads are recognised in the year of repair. Unlike the estimated costs to repair the water infrastructure assets, there is no provision in the Government's financial statements for costs associated with the future repair of local roads. Future roading costs will be met through road user charges, fuel excise duties, and registration fees paid in the future to the National Land Transport Fund.

2.20 Although the Government is committed to repairing local roads in Canterbury, the Canterbury earthquakes have increased the priority of the roading work in the Canterbury region, rather than created an additional liability to be recognised in the Government's financial statements. The broader context is that the Government has an ongoing programme of funding the repair and development of local roads throughout New Zealand.

2.21 If the Government's share of the costs associated with the future repair of local roads exceeds the amount available from the usual roading revenue sources, then the Government can allocate more revenue. The Crown has agreed to meet its share of the cost of the Christchurch roading recovery if that cost exceeds the $50 million each year that the New Zealand Transport Agency has agreed to fund from the National Land Transport Fund.

2.22 The main development in 2013/14 was that the New Zealand Transport Agency entered into a loan agreement with the Government to fund the Agency's contribution above this amount during the next three years. This has no effect on the Government's financial statements because it is an agreement between entities within the Government reporting entity.

2.23 Based on information known about the Government's funding decisions to date, we are satisfied that it is appropriate to continue to not recognise the cost of repairing roads as a liability in the Government's financial statements.

Accounting treatment of development costs for Anchor Projects

2.24 As part of the Christchurch Central Recovery Plan, CERA is leading the construction of significant "Anchor Projects" within the Christchurch central business district. We considered whether the costs associated with these projects should be treated as capital or operating in nature.

2.25 Although spending in 2013/14 is not significant in the context of the Government's financial statements, clarity about the correct accounting treatment is important to ensure consistency as the level of spending increases. The two significant projects that began construction during 2013/14 were:

- Avon River Precinct: This development is being funded by CERA. It is on land owned by Christchurch City Council and Canterbury District Health Board. Any improvements constructed by CERA will pass to these parties under the cost-sharing agreement referred to in paragraphs 2.16-2.18. We agreed that these improvement costs should be treated as an operating expense in the Government's financial statements.
- Bus interchange: This development is being constructed on land acquired for the purpose. CERA is leading the project and there is currently construction on the site. We agreed that costs to date for site preparation should be treated as capital expenditure. This conclusion differs from the Avon River Precinct because CERA retains legal ownership of these assets during construction. At this stage, the ultimate owner of the bus interchange has yet to be determined.

Other matters arising from the audit

Accounting for, and disclosure of, minority interests

2.26 We are satisfied that the minority interest disclosures in the Government's financial statements are materially correct, and that the effect of the sale during the year of part of the Government's shareholding in Meridian Energy Limited, Genesis Energy Limited, and Air New Zealand Limited has been adequately explained.

2.27 The share of the Crown's net worth that is attributable to minority interests has increased significantly after the partial sale of shares in Mighty River Power Limited in May 2013 and the abovementioned partial sales of shares. This is because an increased percentage of shares in these entities is now held by minority interests. However, the Crown retains the majority shareholding and therefore control over these entities, so it continues to consolidate them within the Government's financial statements.

2.28 Although the Treasury made some improvements in the presentation of minority interests in the Government's financial statements, we continue to have concerns about some aspects of the presentation in the Statement of Financial Performance. These concerns relate to the extent to which the current presentation in the Statement of Financial Performance fully complies with generally accepted accounting practice. We will discuss this further with the Treasury during the 2014/15 audit of the Government's financial statements.

2.29 For 2015, we have recommended that the Treasury review the presentation of minority interests in the Government's financial statements, with a view to better aligning the presentation with generally accepted accounting practice.

Discount rates for long-term liabilities

2.30 We are satisfied with the reasonableness of the discount rates and consumer price index (CPI) assumptions used to value the significant long-term liabilities of the Government. The risk-free rates are also used to derive a market interest rate for discounting student loan advances.

2.31 We reviewed the Treasury's table of risk-free discount rates and CPI assumptions as at 30 June 2014. We concluded that they had been determined in keeping with the Methodology for Risk-free Discount Rates and CPI Assumptions for Accounting Valuation Purposes (the methodology), and that they were appropriate for the Government to use.

2.32 The long-term interest rate remained at 5.5% (in the previous year it had been reduced from 6%). The long-term CPI inflation rate of 2.5% was also retained. However, there was a small increase in short-term discount rates, which has contributed to a reduction in the liabilities of the Government.

