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Annual Report 2014/15

Annual Report 2014/15

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Auditor-General's overview

This year, I asked my auditors and staff to be more explicit about how their work helps to build a stronger, more innovative public sector and to actively plan for that. We have seen growing impact from our work.

As part of our shared goal of improving scrutiny of the public sector, we carefully considered how best to support select committees in their work. Tailoring our reporting is working well, and most committee members have appreciated the greater focus on significant matters and reduced volume of information. Feedback from new members of Parliament, select committees, and Parliamentary staff has confirmed the value of our new ways of working and stronger collaborative relationships.

In line with our strategic goal for a stronger citizen focus, we explored ways to draw attention to aspects of our work and promote improvements in the public sector. Discussing our work with people up and down the country and using social media is increasing our engagement with New Zealanders. The questions posed through our report, *Reflections from our audits: Service delivery*, has encouraged discussion and debate about how well the public sector is providing services. Engaging with citizens, and drawing attention to improving public sector service delivery in preparation for the future, will remain a focus for my Office.

Challenges

My auditors have been preparing for changes to public sector reporting and accounting requirements. It is critical for trust in the New Zealand public sector that public entities are prepared for, and responsibly implement, these changes. Although many entities are on target to make the changes, some challenges remain.

For my auditors who audit local authorities, there was the additional challenge this year of auditing consultation documents and long-term plans. Local authorities reported well and made good steps in improving community participation in their planning processes. Christchurch City Council deserves special mention for its first consultation document and long-term plan since the earthquakes of 2010 and 2011.

As the public sector explores new ways of delivering public services, we need to adapt the way we audit. Our report, *Whānau Ora: The first four years*, had lessons for many public entities and taught us much about auditing innovation. Similarly, our performance audit on the Ministry for Primary Industries' Primary Growth Partnerships had useful lessons for the Ministry and for us.

As well as focusing on the public sector's performance, we continue to focus on our own performance. Audit New Zealand has worked hard to improve audit

quality and, in line with the rest of the auditing profession, will continue on this path.

As well as these challenges, the demand for inquiries continues. We will use additional resources to establish a dedicated inquiries team to better meet the growing pressure of our inquiries workload.

Our people

Change is on the horizon. The Deputy Auditor-General, Phillippa Smith, has recently ended her term. She has played a critical role in a demanding position. Throughout her two periods with the Office – five years in the 1990s as Assistant Auditor-General Legal and the last 10 years as Deputy Auditor-General – Phillippa has made a significant contribution to the work of the Office. I am grateful for her wise counsel and support, and wish her well for the future.

This year, Nicola White, Assistant Auditor-General Legal, decided that it was time to make a change and move on. We were sad to see her depart. We have greatly appreciated her legal advice and her contribution to the many inquiries during the eight years she worked for the Office.

Bruce Robertson, Assistant Auditor-General Local Government, decided after 34 years with the Office to pursue other opportunities. Bruce has made a big contribution to the local government sector, and his skills and boundless energy will be missed by the Office and the sector.

Former staff featured in our commemorative book *From auditor to soldier – Stories of the men who served*. Timed for release during the 100th anniversary commemorations for World War One, the book reflected on the lives of Audit Department staff who served in that war. We particularly valued the contributions to the book of some descendants of those men.

Independent review

As an independent Office, we have to ensure that the processes and systems we use to do our work are carefully and independently scrutinised. Although there are many people who help with the independent review of our work, I would particularly like to acknowledge the services of Sir David Gascoigne and the late John Marshall QC, who have reviewed our audit appointments and fee monitoring processes for the past few years. Sadly, due to declining health and his untimely death, John was only able to review our systems in 2013/14. I thank Sir David for carrying out this year's review.

International

Leading and participating in discussions with international colleagues helps to ensure that we can continue to influence, and adapt to, future change.

The Global Audit Leadership Forum (GALF) meeting is an annual two-day think-tank for the Auditors-General of certain developed countries. It was hosted this year by my Office, and delegates from 14 countries shared their views on how auditing might evolve in the future. The engaging discussions confirmed the value of the opportunity to reflect on and plan for the future.

My Office places importance on our international reputation and our contribution to the international auditing community. It was an honour for us to be chosen to chair one of the two meeting themes at the three-yearly Congress of the International Organisation of Supreme Audit Institutions to be held in late 2016.

Concluding comments

Finally, I thank all my staff and audit service providers for their accomplishments this year. Their work has enabled my Office to provide assurance to Parliament and the public about the use of public resources and powers.

A handwritten signature in black ink, appearing to read 'Lyn Provost', with a stylized, flowing script.

Lyn Provost
Controller and Auditor-General

30 September 2015

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Our role and outcomes

Everything we do is about improving the performance of, and the public's trust in, the public sector.

Our role

The Auditor-General is an Officer of Parliament who carries out her role independently of executive government and Parliament, but is accountable to Parliament for the public resources she uses to do her job. By law, the Auditor-General audits all public entities in New Zealand that are required to prepare general purpose financial reports – about 3800 public entities, such as government departments, Crown entities, schools, and State-owned enterprises. The role includes auditing local authorities, which are accountable to the public for the activities that they fund with rates and other revenue.

The Auditor-General's audits give independent assurance to Parliament and the public about how public entities are performing. Auditing and reporting on the results of those audits is an important way of holding public entities accountable for their use of public resources and powers.

Our organisation

Our work is carried out by about 391 full-time equivalent staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand – supported by a shared team of corporate services staff. We also contract auditors from about 50 private sector accounting firms to carry out some annual audits on the Auditor-General's behalf. We call this whole organisation “the Office”.

The OAG sets strategy, policy, and standards, appoints and oversees auditors, carries out performance audits, provides reports and advice to Parliament, and carries out inquiries and other research.

Audit New Zealand, the larger of the two business units, has offices in seven cities and carries out annual audits of public entities that the Auditor-General allocates to it. Audit New Zealand provides other assurance services to public entities within the Auditor-General's mandate, consistent with the Auditor-General's auditing standard on the independence of auditors.

How we are funded

The Office is funded through Vote Audit, which has two appropriations for our output expenses – *Audit and assurance services* and the multi-class appropriation *Statutory auditor function*.¹

¹ An appropriation is a parliamentary authorisation to incur expenses or capital expenditure. A multi-class output expense appropriation allows expenses to be transferred between the output classes concerned, without the need for separate Parliamentary authority.

The appropriation for *Audit and assurance services* pays for us to carry out audits and related assurance services as required or authorised by law, and is largely funded by audit fees collected directly from public entities.

The multi-class appropriation *Statutory auditor function* is largely Crown-funded and includes two classes of outputs: *Performance audits and inquiries*, and *Supporting accountability to Parliament*.

How we make a difference

In carrying out our statutory role, we are able to play an important part in influencing and promoting improvements in the public sector's performance and in building trust in the public sector.

The main impacts we aim for are that our recommendations are acted on, and that Parliament and public entities are supported and get value from our advice.

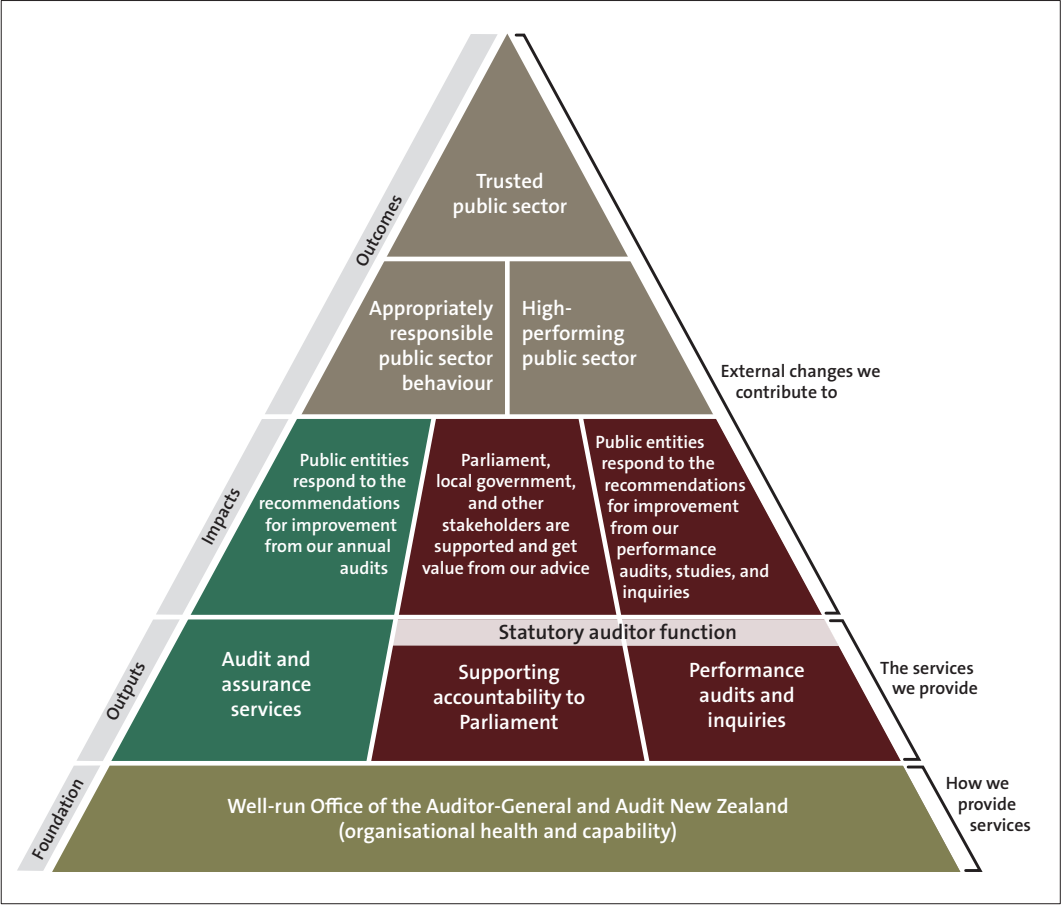
Our vision

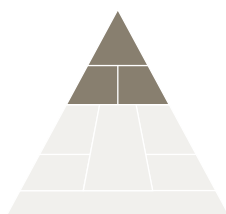
Our vision is that our work improves the performance of, and the public's trust in, the public sector. Everything we do is directed at ensuring that New Zealand has a public sector that is trusted, demonstrates responsible behaviour, and performs well. The rest of this report outlines how effectively we worked towards these outcomes during 2014/15.

The outcomes we aim for

Figure 1 summarises the outcomes we aim for, the effects we aim to have, and the services that we provide.

Figure 1
Our outcomes framework





Achieving the outcomes we aim for

We assess that, in 2014/15, our outcomes were mostly maintained or improved.

Trusted public sector																																											
Measure	New Zealand's ranking in or above the 90th percentile of the Worldwide Governance Indicators is improved (or at least maintained).*																																										
Result	Achieved in 2013.																																										
Comment	Results for the Worldwide Governance Indicators are usually published every September for the previous calendar year – 2014 results are not yet available																																										
	<p>Figure 2 New Zealand's ranking in the Worldwide Governance Indicators, 2009 to 2013</p> <table><caption>Estimated data for Figure 2: New Zealand's ranking in the Worldwide Governance Indicators, 2009 to 2013</caption><thead><tr><th>Category</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th></tr></thead><tbody><tr><td>Voice and accountability</td><td>95</td><td>95</td><td>95</td><td>95</td><td>95</td></tr><tr><td>Political stability</td><td>85</td><td>90</td><td>95</td><td>95</td><td>95</td></tr><tr><td>Government effectiveness</td><td>95</td><td>95</td><td>95</td><td>95</td><td>95</td></tr><tr><td>Regulatory quality</td><td>95</td><td>95</td><td>95</td><td>95</td><td>95</td></tr><tr><td>Rule of law</td><td>95</td><td>95</td><td>95</td><td>95</td><td>95</td></tr><tr><td>Control of corruption</td><td>95</td><td>95</td><td>95</td><td>95</td><td>95</td></tr></tbody></table>	Category	2009	2010	2011	2012	2013	Voice and accountability	95	95	95	95	95	Political stability	85	90	95	95	95	Government effectiveness	95	95	95	95	95	Regulatory quality	95	95	95	95	95	Rule of law	95	95	95	95	95	Control of corruption	95	95	95	95	95
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Rule of law	95	95	95	95	95																																						
Control of corruption	95	95	95	95	95																																						
Measure	<p>The State Services Commission's Kiwis Count Survey** shows improved (or at least maintained) rates of:</p> <ul style="list-style-type: none">• perception of trust in public services; and• trust based on the most recent experience with public services.																																										
Result	Achieved.																																										
Comment	<p>For this measure, respondents rate their perceptions of trust in the public service and their trust based on their most recent public service experience. The responses have been reported quarterly since June 2012.</p> <p>From June 2012 to September 2014, perceptions of trust in the public service improved overall (42% in June 2012 to 45% in September 2014). Trust based on experience also improved overall (74% in June 2012 to 77% in September 2014).</p>																																										

* See the World Bank website, <http://info.worldbank.org/governance/wgi/>.

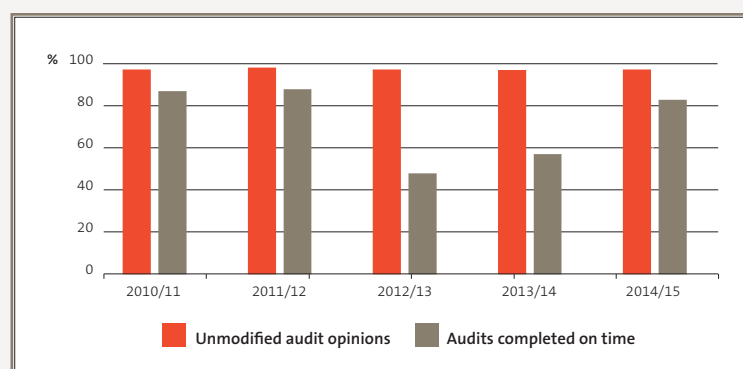
** For survey results, contact the State Services Commission, www.ssc.govt.nz.

Measure	New Zealand's score on the Transparency International Corruption Perceptions Index* is improved (or at least maintained).
Result	Achieved.
Comment	In 2014, New Zealand maintained its 9.1 score from the previous year. However, New Zealand's world ranking dropped from first equal with Denmark to second. From 2010 to 2014, New Zealand's score has consistently been between 9.0 and 9.5.

* See the Transparency International website, <http://www.transparency.org/cpi2014>.

Appropriately responsible public sector behaviour	
Measure	Public sector behaviour is more responsible in the area of accountability for public resources.
Result	Achieved.
Comment	<p>Holding public entities accountable for their use of public resources is a fundamental part of our work. This new composite measure gives a more comprehensive picture of how well the public sector is accounting for its use of public resources than the measure previously reported.</p> <p>Indicators of responsible behaviour in the area of accountability for public resources include reliable and timely information, sound management and good governance. We examined trends across these aspects of public sector behaviour to assess an outcome for this measure. While it is a mixed picture, overall we are satisfied that public sector behaviour is more responsible in the area of accountability for public resources because trends for timeliness and quality of reporting are steadily improving.</p> <p>Figure 3 illustrates trends across the public sector for timeliness (as indicated by audits completed on time) and reliability of information (as indicated by the issue of unmodified audit opinions). For example, timeliness of audit completion across the public sector has improved. This year, 83% of public entities' audit reports were signed within the statutory time frame, compared to 57% in 2013/14, when ongoing problems with Novopay delayed completion of school audits. Although there were significantly fewer payroll problems than in the previous two years, delayed production of year-end payroll reports resulted in delays for some school audits. We note that, while it is improving, timeliness of audit completion has not yet returned to the levels that were being achieved before the Novopay problems.</p> <p>The percentage of unmodified audit opinions across the public sector remains steady. This year, 97.3% of audit opinions were unmodified, similar to previous years (97.1% in 2013/14 and 97.4% in 2012/13).</p>

Figure 3
Percentage of unmodified audit opinions and audits completed on time, 2010/11 to 2014/15



Timely public release of annual reports is also an important part of accountability for public resources. We currently collect data about timeliness of public release only for local authority annual reports. For 2013/14, 92% of local authority annual reports were publicly available on time. Although this is a reduction from 99% in 2011/12 and 96% in 2012/13, we have few concerns about this trend given our knowledge of the factors affecting the performance of the local government sector. We will continue to monitor local authorities' timely public release of annual reports for the year to 30 June 2015. We will also consider whether we need to collect data for other sectors for future reporting.

Results for the central government sector (excluding schools) show a mixed picture for management control environment (MCE), financial information systems and controls (FISC), and service performance information and associated systems and controls (SPIASC). Figure 4 shows an improvement in some areas and a decline in others. We have applied particular effort to encouraging the improvement of service performance information, and note the increase in "very good" ratings from 1% in 2010/11 to 9% in 2013/14.