2.33 We also followed up on matters raised in our reviews in previous years, and we were satisfied with the Treasury's responses. We will review the Treasury's responses again next year, because these matters could be subject to future technical developments or affected by different market conditions.

2.34 We have recommended that the Treasury continue to monitor long-term rates in the intervening two years, when these long-term rates are not subject to review in keeping with the methodology.

Valuation of the state highway network

2.35 We are satisfied that the valuation of the state highway network is based on the best information available to the New Zealand Transport Agency at the time of the valuation. However, we note that "brownfield" costs, such as the cost of traffic management, are not fully incorporated as part of the valuation.[3] Also, we note that there are uncertainties with the quality of some of the underlying data used in the valuation.

2.36 In 2010, we recommended that the New Zealand Transport Agency review the reasonableness and validity of the assumptions used to value state highways, and that brownfield costs be incorporated into the valuation. The New Zealand Transport Agency is now estimating brownfield costs and they will, over time, be progressively recognised in the Government's financial statements in future years. For 2013/14, the brownfield costs included in the state highways valuation of $28.6 billion was $250 million.

2.37 The valuation of the state highway network is based on valuing each of its components, such as land, formation, and bridges, and adding these together. As in previous years, there are uncertainties about whether the underlying data includes the right quantity of some components, accounts for all the costs of some components, and records the right life of some components based on their condition.

2.38 We understand that the New Zealand Transport Agency has a plan to improve the accuracy of the asset data, and to identify other costs that should be included in the valuation in the future. The plan includes carrying out a stocktake of all state highway assets during the three years to 30 June 2016. This work will help improve future valuations.

2.39 We will continue to monitor the New Zealand Transport Agency's work in these areas as part of our audit to ensure that, as better information becomes available, it is used in future valuations of the state highway network.

The review of accounting policies for tax revenue recognition

2.40 In previous years, we have recommended that a thorough review of taxation revenue recognition policies be carried out with a view to improving 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 its tax revenue. The PAYE and GST components of the review were concluded in 2012.

2.41 The Inland Revenue Department has proposed amending its revenue recognition policy after it completes the income tax component of the project. Under this

3 Brownfield costs is a generic term for the additional costs of construction in an already developed location.

proposal, Inland Revenue will recognise income tax based on taxpayer balance dates and provisional tax assessments from 1 July 2015. This differs from the existing policy, which uses payment due dates. This primarily affects how tax revenue is recognised during the year, rather than at the end of the financial year.

2.42 A pilot project, due to be completed by the end of 2014, is being run to assess the effect of the proposed change against the current revenue recognition policy.

2.43 It is intended that any changes will not be applied to Inland Revenue's financial statements (and thus the Government's financial statements) until 2015/16.

Impairment assessments

2.44 For most assets, entities are required to annually assess whether there are indicators that the asset might be impaired, and if there are such indicators, carry out an impairment test. For other assets, like goodwill, an impairment test is required to be carried out annually, regardless of any indicators. 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 its carrying amount.

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

- the Government's student loan portfolio;
- Solid Energy's assets and liabilities (see paragraphs 2.6-2.10);
- valuations of significant portfolios of buildings to ensure that they appropriately reflect the assets' level of compliance with the building code, as a result of the increased focus on compliance levels after the Canterbury earthquakes; and
- the Crown's goodwill arising from the acquisition of Air New Zealand, when the Government regained control of the company.

Valuation of electricity generation assets

2.46 We were pleased that the additional disclosures in the Government's financial statements show sensitivities in the valuations of electricity generation assets. The disclosures are based on disclosures by the Government's three key electricity generators (Genesis, Meridian, and Mighty River Power).

2.47 We will continue to discuss with the Treasury whether it is feasible to move towards more of a centralised approach (such as with discount rates) for some or all of the main assumptions used in valuing electricity generation assets.

Accounting for KiwiRail

2.48 We are satisfied that it is still appropriate for KiwiRail Holdings Limited to be designated as a for-profit entity for financial reporting purposes. We are also satisfied with the resulting accounting treatment and disclosures, noting the different treatment of non-freight rail infrastructure at a whole-of-government level (as outlined below).

2.49 Two of the main factors in determining whether it is appropriate to designate the company as a for-profit entity include whether the company is a financially sustainable business, and whether it continues to behave commercially, consistent with being a for-profit entity.

2.50 We note that both KiwiRail and the Government appear to be committed to developing a sustainable business, and the company continues to behave commercially, consistent with being a for-profit entity for financial reporting purposes.

2.51 However, given the group's financial performance in the past few years and its projected financial performance, we will continue to monitor the financial sustainability of the business.