Figure 4
Ratings for central government entities, 2010/11 to 2013/14

	2010/11	2011/12	2012/13	2013/14
MCE				
Very good	52%	56%	62%	59%
Good	41%	39%	32%	34%
Needs improvement	7%	5%	6%	7%
Poor	0%	0%	0%	0%
FISC				
Very good	43%	47%	52%	48%
Good	51%	47%	45%	43%
Needs improvement	6%	6%	3%	9%
Poor	0%	0%	0%	0%
SPIASC				
Very good	1%	4%	8%	9%
Good	52%	66%	74%	73%
Needs improvement	47%	30%	18%	18%
Poor	0%	0%	0%	0%

Measure	The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of public servants who reported that State service agencies promote their standards of integrity and conduct.*
Result	Comparison against the 2013 survey will be possible in 2016.
Comment	<p>This survey is held every three years. Changes to the survey mean that the 2013 results are not directly comparable with those from 2007 and 2010. The 2013 survey looked at whether State servants think that their organisation promotes standards of integrity and conduct: 62% of State servants agreed that their agency actively promotes standards of integrity and conduct.</p> <p>The 2007 and 2010 surveys looked at State servants' awareness of their agency's training on integrity and conduct. Results from 2007 (55%) and 2010 (56%) showed that more than half of State servants were aware of integrity training that their organisation provided.</p>
Measure	The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of public servants who reported that, where they observed misconduct breaches in the past year, they reported it.
Result	Survey changes mean that results may not be comparable.

Comment	<p>This survey is held every three years. It is scheduled to be held again in 2016.</p> <p>In 2013, changes were made to the survey. The 2013 survey asked whether State servants reported observed misconduct in all instances, in some instances, or not at all.</p> <ul style="list-style-type: none"> • 23% of State servants who observed misconduct reported all instances. • A further 35% reported some of the breaches they observed. • Together, 58% of State servants reported all or some of the breaches they observed. <p>The 2007 and 2010 surveys asked whether State servants reported observed misconduct or not. In 2010, 63% of State servants reported observed misconduct. In 2007, 55% reported observed misconduct.</p> <p>To the extent that the results are comparable, the survey appears to show that the proportion of State servants reporting observed misconduct has slightly declined from 63% in 2010 to 58% in 2013.</p>
High-performing public sector	
Measure	The State Services Commission's Kiwis Count Survey shows improved (or at least maintained) rates of service quality for all public services.
Result	Achieved.
Comment	Results for this measure are collected every quarter. Between June 2012 and September 2014, respondents scored the quality of public services at a consistently high level of at least 72.

* See the State Services Commission's website, www.ssc.govt.nz.

Strategic risks and risk management

The Auditor-General faces four ongoing strategic risks:

- loss of independence;
- audit failure;
- loss of capability; and
- loss of reputation.

We manage these risks mainly through processes that support the work we do. Details on how we manage these risks are available on our website. We will continue our focus on managing risks, particularly strategic risks. Our leadership teams regularly discuss risk management, including assessing environmental or internal changes that might affect the Office's position. The Office's Audit and Risk Committee usually meets four times a year and gives further insight and advice to help us to identify and manage risk. The Committee's report for 2014/15, available on our website, outlines the Committee's purpose and summarises its work during 2014/15.

2

Statement of service performance

In this Part, we report on the services that we are paid to deliver and how well we delivered those services. We discuss:

- achieving our 2014/15 work programme;
- our *Audit and assurance services* work; and
- our *Statutory auditor function* services.

Achieving our 2014/15 work programme

We selected *Governance and accountability* as our theme for our 2014/15 work programme in recognition of the changes in legislation and financial reporting standards that affected the public sector's accountability requirements and our annual audits. The theme linked to our previous year's work when the importance of good governance and proper accountability to delivering public services was highlighted.

The performance audits and other work under the *Governance and accountability* theme focus on how governance and accountability mechanisms in the public sector support effective public spending and investment.

We looked at whether public entities have appropriate governance and accountability arrangements to help them to focus on strategy, risk, and performance, and to adapt to new information and change. For example, we examined the governance and accountability policies and practices of a selection of local and central government agencies in the arts, culture, and heritage sector.

We examined whether the roles and responsibilities of the various people in new and changing governance arrangements are clear and understood. Our report on the Department of Inland Revenue's business transformation programme examined how the Department is governing the programme to deliver a modern revenue system and ensure that risks to effective governance are managed well. Our work on public sector audit committees reflected on current good practice and aspects of audit committee effectiveness.

We will publish a report reflecting on our work under this theme in 2015/16. We will also report on the introduction of the new accounting standards and new public sector legislation.

During 2014/15, we looked at future themes for our work programme. We confirmed that the theme for audits and other projects in 2015/16 is *Investment and asset management* and explored the content of our proposed themes for 2016/17 – *Information*, and for 2017/18 – *Water*.

Output class: *Audit and assurance services*

We audit all public entities² that are required, or choose, to prepare general purpose financial reports – from large government departments and district health boards to every state school and local authority. In 2014/15, our annual audits and other assurance services accounted for 89% of our total expenditure.

Annual audits

Annual audits provide independent assurance about the reliability of financial statements – and, in many instances, performance information – that public entities are required, or choose, to report. The Auditor-General, as the auditor of all public entities, has a statutory duty to audit the information that public entities are required to prepare. We produce an audit report for each audit we carry out, which includes our opinion about the fairness of the presentation of the financial statements (and performance information, where relevant).

We use information about public entities gathered from our annual audits to help us advise Parliament and others, and to assist our other work. To have a trusted public sector, public entities must fairly report their performance, and respond to audit recommendations to improve their systems and controls. They must also report on time. In 2014/15, most entities met their reporting obligations in a timely manner. Those that did not were mostly subsidiaries or small public entities.

The main processes supporting annual audits

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors from Audit New Zealand and private sector accounting firms to carry out the annual audits of public entities. When appointing these auditors, the Auditor-General follows principles that are designed to ensure that auditors are independent, audits are of a high quality, and audit fees are reasonable. We continually monitor the allocation of audits among Audit New Zealand and private sector accounting firms to ensure that these principles are followed.

This year, we implemented the changed standards for rotating key audit team members. We also updated our policy on appointing auditors to carry out issuer audits, in response to the Financial Markets Conduct Act 2013.

Each year, an independent reviewer examines the probity and objectivity of the methods and systems we use to allocate and/or tender audits, and to monitor the reasonableness of audit fees. This year's review confirmed the probity and

² In accordance with section 19 of the Public Audit Act 2001, we also audit some organisations that are not public entities. See Appendix 2.

objectivity of those methods and systems. Appendix 3 contains the review report by Sir David Gascoigne.

We regularly monitor audit fees to ensure that they are fair to public entities, and provide a fair return to auditors for the work required to meet the Auditor-General's auditing standards. In 2014/15, fees were increased for various reasons, including changes in the scale of operations of some entities, the variable quality of the financial statements and performance information prepared by some entities, and small changes in auditor charge-out rates (the average hourly cost of carrying out audits).

Figure 5 summarises the movements in audit fees from 2012/13 to 2014/15, based on the agreed audit fees at the time the analysis was prepared. It shows how changes in the time spent on audits and the average hourly cost of carrying out audits have affected fees. The figures exclude additional audit fees negotiated with public entities as a result of unforeseen problems arising after audit fees had been agreed. These are usually the exception. However, for the school audits for the years ended 31 December 2012 and 31 December 2013, additional audit fees were agreed with the Ministry of Education for the extra audit work resulting from problems with the payroll system for teachers (Novopay). While this was not necessary for the 2014 school audits, some additional audit work continues as a result of those problems. We are continuing to work with the Ministry of Education to minimise the effect of the Novopay problems on auditors' costs and audit fees.

Figure 5
Changes in audit fees, 2012/13 to 2014/15

Sector	2012/13 to 2013/14				2013/14 to 2014/15			
	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities
Central government	1.8%	0.3%	1.5%	396	2.4%	0.2%	2.2%	409
Local government	4.2%	3.6%	0.6%	421	2.3%	0.3%	2.0%	455
Schools	1.9%	-0.9%	2.8%	2426	2.7%	0.3%	2.4%	2404
Total	2.6%	1.2%	1.4%	3243	2.4%	0.2%	2.2%	3268

Maintaining auditors' independence

The Auditor-General's staff (including at Audit New Zealand) and appointed auditors and their staff from private sector accounting firms must meet high

standards of independence. We monitor compliance regularly. The Auditor-General works to reduce all identified threats to auditors' independence.

Publishing *The Auditor-General's Auditing Standards*

The Public Audit Act 2001 requires the Auditor-General to publish her auditing standards in a report to the House of Representatives at least once every three years, and that each annual report include a description of any significant changes to those standards.

We last published *The Auditor-General's Auditing Standards* in March 2014, including updates on various technical matters. There were no significant changes to these standards in 2014/15. The updated Auditor-General's Auditing Standards are available on our website.

Carrying out quality assurance reviews

We carry out quality assurance reviews of all appointed auditors to ensure that they have complied with the Auditor-General's Auditing Standards. We aim to review the performance of each of our appointed auditors at least once every three years.

Responding to regulatory and external reporting changes

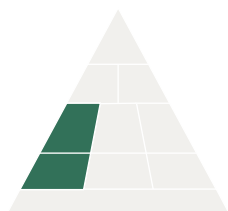
In 2013, legislative reforms changed the obligations for subsidiaries reporting under the Crown Entities Act 2004 and for those who now report under the Companies Act 1993 (instead of the now repealed Financial Reporting Act 1993). Those reforms took effect in 2014/15. As a result, some subsidiaries are no longer required to report separately, and their parent entities are now required to report only group information, rather than parent and group. The changes also allow public entities to report performance information more flexibly and collaboratively. We are now monitoring how the entities affected are implementing those reforms.

The External Reporting Board (XRB) is an independent Crown entity, which is responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's new accounting standards for public benefit entities came into effect on 1 July 2014, and will affect many public entities for their financial year ended 30 June 2015. During 2014/15, we continued our preparation for auditing the application of the new standards across the public sector.

Our performance in 2014/15

Novopay-related problems for the schools' financial year ended 31 December 2014 were significantly fewer than for 2012 and 2013. However, year-end Novopay reports continue to be produced later than was the case with the previous payroll system, which has delayed the completion of some school audits.

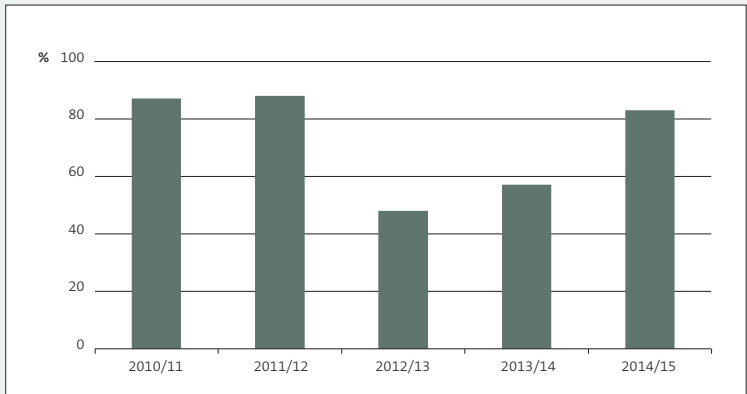
In the pages that follow, we set out the measures we use to assess our performance and how we have performed against those measures.



Output class: *Audit and assurance services*

2014/15 results and previous performance for *Audit and assurance services*

Public entities accept management recommendations and act on them																									
Measure	At least 70% of the key recommendations our auditors include in management reports are accepted and acted on.																								
Result	Achieved.																								
Comment	<p>In 2014/15, 73% of our key recommendations were accepted, and acted on. For the year ended 30 June 2015, a sample of 45 entities was assessed against this performance measure.</p> <p>Figure 6 Percentage of management report recommendations accepted by public entities, 2010/11 to 2014/15</p> <table border="1"><caption>Data for Figure 6: Percentage of management report recommendations accepted by public entities, 2010/11 to 2014/15</caption><thead><tr><th>Year</th><th>Accepted (%)</th><th>Rejected (%)</th><th>Noted or not responded to (%)</th></tr></thead><tbody><tr><td>2010/11</td><td>70</td><td>10</td><td>20</td></tr><tr><td>2011/12</td><td>72</td><td>8</td><td>20</td></tr><tr><td>2012/13</td><td>72</td><td>5</td><td>23</td></tr><tr><td>2013/14</td><td>72</td><td>2</td><td>26</td></tr><tr><td>2014/15</td><td>73</td><td>2</td><td>25</td></tr></tbody></table>	Year	Accepted (%)	Rejected (%)	Noted or not responded to (%)	2010/11	70	10	20	2011/12	72	8	20	2012/13	72	5	23	2013/14	72	2	26	2014/15	73	2	25
Year	Accepted (%)	Rejected (%)	Noted or not responded to (%)																						
2010/11	70	10	20																						
2011/12	72	8	20																						
2012/13	72	5	23																						
2013/14	72	2	26																						
2014/15	73	2	25																						

Audit reports are produced within statutory time frames													
Measure	At least 75% of public entities' audited reports are signed by the statutory time frame.												
Result	Achieved.												
Comment	<p>In 2014/15, 83% of public entities' audited reports were signed within the statutory time frame. Although there were significantly fewer problems with teachers' payroll than in the two previous years, continued delayed production of year-end payroll reports resulted in some school audits being completed after the statutory deadline.</p> <p>Figure 7 Percentage of audited financial reports signed within the statutory time frame, 2010/11 to 2014/15</p>  <table border="1"> <caption>Data for Figure 7: Percentage of audited financial reports signed within the statutory time frame, 2010/11 to 2014/15</caption> <thead> <tr> <th>Financial Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2010/11</td> <td>85</td> </tr> <tr> <td>2011/12</td> <td>85</td> </tr> <tr> <td>2012/13</td> <td>45</td> </tr> <tr> <td>2013/14</td> <td>55</td> </tr> <tr> <td>2014/15</td> <td>83</td> </tr> </tbody> </table>	Financial Year	Percentage (%)	2010/11	85	2011/12	85	2012/13	45	2013/14	55	2014/15	83
Financial Year	Percentage (%)												
2010/11	85												
2011/12	85												
2012/13	45												
2013/14	55												
2014/15	83												
Measure	Less than 30% of the audit reports not signed by the statutory time frame are because of inaction on our part.												
Result	Achieved.												
Comment	<p>15% of audit reports not signed within the statutory time frame were because of inaction on our part.</p> <p>Previously, this measure assessed our responsibility for those audit reports due but still outstanding at the end of the financial year. This year, we broadened the scope of this measure to also include audit reports that have been signed, but signed after the statutory deadline.</p>												
Management reports are produced within set time frames													
Measure	100% of management reports are issued within six weeks of issuing the audit report.												
Result	Not achieved.												
Comment	94% of management reports were issued within six weeks of issuing the audit report, about the same percentage as in previous years.												

Audit reports on local authorities' long-term plans are produced within statutory time frames	
Measure	100% of long-term plan (LTP) audit opinions are signed by 30 June (unless held up by the local authority).
Result	Achieved.
Comment	The Auditor-General has a statutory duty to issue audit reports on local authorities' LTPs which are prepared every three years. This year, we audited local authorities' 2015-2025 long-term plans. Amendments to the Local Government Act 2002 in August 2014 introduced changes to the requirements for preparing long-term plans. Local authorities are now required to prepare a consultation document to consult with their communities about the significant issues facing the local authority. They are also now required to prepare a 30-year infrastructure strategy. Our auditors issue audit opinions on the consultation documents and on the final LTP. This year the audit work was intensive and dominated the workload of our audit service providers from February to June 2015.
Measure	100% of long-term plan (LTP) management reports are issued within six weeks of issuing the LTP audit opinion.
Result	No result as measure requires review.
Comment	<p>After we adopted this measure, the Local Government Act was amended to include changed requirements for preparing LTPs. The changes shifted the focus on to consultation documents. To prepare these documents for community consultation, local authorities required timely feedback from our auditors on their consultation documents.</p> <p>This measure relates to our auditors' feedback on the final phase of the long-term planning process. A more meaningful measure of the timeliness of our management reporting would relate to our feedback on the first phase of the long-term planning process – the audit of the consultation documents and preparation of information to support the LTPs. We will review the measure in time for the next round of LTP reporting.</p>
Objective methods are used to allocate audits and set reasonable fees	
Measure	An annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits, and monitor the reasonableness of audit fees.
Result	Achieved.
Comment	The 2014/15 review confirmed that we achieved this measure. The review report by Sir David Gascoigne is provided in Appendix 3.

Skilled auditors, with a good understanding of public entities, carry out quality audits	
Measure	The results from our satisfaction survey of public entities show that, overall, at least 85% of respondents are satisfied with their audit (including the expertise of audit staff and the public entity's relationship with those staff).
Result	Achieved.
Comment	Overall, 87% of respondents were satisfied with the quality of the audit work, which is slightly more than the 85% in 2013/14.
Measure	All appointed auditors have a quality assurance grade of at least "satisfactory", based on our most recent quality assurance review.
Result	Not achieved.
Comment	<p>This revised measure reports on the quality assurance grades of all appointed auditors. Over a three-year period, we review the quality of the work for all our appointed auditors. The "most recent quality assurance review" could have been in 2014/15, 2013/14, or 2012/13. Previously, we reported on the results of only those auditors reviewed in the reporting year.</p> <p>Over the past three years, 95% of our appointed auditors overall achieved a grade of "satisfactory" or better based on the most recent quality assurance review. The 5% who did not achieve a grade of "satisfactory" were auditors of schools from small audit firms. A follow-up review of these auditors is carried out in the year after their main review.</p>

Figure 8
Financial performance of output class: *Audit and assurance services*

	2014/15 Actual \$000	2013/14 Actual \$000	2012/13 Actual \$000	2014/15 Supplementary Estimates \$000*	2015/16 Main Estimates \$000*
Income					
Crown	150	150	150	150	150
Other	78,164	72,139	70,089	78,095	75,222
Expenditure	(76,503)	(71,755)	(69,448)	(78,245)	(75,672)
Surplus/(Deficit)	1,811	534	791	-	(300)

* All Estimates information is unaudited.