2.52 We understand that KiwiRail is of the view that a commercial turnaround requires a review of the funding mechanism, to provide KiwiRail with the necessary certainty about investment. To achieve this, KiwiRail has recently carried out a major 30-year strategic review.

Valuation of railway network assets not required for freight services

2.53 We are satisfied with the valuation and disclosure in the Government's financial statements of railway network assets not required for freight services (including rail infrastructure assets used solely for metropolitan passenger services).

2.54 The non-freight portion of the network continues to be accounted for on a different basis in the Government's financial statements and KiwiRail's financial statements. KiwiRail accounts for this part of the network on a purely commercial basis because that is consistent with the Government's expectations of the company (that is, to generate a commercial return from the use of the rail network).

2.55 However, in the Government's financial statements, the portion of the network not necessary to run the freight operation is accounted for on the basis of the service potential provided by those assets, rather than the net cash flows they are forecast to generate. This is because, despite the Government's expectations of KiwiRail generally, the primary purpose for the non-freight portion of the network at a whole-of-government level is a public benefit purpose, such as reduced congestion on roads and therefore reduced travel times, rather than the Government generating a commercial return from those assets.

2.56 The different accounting treatment of the non-freight portion of the network in the Government's financial statements has resulted in this portion being valued $0.7 billion higher at 30 June 2014 than in KiwiRail's financial statements.

Accounting for the Government's Treaty settlement obligations

2.57 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 in future under the relativity clauses.

2.58 The deeds of settlement negotiated with Waikato-Tainui and Ngāi Tahu included relativity clauses. Those clauses mean the Crown is liable to make payments to maintain the value in real terms of Waikato-Tainui's and Ngāi Tahu's settlements at 17% and 16.1% respectively, of all Treaty settlements.

2.59 In October 2012, the Crown advised that the relativity mechanism had been triggered. Both Waikato-Tainui and Ngāi Tahu made claims under the relativity mechanism and received an initial payment. We expect that the reliability of the estimate of the claims under the relativity mechanism will continue to increase as disputed items between the parties are progressively settled.

2.60 We will continue to liaise with the Ministry of Justice and the Treasury on this issue.

Accounting for public private partnerships

2.61 We have advised the Treasury that, in our view, the disclosure of public private partnership assets[4] provides useful information. We are comfortable with the current treatment of disaggregating public private partnership assets within existing asset classes in the Government's financial statements, on the basis of materiality.

2.62 However, the Government's financial statements do not currently disclose these assets as a separate class of assets. Doing so is required by one of the accounting standards.

2.63 The Treasury's view is that there is a conflict between two different standards, making it difficult to fully comply with both. We agree.

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2.64 We do not expect the matter to have a material effect for a number of years because it becomes an issue only after the public private partnership assets are first recognised in the Government's financial statements. We intend to support the Treasury in approaching the standard-setter (the External Reporting Board) to try to get the relevant standard changed.

New accounting standards

2.65 The External Reporting Board has put into effect a new financial reporting framework that has resulted 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.

2.66 From 1 July 2014, the Government's financial statements need to be prepared in keeping with these new public benefit entity accounting standards.

2.67 The Treasury's project team to help plan for the transition has identified some issues that will need to be appropriately dealt with on transition to the new standards. Other issues have been identified which need to be drawn to the attention of the External Reporting Board.

2.68 Unresolved issues currently include:

- An apparent conflict between two different standards about whether service concession assets need to be accounted for as a separate class of assets (see paragraph 2.63).
- The presentation of revenue from sovereign receivables for outstanding taxes and fines, which are currently presented at their face value and then impaired. The standards require tax revenue and revenue from fines to be initially recognised at fair value.

2.69 We also note that the Treasury continues to monitor changes to accounting standards, which could increase the challenges associated with consolidation of a mixture of for-profit and public benefit entities.

2.70 We will continue to liaise with the Treasury on transition issues during 2014/15. We will also agree an audit timetable with the Treasury for auditing the updated accounting policies, opening statement of financial position, comparatives, and related disclosures. We note that the Treasury does not expect significant changes to arise from the transition to the new accounting standards.

The Controller function and the appropriation audit

3

3.1 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.

3.2 Under New Zealand's constitutional and legal system, the Government needs Parliament's approval to:

- make laws;
- impose taxes on people to raise public funds; and
- spend public money.