Multi-class output: *Statutory auditor function*

This multi-class output includes the following:

- **Services to Parliament** – providing advice and reports to help select committees and other stakeholders;
- **Controller function** – providing assurance to Parliament that public money has been spent lawfully and within the authority provided by Parliament; and
- **Reports, studies, and inquiries** – reporting on the results of annual audits, performance audits, and other studies, and inquiring into a public entity's use of its resources.

Services to Parliament

Our advice and support assists Parliament in its scrutiny of the performance and accountability of public entities. We use information from our annual audits and from our performance audits to advise and inform Parliament, and our other stakeholders. Our reporting and advice to Parliament identifies and addresses issues and risks in the public sector.

Our advice and support includes:

- reports and advice to select committees to help their annual reviews of public entities and their examination of the Estimates of Appropriations; and
- reports to Parliament on matters arising from our annual audits.

We also report to Ministers on the results of the annual audits for entities in their portfolio.

Controller function

The Controller function provides independent assurance to Parliament that what is spent by government departments and Offices of Parliament is spent lawfully, and is within the scope, amount, and period of the appropriation or other authority.

The OAG and appointed auditors carry out standard procedures for the Controller function in keeping with *The Auditor-General's Auditing Standards* and a Memorandum of Understanding with the Treasury. We review monthly reports that the Treasury provides. We inform the Treasury of any problems and advise the action to be taken.

Each year, we report to Parliament on any significant matters related to the Controller function. Our report on the results of the 2013/14 central government audits showed that there were 21 instances of unauthorised expenditure. Most of these were associated with uncertainties arising from the Canterbury rebuild, and they equated to 0.26% of the total funding approved through the 2013 Budget.

Reports, studies, and inquiries

The Public Audit Act 2001 allows the Auditor-General to carry out performance audits, to inquire into how a public entity uses resources, and to study other matters affecting the public sector.

Each year, we publish reports on the results of our annual audits, performance audits, major inquiries, and other studies. Through this reporting to Parliament and other stakeholders, we consider matters in greater depth than is possible within the statutory scope of an annual audit, and examine ways that public entities can perform better.

Performance audits are comprehensive examinations of effectiveness and efficiency that the Auditor-General chooses to carry out. We plan our work programme carefully to provide Parliament with assurance about how well public entities manage a range of matters and programmes, making recommendations where we consider that improvements can be made.

By contrast, our inquiries work reacts to matters of current public concern. We usually receive about 200 requests for inquiries each year, spanning a wide range of concerns about central and local government entities. We deal with most requests through routine correspondence, but, each year, some require significant work. Although a request for an inquiry may not result in a full inquiry, each request takes a considerable amount of research and resource to determine whether the Auditor-General should carry out an inquiry. We have noticed the increasing complexity of the matters raised with us. If there is general public interest in an inquiry, we will usually publicly report the results.

The Auditor-General administers the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest matters in local government. Each year, we usually receive about 50 to 100 enquiries under that Act.

We bring together matters arising from our annual audits in our sector reports, and carry out other studies that result in a range of published reports and information on topical matters affecting public sector accountability and performance.

International contribution

Each year, we make a significant international contribution. We aim to strengthen public sector accountability and promote good governance by sharing our skills, information, and advice with other audit bodies throughout the world, particularly in the Pacific region.

We support accountability, transparency, and good governance in the Pacific through our commitment to the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the regional organisation of 27 audit institutions in the Pacific. The Auditor-General is Secretary-General of PASAI and represents PASAI on the governing board of the International Organisation of Supreme Audit Institutions (INTOSAI). Our focus this year was on re-organising the PASAI secretariat to support the implementation of PASAI's strategy for 2014-24. We also assisted with renegotiating development partner funding agreements to ensure ongoing resourcing of the strategy.

Hosting international delegations provides opportunities to exchange information and build professional networks. This year, we were pleased to assist representatives from the Parliaments, Treasuries and/or audit offices of Tonga, Vietnam, Japan, Thailand, Indonesia, and Malaysia.

We provided a comprehensive international secondment programme to assist the Audit Board of the Republic of Indonesia in their country's transition to accrual accounting. We were pleased that the significant investment of our time and resources contributed to increased capacity-building in the Audit Board of Indonesia.

One of the year's highlights was the Global Audit Leadership Forum (GALF) meeting in Wellington. GALF is an annual think-tank for the Auditors-General of certain developed countries to discuss global trends and issues facing public sector auditing. It was hosted this year by the Office, and delegates shared their perspectives on how the auditor's role might evolve between now and 2030.

New Zealand has been selected to chair the professionalisation meeting theme at the 2016 International Congress of Supreme Audit Institutions (INCOSAI). Preparations for this role began this year and will continue.

Our other INTOSAI involvement continued. We are a member of the INTOSAI Professional Standards Steering Committee charged with developing international public sector auditing standards. We are also a member of the project team revising the INTOSAI code of ethics.

Our performance in 2014/15

Services to Parliament

Our work plays an important part in supporting accountability to Parliament. Strong demand from select committees for our advice continued. In 2014/15, we provided advice in support of 89 annual reviews and 42 Estimates of

Appropriation examinations, and advised or gave evidence to committees on several of our reports.

To help assess the impact of our work, each year we survey a sample of our stakeholders about how they perceive the quality and usefulness of our work. In 2014/15, we interviewed 13 select committee chairs, and 12 senior public servants. The interview results indicated that, overall:

- the Office's work is highly regarded;
- stakeholders consider that the Office carries out its work impartially, and with integrity and professionalism;
- stakeholders see the Office as playing a critical role in improving public sector performance and improving trust in the public sector;
- our reports and services provide value for stakeholders in improving the performance of the public sector and in monitoring accountability of government; and
- our staff generally have a high level of understanding of the issues they report and advise on.

All 13 select committee chairs agreed that our advice and reports assist committee members to effectively scrutinise the performance of public entities and hold them to account. Eleven of the 12 senior public servants agreed that the reports and advice they receive from us add value and assist their organisation, and one was neutral. Some of those we interviewed suggested that we explore greater citizen engagement to influence change. They also suggested that we consider innovative ways to explore with our stakeholders the role of audit in a high-performing public sector. We will act on the helpful suggestions made. We thank the respondents for their considered and thoughtful input.

Reports, studies, and inquiries

Our reports

Our reports encourage high performance in the public sector, and often highlight complexities to be managed and factors that support good decision-making. Where appropriate, they make recommendations for improvement. Our work benefits the audited entities and the wider public sector by informing and promoting strong public sector management and performance.

In 2014/15, we completed reports on a range of matters. Appendix 1 lists these reports, which are available on our website. Four reports made up the core of this year's work programme. The reports examined case management and the handling of complaints in the Accident Compensation Corporation

and the Ministry of Social Development. They identified strengths and made recommendations for improvement to raise the standard of these entities' services. The reports have lessons for the whole public sector. They highlighted how complaints, if dealt with correctly, can help public entities to change and improve their services. They drew attention to the importance of a people-centred approach to delivering services, in tandem with the required technical skills, systems, and tools.

Our second overview report, *Reflections from our audits: Service delivery*, brought together our insights into, and observations about, our work on our 2013/14 work programme. The report poses questions for public sector leaders and people working in and with public entities. We hope that the report will encourage discussion and debate about how the public sector can rise to the challenges and opportunities to deliver better services.

Independent assessment of quality

Every year, two of our performance audit reports are independently reviewed for quality. This year, our reports were again highly rated. The reviewers considered that the reports were easy to read, were well structured, and had clear overviews that drew out the key issues. The conclusions were considered logical, convincing, and clearly supported by evidence. The reviewers suggested that the way the recommendations were linked to the conclusions would help agency or programme effectiveness and efficiency.

We also welcomed the reviewers' comments on how we could broaden the impact of the reports and make them more visually engaging.

Public entities' progress in acting on our recommendations

We regularly monitor public entities' progress in implementing recommendations from our performance audit reports, and publicly report on progress. This year's reporting showed that, overall, public entities have made good progress in implementing our recommendations.

Our July 2014 report to Parliament discussed the progress that public entities made in implementing recommendations from eight performance audit reports published between 2010 and 2011. Although the entities had made improvements by acting on our recommendations, not all of our recommendations had been fully implemented. In some instances, this was because the recommendations were not "quick fixes". In other instances, the public entities needed to do more to secure the intended improvements.

In December 2014, we reported on progress after publication of our 2011 performance audit report, *Government planning and support for housing on Māori land*. The report showed that, although steady progress was being made, an

ongoing and genuine commitment to effectively acting on our recommendations and on the Māori Housing Strategy was essential.

Progress with completion of our 2014/15 work programme

Figure 9 shows our progress with the performance audits and studies we expected to start in 2014/15.

In 2015/16, we plan to publish an overview of our work on the 2014/15 *Governance and accountability* theme, presenting our reflections about what enables effective governance and proper accountability in the public sector.

Figure 9

Progress with performance audits and studies we expected to start in 2014/15

Work under our *Governance and accountability* theme:

Completed and published:

- *Making the most of audit committees in the public sector* (November 2014)
- *Inland Revenue Department: Governance of the Business Transformation programme* (April 2015)
- *Effectiveness of governance arrangements in the arts, culture, and heritage sector* (May 2015)

Started and expected to be published by the end of 2015:

- Public accountability system – How people can hold public entities to account
- Auckland Transport – Governance and accountability of the Auckland Manukau Eastern Transport Initiative
- Council-controlled organisations – Governance and accountability
- Governance models in the environment sector
- Canterbury rebuild – Follow-up of *Earthquake Commission: Managing the Canterbury Home Repair Programme*
- Canterbury rebuild – Governance arrangements for community projects in Christchurch

Started and expected to be published in 2016:

- Education for Māori – Performance information and accountability

Work under our *Investment and asset management* theme:

Completed and published:

- *Water and roads: Funding and management challenges* (November 2014)

Started and expected to be published by the end of 2015/16:

- Asset management by district health boards

Work under our *Service delivery* theme:

Started and expected to be published in 2016:

- Suicide in New Zealand

Commission of Inquiry into Police Conduct:

Completed and published:

- *Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Fourth monitoring report* (February 2015)

Consultation on our 2015/16 work programme

Consultation with Parliament and other stakeholders helps ensure that the Office's work is relevant and useful to Parliament, public entities, and the public. Select committees endorsed our proposed 2015/16 work programme and its theme – *Investment and asset management*. They gave us useful comments, which we will keep in mind as we carry out our future work.

Investment and asset management is an important focus for our work in 2015/16. The New Zealand public sector manages significant investments and assets that are critical to providing public services. Public entities are accountable to Parliament for the public money they invest in financial and physical assets. It is important that these public resources are used wisely and that public assets continue to support long-term delivery of public services.

The importance of meeting the future challenges of infrastructure assets-based services was highlighted in our report *Water and roads: Funding and management challenges*. We welcomed the discussion and debate that the report has encouraged in the local government sector. We will continue to work with local authorities as they meet the challenge of delivering future water and road services to their communities.

Inquiries

The most notable feature of the past year has been the increase in the number of requests for inquiries and other assistance that we have received. We usually receive about 200 requests annually. In 2014/15, we received 281 requests, compared to 181 in 2013/14. Most of the increase was in relation to central government matters. We usually receive 60-65 central government enquiries, but this year we received 119. Enquiries relating to local government matters also increased, by about 50% to 162. This is to be expected in a year when local authorities were preparing and consulting on their long-term plans.

In contrast, enquiries concerning Local Authorities (Members' Interests) Act 1968 (LAMIA) matters decreased. We received 46 requests, compared with 69 in the previous year.

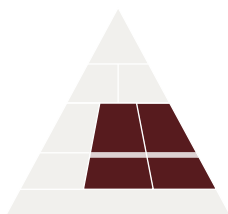
We completed work on 269 inquiries matters and 47 LAMIA matters during the year. We met our timeliness targets for routine inquiries in central and local government, and for LAMIA matters.

When the Auditor-General decides to inquire into an issue, we determine whether that inquiry will be routine, or whether it is to be a "significant" or "major" inquiry. The primary distinction between the two is scope. We expect to complete a major inquiry within 12 months, and a significant inquiry within six months.

We completed five significant inquiries in 2014/15. Three concerned the restructuring of AgResearch and allegations of conflicts of interest on the part of a member of the Health Promotion Agency and some members of the Ashburton District Council. The other two cannot be identified, as they were the results of protected disclosures.

We started one other significant inquiry, which was ongoing at year-end – into how the Queenstown Lakes District Council and its chief executive have managed the chief executive's interest in a proposed special housing area. We started one major inquiry this year – into Auckland Council's management of the project to develop a new town centre at Massey North – which was also ongoing at year-end.

As previously signalled, we have reviewed the way we manage our inquiries work to respond to the growing pressure on workload and public expectations of what we can deliver. The Budget for 2015/16 includes a small increase in Vote Audit to establish a dedicated inquiries team with three additional staff members. We expect this team to be operating by the second quarter of 2015/16.



2014/15 results and previous performance for *Statutory auditor function*

Public entities respond to the recommendations for improvement from our reports	
Measure	Entities accept the recommendations made in our reports, and the reports influence improvement.
Result	<ul style="list-style-type: none"> • Achieved for performance audits. • Achieved for inquiries when last assessed.
Comment	<p>Performance audits</p> <p>We publish articles on our website that discuss the progress public entities have made in implementing recommendations from some of our previous performance audit reports. Periodically, we bring these articles together in a report to Parliament, and sometimes we do more in-depth follow-up reports.</p> <p>The articles and reports we published in 2014/15 showed that, overall, entities had made good progress in putting our recommendations into effect. In some instances, entities needed to do more to achieve the intended improvements.</p> <p>Inquiries</p> <p>Our inquiry reports do not always include recommendations. In 2014/15, no assessments were necessary. In 2013/14, we followed up on a major inquiry report from 2010. The entity had acted to address all the points we raised.</p> <p>In 2012/13, no assessments were necessary. In 2011/12, we followed up on three major inquiry reports. In two instances, our recommendations were accepted in principle. In 2010/11, we followed up on three inquiries. In all instances, the entities accepted our comments and acted to address our concerns.</p>

Parliament, local government, and other stakeholders are supported and get value from our advice	
Measure	At least 85% of stakeholders we survey confirm that our advice assists them.
Result	Achieved.
Comment	<p>This year's stakeholder survey sample size was 25. Thirteen select committee chairpersons and 12 senior public servants were interviewed.</p> <p>All but one of the stakeholders interviewed agreed that our advice assists them.</p> <p>All 13 select committee chairpersons agreed that our advice and reports assist them in their work. Of the 12 senior public servants, 11 agreed that our reports and advice add value and assist their organisation. One was neutral.</p>

We deliver an appropriate work programme on time	
Measure	Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme).
Result	Achieved.
Comment	<p>We received helpful comments from five select committees and from other stakeholders, which we considered in finalising our work programme. Consultation on our work programme helps to ensure that our proposed work will be relevant and useful to Parliament, public entities, and the public.</p> <p>From 2010/11 to 2014/15, Parliament has mainly supported our proposals and approach, with useful suggestions for improving the scope of some of our performance audits.</p>
Measure	At least 75% of the projects in the programme of work under this output class are delivered within their planned time frames.
Result	Not achieved.
Comment	<p>This new measure reports on the timeliness of project completion within our work programme. It was introduced to bring more disciplined processes into our work programme. We consider that 75% is a fair but challenging target for timeliness of project completion.</p> <p>17% of projects (4 out of 23) were delivered within their planned time frames in 2014/15, well below our target of 75%.</p> <p>Of the 83% that were not completed on time:</p> <ul style="list-style-type: none"> • 39% (9 out of 23) were completed up to 3 months later than planned; • 22% (5 out of 23) were completed between 3 and 6 months later than planned; • 17% (4 out of 23) were completed between 6 and 9 months later than planned; and • 4% (1 out of 23) were completed 10 months later than planned. <p>We have carefully examined why most of our projects were completed later than planned. Each year, we plan an ambitious work programme, and these results have highlighted the need to set more realistic time frames and be more disciplined in managing the dependencies that influence timeliness of project completion. For example, we need to better plan for unexpected delays in receiving information from entities and contractors, and allow more time to consult. We also need to plan for unexpected turnover or leave of absence of our staff.</p> <p>We expect to progressively improve our planning and project management, and improve the timeliness of completion of our work programme projects.</p>