3.3 In this Part, we explain what the Controller and Auditor-General does to help ensure that Government spending stays within the limits approved by Parliament. In particular, we discuss:

- why the Controller work is important;
- how public spending is authorised;
- who is responsible for ensuring that public funds are spent lawfully;
- the controls and checks over the spending that support our system of parliamentary democracy;
- how unappropriated expenditure can occur;
- breaches of spending authority, including those that occurred during 2013/14; and
- emerging issues.

Why is the "Controller" work important?

3.4 In her role as Controller, the Auditor-General helps maintain the transparency, integrity, and legitimacy of the public financial management system.

3.5 The appropriation system ensures that Parliament, on behalf of the New Zealand electorate, has adequate control over how the Government uses public resources. It also ensures that the Government can be held to account for how it has used those funds.

3.6 Most of the Crown's funding is obtained through taxes. Taxpayers and other New Zealanders want assurance that executive government is spending public money lawfully.

3.7 The Controller and Auditor-General provides an important check on the public financial management system on behalf of Parliament, taxpayers, and the New Zealand public in general. As an Officer of Parliament, the Controller and Auditor-General is independent of executive government. She is able to provide independent assurance to Parliament and the public that the Government's spending is within the rules and that spending outside the rules has been identified and dealt with appropriately.

Who approves the spending of public money, and how?

3.8 Each year, the Government puts forward its spending proposals for the coming financial year in the Budget (usually in May). It formally presents its proposed budget to Parliament in the form of a Bill, called the Appropriation (Main Estimates) Bill, along with various explanatory documents.

3.9 The Bill sets out estimates of what will be spent under each ministerial portfolio – in general, every ministerial portfolio has a corresponding "Vote" in the budget (for example, Vote Health sets out all the spending in that portfolio). Each Vote is made up of several more specific "appropriations", which are descriptions of a particular area of activity and the spending approval sought for that area. Each appropriation has to set out:

- the maximum amount of spending being approved;
- the scope (that is, what the money can be used for); and
- the date on which the appropriation lapses (most appropriations last for one year).

3.10 Once Parliament has considered and passed the Bill, it becomes law and controls Government spending. In general, any spending outside what has been approved in this Act of Parliament will be unlawful.

3.11 Under a permanent legislative authority-type appropriation, the appropriation authority is "permanent" – it does not need to be sought from and approved each year by Parliament.

What happens if things change during the year?

3.12 The system recognises the need for some flexibility to respond to changing events:

- a second Bill during the financial year - the Appropriation (Supplementary Estimates) Bill – allows the Government to update the initial estimates in the budget and get approval for those changes;
- the Public Finance Act includes several mechanisms for approving minor changes to the spending authorities approved by Parliament; and
- a series of Imprest Supply Acts during each year also give the Government a general authority to spend up to a specified amount, subject to later reporting back to Parliament of how that authority has been used.

Does the Controller and Auditor-General have a role in the Budget process?

3.13 The Government prepares the budget. The Minister of Finance and the Treasury co-ordinate the work of the various government departments and individual Ministers to put together a set of spending proposals for the Government as a whole. The Auditor-General is not part of the Government or answerable to Ministers, so has no role in this process.[5] She does not audit the Budget either.

3.14 Once the Government has presented its proposed budget to Parliament, individual select committees consider the proposals in the various Votes. The Auditor-General's staff provide advice to the select committees to assist their scrutiny of the spending proposals in the budget Estimates.

3.15 Parliament then votes on whether to pass the Appropriation (Main Estimates) Bill. Votes on budget and spending matters are automatically regarded as confidence matters. That means that, if a Government cannot persuade a majority of Parliament to support its spending plans, then it does not have enough support to continue as the Government.

Who spends the money, and how?

3.16 All public money must be held in a Crown or departmental bank account. The Treasury is responsible for managing Crown bank accounts unless it delegates responsibility to a department to operate as an agent of the Crown. Government departments are responsible for managing departmental bank accounts.

3.17 Each department forecasts its cash requirements based on its budget and agrees cash payment schedules with the Treasury. The Treasury is responsible for disbursing cash to departments during the year in keeping with those schedules. Responsibility for how that cash is applied rests with the departments.

3.18 The departments are responsible for paying non-departmental providers (for example, Crown entities within their Votes) and for their own departmental spending.

3.19 The public financial management system operates on an "accruals" rather than a cash basis of accounting. To keep within budget limits, departments need to manage expenditure on an "accruals" basis. This means that expenditure is accounted for when it is incurred (that is, when there is an obligation to pay, as opposed to when the payment is made).

5 There is a special process for working out the budget for Officers of Parliament, such as the Auditor-General, to ensure that the funding decisions are made by Parliament, not the Government.

Who is responsible for ensuring that the money is spent correctly?

3.20 Departmental chief executives are responsible under the Public Finance Act for the financial management and performance of their department.[6] This includes ensuring that they have both the funds and the necessary legal authority before incurring expenses or capital expenditure.

3.21 Departments are required to report to the Treasury (usually monthly) the expenses and capital expenditure incurred by the department against the appropriation or other statutory authority provided.

3.22 The Treasury is then required to compile a (usually) monthly report to the Controller and Auditor-General that sets out all actual expenditure incurred compared with the appropriation (or other authority)[7] and all expenditure incurred without authority or in excess of the authority given.

Who checks whether the departments are actually spending the money lawfully and responsibly?

3.23 This is where the function of the Controller comes in.[8] To check and verify the spending, the Controller and Auditor-General's staff:

- review the Treasury's monthly report;
- carry out some tests on the financial information (provided by the Treasury from the Crown's financial and information system);
- report back to the Treasury highlighting any issues including any breaches, commenting on actions needed to validate any unappropriated expenditure, and advising on any further action that needs to be taken by the Treasury or the department to resolve outstanding issues; and
- inform appointed auditors of issues affecting the departments they audit.

3.24 As well as her responsibilities under the Public Finance Act, she is responsible under the Public Audit Act for auditing the financial statements of every public entity. For government departments, as well as auditing the financial statements, her auditors are responsible for auditing the appropriations administered by the department (the "appropriation audit").[9]

3.25 Through the appropriation audit, the Controller checks to ensure that public money was spent as intended by Parliament. If an auditor appointed by the Controller and Auditor-General detects spending outside authority through

6 Section 34(1)(a) of the Public Finance Act 1989.

7 Such as imprest supply and Cabinet or ministerial decisions made within delegated authorities.

8 The Auditor-General exercises her Controller function under sections 65Y to 65ZA of the Public Finance Act 1989.

9 Section 15(2) of the Public Audit Act 2001.

the appropriation audit work, then the auditor will discuss the matter with the department's chief executive and advise the department about reporting the matter and taking corrective action. The auditor will also check to ensure that the department reports the matter in its financial statements.[10]

How great is the risk that public money might be spent above or beyond the appropriation limits?

3.26 Expenditure outside the bounds of the appropriations tends to be unintended and inadvertent. The unappropriated expenditure represents a very small proportion of the Government's total budget (less than 1% in 2013/14).

3.27 When the proper authority for unappropriated spending is not obtained, it constitutes a breach of appropriation and is unlawful. Not all unappropriated expenditure is unlawful, because the appropriations system provides some flexibility (see paragraph 3.12). In some circumstances, unappropriated expenditure can be authorised under an Imprest Supply Act or by ministerial approval. The Minister of Finance can approve expenses that exceed appropriation in the last three months of the financial year if those additional expenses are within the scope of the appropriation. The amount can be up to the greater of $10,000 or 2% of the total amount of the appropriation concerned.[11]

3.28 Some of the more common reasons for exceeding the spending limit set out in the appropriations include under-estimating expenditure that is demand-driven, write-downs of asset values, and the write-off or write-down of Crown receivables. (For the latter two, there is no cash outflow but they are nonetheless expenses for appropriation and accounting purposes.)

3.29 Examples of unappropriated expenditure in recent years include:

- Increased demand from New Zealanders for the SuperGold card in 2009/10 led to increased government spending on public transport concessions. The amount spent was $327,000 greater than anticipated, leading to spending in Vote Transport in excess of the appropriation limit.[12]
- Unappropriated expenditure can occur because of spending not envisaged at the time the Budget was prepared. In 2010/11, the New Zealand Defence Force overspent $990,000 of Vote Defence Force money in the appropriation for funding Naval Helicopter Forces. This happened because damage to three Seasprite helicopter rotor blades was beyond repair and the blades needed to be replaced.[13]

10 Within the Statements of Appropriations and Statement of Unappropriated Expenses and Capital Expenditure.

11 Section 26B of the Public Finance Act 1989.

12 Ministry of Transport, *Annual Report 2009/10*, page 52. The excess spending was authorised by the Minister of Finance under section 26B of the Public Finance Act 1989.

13 New Zealand Defence Force, *Annual Report 2011*, pages 94 and 149. The excess spending was authorised by the Minister of Finance under section 26B of the Public Finance Act 1989.