We use quality standards and follow appropriate process to carry out our statutory auditor function	
Measure	Quality standards are consistently met.
Result	Achieved.
Comment	<p>This new composite measure was created to give a more comprehensive picture of quality standards across our <i>Statutory auditor function</i> work.</p> <p>Overall, we are satisfied that quality standards were consistently met in 2014/15. For example, 92% of our stakeholders confirmed the relevance and usefulness of our reports and services, and an independent assessment of a sample of our reports concluded that they were of high quality.</p>
Measure	Process standards are consistently met.
Result	Achieved.
Comment	<p>This new composite measure was created to give a more comprehensive picture of process standards across our <i>Statutory auditor function</i> work.</p> <p>Overall, we are satisfied that process standards were consistently met in 2014/15. For example, the Australian National Audit Office reviewed two of our performance audits and found that our audit methodology was largely in keeping with the Office's processes and practices.</p> <p>The most recent internal quality assurance reviews across our statutory auditor function work, confirmed that our policies, procedures and standards have been applied appropriately and that they meet relevant standards and procedures.</p>

Our advice and inquiries are completed in a timely way	
Measure	100% of briefings are given to select committees at least two days before an examination, unless otherwise agreed.
Result	Achieved.
Comment	From 2010/11 to 2014/15, all reports and advice given to select committees was at least two days before an examination, unless otherwise agreed.
Measure	At least 80% of our findings on inquiries are reported to the relevant parties within three months for routine inquiries, six months for significant inquiries, and 12 months for major inquiries.
Result	<ul style="list-style-type: none"> • Achieved for routine inquiries. • Not achieved for significant inquiries.

Comment

91% of findings for routine inquiries were reported within three months, and 67% of findings for significant inquiries were reported within six months. There were no major inquiries completed in 2014/15.

Figure 10
Percentage of findings on routine inquiries and significant inquiries reported to the relevant parties within the target period, 2010/11 to 2014/15

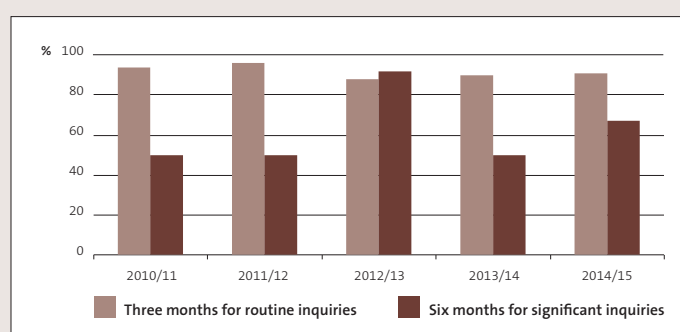


Figure 11
Number of findings on major inquiries reported to the relevant parties within the target period, 2010/11 to 2014/15

Year	Major inquiries	Reported within 12 months
2014/15	0*	0
2013/14	2	0
2012/13	4	4
2011/12	1	1
2010/11	3	1

* We started a major inquiry (into Massey North town centre development) in January 2015, but this had not been completed at 30 June 2015.

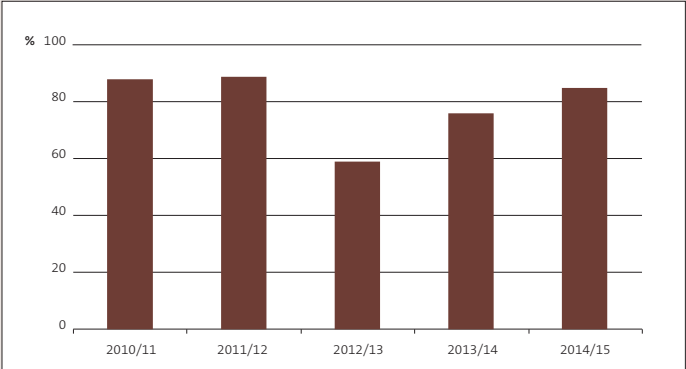
Measure	At least 80% of Local Authorities (Members' Interests) Act 1968 matters are completed within 30 working days.												
Result	Achieved.												
Comment	<p>85% of enquiries were completed within 30 working days.</p> <p>Figure 12 Percentage of enquiries under the Local Authorities (Members' Interests) Act 1968 completed within 30 working days, 2010/11 to 2014/15</p>  <table border="1"> <caption>Data for Figure 12</caption> <thead> <tr> <th>Financial Year</th> <th>Percentage of enquiries completed within 30 working days</th> </tr> </thead> <tbody> <tr> <td>2010/11</td> <td>85%</td> </tr> <tr> <td>2011/12</td> <td>85%</td> </tr> <tr> <td>2012/13</td> <td>58%</td> </tr> <tr> <td>2013/14</td> <td>75%</td> </tr> <tr> <td>2014/15</td> <td>82%</td> </tr> </tbody> </table>	Financial Year	Percentage of enquiries completed within 30 working days	2010/11	85%	2011/12	85%	2012/13	58%	2013/14	75%	2014/15	82%
Financial Year	Percentage of enquiries completed within 30 working days												
2010/11	85%												
2011/12	85%												
2012/13	58%												
2013/14	75%												
2014/15	82%												
Controller function is carried out effectively													
Measure	Monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.												
Result	Achieved.												
Comment	2010/11 to 2014/15: All monthly procedures were followed and agreed time frames achieved.												

Figure 13
Financial performance of multi-class output: *Statutory auditor function*

	2014/15 Actual \$000	2013/14 Actual \$000	2012/13 Actual \$000	2014/15 Supplementary Estimates \$000*	2015/16 Main Estimates \$000*
Income					
Crown	9,047	9,047	9,047	9,047	9,627
Other	199	176	156	260	230
Expenditure	(9,012)	(8,799)	(9,065)	(9,307)	(9,857)
Surplus/(Deficit)	234	424	138	-	-

* All Estimates information is unaudited.

Organisational health and capability

3

We place high importance on having a strong foundation of skilled people working together in a well-run organisation.

Our people

We are committed to an organisational culture where our people are supported and have the capability and opportunity to do their best work. We take joint responsibility with our people for building capability and strengthening their contribution to the Office and to the public sector. The Office seeks to provide our people with a supportive and rewarding place to work.

Equal employment opportunities

Our equal employment opportunities programme is designed to enable us to continue to attract and appoint people who have the appropriate skills, values, and attributes to meet the Office's needs. The principles and practice of Equal Employment Opportunities are embedded in our human resources policies. We consider that we have continued to give effect to those principles during the year.

The Office is committed to inclusive work practices and culture, and bases appointments on merit. Our managers are made aware of, and given support to fulfil, our good employer obligations through specific programmes, courses, and one-on-one coaching. We monitor our recruitment and employment decisions and practices. Details about staff numbers and staff diversity between 2012 and 2015 are available on our website.

Building our staff capability

We focus on improving every staff member's skills, as identified in our competency frameworks. We continue our focus on our leadership development programmes, and on improving our staff's engagement (as measured by our annual staff engagement survey). Our average staff engagement scores throughout the organisation showed a marginal decrease from 2013/14 (4.03 in 2013/14 and 3.91 in 2014/15). We have observed this effect in years where we audit local authority long-term plans and the workload for many of our staff considerably increases. We intend to further explore the reasons for this effect.

The capability of our audit staff continues to be well rated. Feedback from public entities through our client survey shows their rating of our audit staff's service quality improved. This year's 7.6 out of 10 rating was an improvement from 7.5 in 2013/14.

Our audit staff have consistently performed well in the final Professional Competence Examination of the Chartered Accountants Programme. In 2014/15, we again achieved a 100% pass rate.

Workplace health and safety

We have an active employees' Health and Safety Committee, with staff representation from each of our seven office locations. The Committee promotes positive health and safety policies and practices in all of the Office's workplaces, identifies any areas of risk to Office staff, and implements any health and safety activities.

The Health and Safety Committee is sponsored and supported by an executive oversight group. The activities of the Committee are reported to the leadership teams, as well as to the Audit and Risk Committee.

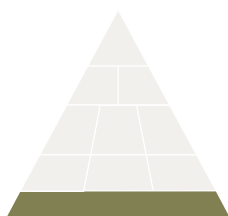
Information systems

Our work involves intensive use of information. We rely on information systems to support this work. Our audit teams in the field use specialist auditing software and remote access tools.

We recognise the significance of the information and insights that the Auditor-General, her Appointed Auditors, and their staff gather as they work, and we are committed to using this to help improve the public sector's performance. To improve the collection, analysis, sharing, and reporting of this information, we have completed development of the first phase of our Business Intelligence platform – an analytical system where we store a wide variety of information about public entities. Our objective is to use this platform to better understand risks and issues throughout the public sector, and to continue our reporting about these. We intend to continue adding data to the system that will enhance our understanding of entity and sector risk.

Facilities

In 2014/15, we completed the relocation of our Hamilton-based staff into newly refurbished offices. Contact details for our offices are available on the OAG and Audit New Zealand websites.