- Sometimes financially neutral transfers are made between appropriations during the year and, if the amount transferred is miscalculated, then it can result in underexpenditure in one appropriation and overexpenditure in the other. This happened in Vote Prime Minister and Cabinet in 2011/12, when too much funding was transferred from an existing appropriation into a newly created appropriation for Support Services to the Governor-General and Maintenance of Residences.[14] In this instance, the over-spending was incurred without the proper authority.
- Incorrect financial forecasting led to spending in excess of a Vote Statistics appropriation in 2012/13. Statistics New Zealand forecast underexpenditure when the budget was revised during that financial year (that is, in the Supplementary Estimates). Accordingly, the Official Statistics appropriation was reduced by $1.937 million. The appropriation should not have been reduced, and the adjustment resulted in over-spending of $1.03 million.[15]

Unappropriated expenditure incurred with proper authority in 2013/14

3.30 The Minister of Finance used his powers under the Public Finance Act to authorise two instances of unappropriated expenditure during 2013/14, for Vote Education ($21.779 million). Almost all of the $21.779 million overspent in Vote Education's non-departmental appropriations resulted from higher than expected costs for early childhood education. The Ministry of Education says that this was because of greater than anticipated attendance on non-school days, a faster transition from sessional to all-day operations, and higher than expected population growth due to higher than expected migration.[16]

3.31 The Government used an Imprest Supply Act to approve just over $9.095 million of unappropriated expenditure in Vote Canterbury Earthquake Recovery.

3.32 This expenditure will need to be confirmed in the next Appropriation (Financial Review) Act.

How often is expenditure incurred without proper authority?

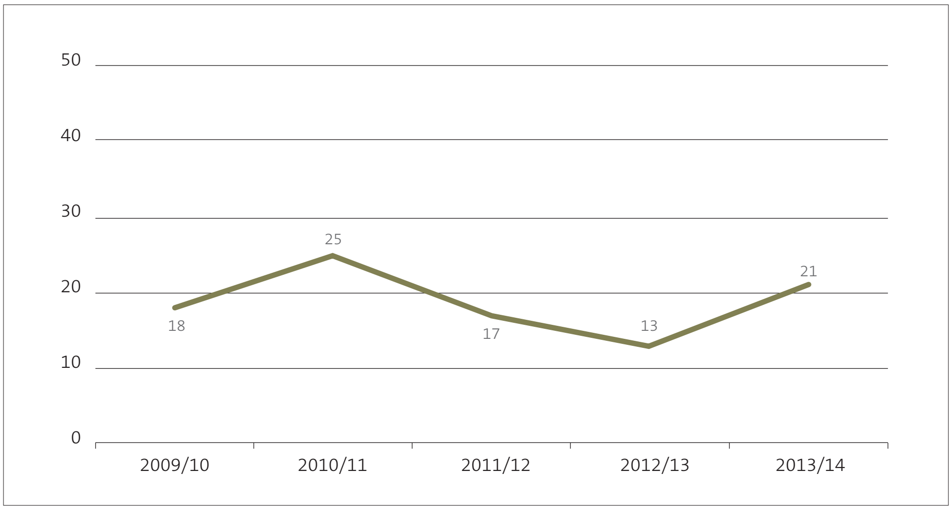
3.33 Figure 1 shows the number of appropriation breaches, that is, the instances of unappropriated expenditure incurred without authority over the last five years. (The graph shows a combined total for expenses and capital expenditure.)

14 Department of the Prime Minister and Cabinet, *Annual Report for the Year Ended 2012*, page 33.

15 Statistics New Zealand, *Annual Report of Statistics New Zealand* for the year ended 30 June 2013, page 79. The excess spending was authorised by the Minister of Finance under section 26B of the Public Finance Act 1989.

16 Ministry of Education, *Annual Report* for the year ended 30 June 2014, page 156.

Figure 1
Number of instances of unappropriated expenses and capital expenditure incurred without authority



3.34 The downward pattern of recent years has reversed in 2013/14. Given the inadvertent nature of appropriation breaches, we expect the numbers to fluctuate between years. However, we also want to see the number of instances reducing.

How does the Controller deal with breaches of appropriation?

3.35 When departments become aware of an appropriation breach or a potential breach, they are expected to immediately advise their auditor, the Treasury, and their Minister (who will need to seek additional authority for the expenditure). The department should provide the Treasury with an explanation of the breach as well as an explanation of actions being taken to resolve the issue (for example, to gain additional authority in advance to avoid a breach) or to validate any already unappropriated expenditure through an Appropriation (Financial Review) Bill.

3.36 The Treasury then collates the reports from the departments and provides a single, monthly report to the Office of the Auditor-General, highlighting actual, expected, and potential breaches. The Controller then carries out the work described in paragraph 3.23.

3.37 Auditors might detect breaches through their audit process, as might the Treasury through its financial management and budgeting work.

3.38 However detected, the facts of the situation are reviewed and the nature and amount of the breach is confirmed. If the department has not acted already, the

Auditor-General's staff advise the department to immediately inform the Minister and the Treasury. They also advise on the corrective action that needs to be taken, for example, seeking further authority for spending[17] and/or seeking to legitimise the expenditure after the event, usually through validating legislation.[18]

3.39 The Controller monitors all matters reported to her or detected by her staff until they are resolved. If the department does not take the required action, then the Controller, in conjunction with her auditor, can write to the department's chief executive and the relevant Minister instructing that no further expenditure may be incurred under the affected appropriation until approval has been obtained.

3.40 If the department continues to fail to obtain the correct approval, then the Controller can direct the Minister, the Treasury, and the department to stop payments from the relevant bank account and direct the Minister to report to the House of Representatives. Such measures would be a last resort, and the Controller does not expect to resort to them.

How much public money was spent without proper authority in 2013/14?

3.41 As shown in Figure 1, 21 instances of expenses and capital expenditure incurred without authority were identified in 2013/14.

3.42 Figure 2 provides more detail on the unauthorised expenditure, including the Votes and amounts involved. During 2013/14, the total amount of public money identified as being in excess of, or without, appropriation and without proper authority was $214.158 million. This was 0.26% of the total appropriations for all Votes authorised through the Budget 2013 process.[19]

17 Additional authority may be obtained under the Public Finance Act 1989. Cabinet may approve the use of imprest supply as a source of temporary authority and agree to include the amounts in the next Appropriation (Financial Review) Bill.

18 Detailed information on seeking additional authority or validating unappropriated expenditure is provided on the Treasury's website, www.treasury.govt.nz.

19 The Budget 2013 appropriations for all Votes totalled $82,817 million.

Figure 2
Unappropriated expenditure incurred without authority identified during the year ended 30 June 2014

	2012/13 No.	2013/14 No.	2013/14 $million	2013/14 Votes
Expenses and capital expenditure in excess of appropriation and without authority of an Imprest Supply Act	8	10	12.028	Internal Affairs; Arts, Culture and Heritage; Labour; Economic Development; Pacific Island Affairs; Food Safety; Finance; and Education
Expenses and capital expenditure outside scope of an existing appropriation and without authority of an Imprest Supply Act	0	3	1.872	Attorney-General, Employment, and Māori Affairs
Expenses and capital expenditure without appropriation and without authority of an Imprest Supply Act	5	8	200.258	Canterbury Earthquake Recovery, Revenue, and Commerce
Total	13	21	214.158	

Note: The number of breaches for 2013/14 includes two breaches in Vote Education departmental output expenses (totalling $1.096 million), which were inadvertently omitted from the Financial Statements of the Government disclosures but were disclosed in the financial statements of the Ministry of Education.

3.43 Because this expenditure was not authorised during the year (that is, by appropriation or any other approval process), it will need to be validated in the next Appropriation (Financial Review) Act.

3.44 Of the 21 breaches in 2013/14, there was an appropriation for the type of expenditure concerned in 10 instances but the Government spent $12.028 million more than the amount that was authorised. In three instances, expenditure totalling $1.872 million was outside the scope of existing appropriations. Another eight breaches amounting to $200.258 million were from expenditure for which there was no appropriation.

3.45 The more significant instances of unauthorised expenditure in 2013/14, in terms of the amounts involved, were in Vote Canterbury Earthquake Recovery and Vote Revenue.

3.46 Unappropriated expenditure is nothing unusual for Vote Canterbury Earthquake Recovery because of the inherent uncertainties about the costs of the remediation and rebuild of the earthquake-affected areas. In 2013/14, CERA incurred $130.575 million without an appropriation and authorisation. The expenses that caused the breach related to movement in the provision for vesting in land, losses on the valuation of land, and land-related transaction and demolition costs. As such, most of the excess expenses reflect changes in assumptions underlying the accounting for land.[20]

3.47 Also of major significance in terms of the amount breached was the $67.7 million of public money spent under Vote Revenue. The spending funded Paid Parental Leave Payments, for which there was no Parliamentary authority at the time – the result of a historical oversight. Inland Revenue had been making parental leave payments on the assumption it had permanent legislative authority to do so. It did not. During 2013/14, it was identified that the appropriation had been incorrectly classified as a permanent legislative authority. Inland Revenue failed to seek Parliamentary authority for the payments, as it should have done.[21]

3.48 Further details of unauthorised (and other unappropriated) expenditure are provided in the annual reports of the departments responsible for administering the Vote and in the *Financial Statements of the Government of New Zealand for the year ended 30 June 2014*.

How did the Controller address the issues that arose during 2013/14?

3.49 The auditors appointed by the Controller and Auditor-General for the affected departments carried out the actions described in paragraph 3.38, which included confirming that expenditure was unappropriated, confirming the amount of the unappropriated expenditure, and advising the amounts to be disclosed in the Government's and individual departments' financial statements.

3.50 As a result of the Vote Revenue issue, the Treasury carried out a review of appropriations under permanent legislative authority. The Treasury's review identified three other Vote Revenue appropriations that might not have been operating under the required Parliamentary authority and required closer examination. The Controller and Auditor-General considered the legal situation for these three appropriations and concluded that they were covered by the permanent legislative authority provisions of the Public Finance Act 1989.

3.51 In October 2014, the Controller and Auditor-General and the Secretary to the Treasury sent a joint letter to department chief executives, expressing their wish to see a continuing decline in appropriation breaches. They reminded chief executives that the primary responsibility for ensuring that expenditure remains

20 Canterbury Earthquake Recovery Authority, *Annual Report 2014*, page 106.

21 Inland Revenue, *Annual Report 2014*, pages 107-108.

within appropriation rests with the departments. The Controller and Auditor-General and the Secretary to the Treasury also provided some guidance to help departments avoid inadvertent breaches in the future.

Can the Controller guarantee that all public expenditure provides value for money?

3.52 No. It is not the role of the Controller to determine how public money is spent, and she does not express opinions on Government policy.

3.53 However, through her powers as Auditor-General (but outside her function as Controller), she can report to Parliament on various aspects of the value for money of government spending. For example:

- She can carry out performance audits to look into the effectiveness and efficiency of different areas of Government spending.
- Some aspects of value for money can be inferred from public entities' annual reports. The Auditor-General is the auditor of all public entities. By auditing the financial and performance statements of public entities, the Auditor-General provides assurance about the reliability of the information in those reports.

What are the emerging "Controller" issues?

3.54 Recent reforms in state sector legislation have introduced more flexibility into the appropriation system, with the aim of helping government agencies to work more efficiently and effectively.[22] Two reforms of particular interest to the Controller are the creation of the "Departmental Agency" model (under the State Sector Act 1988) and distinguishing between the "administration" and "use" of appropriations (under the Public Finance Act 1989).

3.55 A Departmental Agency is an operationally autonomous agency that will exist within a host department. This is a new structural model for New Zealand, which enables a tightly focused agency to operate without needing to create a new department or Crown entity. It is suited to a limited-life agency, such as CERA. CERA will become the first Departmental Agency, operating inside the Department of the Prime Minister and Cabinet from 1 February 2015. This will place disaster recovery work at the core of central government planning.[23]

3.56 Distinguishing between the administration and use of appropriations formalises a system to make it easier for one department to spend public money from an appropriation administered by a different department (with the administering department's or Minister's agreement). This is designed to provide greater

22 The Treasury, *State Sector Public Finance Reform Resources*, at www.treasury.govt.nz/statesector/2013reform.

23 Canterbury Earthquake Recovery Authority, *Annual Report 2014*, page 13.

flexibility when several departments need to work together to share resources or work towards a common outcome.

3.57 Initiatives such as these reforms are intended to help the Government to better achieve its objectives with the use of public money. They open up new authorising, funding, and accountability channels. We will be interested to see how these new arrangements are put into practice and will be monitoring them as part of our Controller responsibilities.

Publications by the Auditor-General

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

- Ministry of Social Development: Using a case management approach to service delivery
- Water and roads: Funding and management challenges
- Making the most of audit committees in the public sector
- Accident Compensation Corporation: Using a case management approach to rehabilitation
- Challenges facing licensing trusts
- Annual Report 2013/14
- Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge
- New Zealand Transport Agency: Maintaining and renewing the state highway network – follow-up report
- From auditor to soldier – stories of the men who served
- Accident Compensation Corporation: How it deals with complaints
- Ministry of Social Development: How it deals with complaints
- State-owned enterprises: Results of the 2012/13 audits
- Public entities' progress in implementing the Auditor-General's recommendations 2014
- The Auditor-General's strategic intentions 2014/15 to 2017/18
- Annual Plan 2014/15
- Setting up Central Agencies Shared Services
- Watercare Services Limited: Review of service performance

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