2014/15 results and previous performance for organisational health and capability

Staff are engaged and satisfied													
Measure	Our staff engagement rating of 3.8 is improved (or at least maintained).												
Result	Achieved.												
Comment	<p>The Office's staff engagement survey is based on responses to statements on a 5-point scale, with "1" being the lowest score and "5" being the highest.</p> <p>This revised measure now has a numerical target – 3.8 or better. In 2014/15, we achieved our target with a score of 3.91.</p> <p>Figure 14 Overall staff engagement scores, 2010/11 to 2014/15</p> <table border="1"> <caption>Overall staff engagement scores, 2010/11 to 2014/15</caption> <thead> <tr> <th>Year</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>2010/11</td> <td>3.78</td> </tr> <tr> <td>2011/12</td> <td>3.84</td> </tr> <tr> <td>2012/13</td> <td>3.92</td> </tr> <tr> <td>2013/14</td> <td>4.03</td> </tr> <tr> <td>2014/15</td> <td>3.91</td> </tr> </tbody> </table>	Year	Score	2010/11	3.78	2011/12	3.84	2012/13	3.92	2013/14	4.03	2014/15	3.91
Year	Score												
2010/11	3.78												
2011/12	3.84												
2012/13	3.92												
2013/14	4.03												
2014/15	3.91												
Measure	The average years of experience of our qualified auditors is improved (or at least maintained).												
Result	Achieved.												
Comment	<p>For this revised capability measure, we assessed the average years' experience of our Audit New Zealand staff after their qualification as a Chartered Accountant (or equivalent).</p> <p>In 2014/15, the average years' experience of our qualified auditors was 10.7 years, an improvement from 9.9 years in 2013/14.</p>												
Measure	Staff turnover.												
Result	No target set.												
Comment	Overall, we are comfortable with a turnover of up to 20%, but would prefer no more than 15%. This year's turnover was 11.1%, a reduction on 14.6% in 2013/14.												

4

Financial statements 2014/15

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Audit report



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2015

We have been appointed by the House of Representatives to carry out the audit of the financial statements and non-financial performance information included in the annual report of the Controller and Auditor-General for the year ended 30 June 2015.

We have audited:

- the financial statements of the Controller and Auditor-General on pages 43 to 70, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity, statement of cash flows, statement of output expenses, other expenses and capital expenditure against appropriations, and statement of unappropriated expenditure for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Controller and Auditor-General that comprises the statement of service performance on pages 14 to 34.

Opinion

In our opinion:

- the financial statements of the Controller and Auditor-General on pages 43 to 70:
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
 - present fairly, in all material respects, the Controller and Auditor-General's:
 - financial position as at 30 June 2015;
 - financial performance and cash flows for the year ended on that date;
 - output expenses, other expenses and capital expenditure against each appropriation and each class of outputs included in each output expense appropriation for the year ended 30 June 2015; and
 - unappropriated expenditure for the year ended 30 June 2015
- the non-financial performance information of the Controller and Auditor-General on pages 14 to 34:
 - complies with generally accepted accounting practice in New Zealand; and
 - presents fairly, in all material respects, the Controller and Auditor-General's service performance and outcomes for the year ended 30 June 2015, including for each class of outputs:
 - the service performance compared with the forecasts in the forecast statement of service performance at the start of the financial year; and
 - the revenue earned and output expenses incurred as compared with the forecasts in the forecast statement of service performance at the start of the financial year.

The audit was completed on 30 September 2015. This is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out the audit in accordance with International Standards on Auditing (New Zealand), and we applied the Auditor-General's Auditing Standard 4 (Revised) – *The Audit of Service Performance Reports* that is also applied to the audit of non-financial performance information in many other public sector entities in New Zealand. Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the non-financial performance information are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Controller and Auditor-General's preparation of the financial statements and the non-financial performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Controller and Auditor-General's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Controller and Auditor-General;
- the appropriateness of the reported non-financial performance information within the Controller and Auditor-General's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the non-financial performance information; and
- the overall presentation of the financial statements and the non-financial performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.



Responsibilities of the Controller and Auditor-General

The Controller and Auditor-General is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Controller and Auditor-General's financial position, financial performance, cash flows, output expenses, other expenses and capital expenditure against each appropriation and unappropriated expenditure; and
- present fairly the Controller and Auditor-General's service performance and outcomes.

The Controller and Auditor-General is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error.

The Controller and Auditor-General's responsibility arises from the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the External Reporting Board.

We carry out some audits of public entities on behalf of the Controller and Auditor-General. The amount of work we carry out on behalf of the Controller and Auditor-General is no more than the amount of work we did prior to our appointment as auditor of the Controller and Auditor-General, and is insufficient to threaten our independence. Other than the audit of the Controller and Auditor-General and the audits we carry out on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Controller and Auditor-General.

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

Statement of responsibility

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

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

- all transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.

In my opinion, the information set out in the statement of service performance, the financial statements, and attached notes to those statements (on pages 14-34 and 43-70) fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2015, and our financial position as at that date.

Signed:



Lyn Provost
Controller and Auditor-General

30 September 2015

Countersigned:



Maria Viviers
Chief Financial Officer

30 September 2015

Statement of comprehensive revenue and expense for the year ended 30 June 2015

This statement reports the revenue and expense relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expense of each output class are on pages 21 and 34.

Explanations of significant variances against the Main Estimates are detailed in Note 21.

	Notes	Actual 2014/15 \$000	Actual 2013/14 \$000	Main Estimates 2014/15 \$000*	Supplementary Estimates 2014/15 \$000*	Main Estimates 2015/16 \$000*
Revenue						
Crown funding	2	10,147	10,120	10,120	10,147	10,727
Audit fee revenue	3	78,137	72,116	75,390	78,095	75,222
Other revenue		226	199	260	260	230
Gain on sale of plant and equipment		30	31	-	-	-
Total revenue		88,540	82,466	85,770	88,502	86,179
Expenditure						
Personnel costs	4	40,123	37,664	39,392	39,686	41,060
Other operating costs	5	44,838	42,079	44,735	45,442	43,611
Depreciation and amortisation expense	9, 10	1,006	1,236	1,145	1,030	1,134
Capital charge	6	498	498	498	498	498
Total expenditure		86,465	81,477	85,770	86,656	86,303
Surplus/(deficit)		2,075	989	-	1,846	(124)

* All Estimates information is unaudited.

Statement of changes in equity for the year ended 30 June 2015

	Notes	Actual 2014/15 \$000	Actual 2013/14 \$000	Main Estimates 2014/15 \$000*	Supplementary Estimates 2014/15 \$000*	Main Estimates 2015/16 \$000*
Balance at 1 July		6,755	6,221	6,221	6,755	8,601
Surplus/(deficit)		2,075	989	-	1,846	(124)
Surplus repayment due to the Crown	12	(264)	(455)	-	-	-
Balance at 30 June	14	8,566	6,755	6,221	8,601	8,477

* All Estimates information is unaudited.

Statement of financial position as at 30 June 2015

This statement reports total assets and liabilities. The difference between the total assets and total liabilities is called equity. Explanations of significant variances against the Main Estimates are detailed in Note 21.

	Notes	Actual 2014/15 \$000	Actual 2013/14 \$000	Main Estimates 2014/15 \$000*	Supplementary Estimates 2014/15 \$000*	Main Estimates 2015/16 \$000*
Current assets						
Cash and cash equivalents		3,962	3,348	4,363	5,977	5,750
Receivables	8	8,793	6,470	6,000	6,750	5,750
Prepayments		446	449	334	449	449
Work in progress		1,562	1,687	1,200	1,200	2,000
<i>Total current assets</i>		14,763	11,954	11,897	14,376	13,949
Non-current assets						
Plant and equipment	9	3,886	4,057	3,888	3,896	3,517
Intangible assets	10	620	565	652	806	1,031
<i>Total non-current assets</i>		4,506	4,622	4,540	4,702	4,548
Total assets		19,269	16,576	16,437	19,078	18,497
Current liabilities						
Creditors and other payables	11	5,910	4,688	5,360	5,838	5,288
Repayment of surplus due to Crown	12	264	455	-	-	-
Employee entitlements	13	3,967	4,095	4,273	4,079	4,161
<i>Total current liabilities</i>		10,141	9,238	9,633	9,917	9,449
Non-current liabilities						
Employee entitlements	13	536	549	583	560	571
Income in advance		26	34	-	-	-
<i>Total non-current liabilities</i>		562	583	583	560	571
Total liabilities		10,703	9,821	10,216	10,477	10,020
Net assets		8,566	6,755	6,221	8,601	8,477
Equity						
Taxpayers' funds	14	6,221	6,221	6,221	6,221	6,221
Memorandum account	20	2,345	534	-	2,380	2,256
Total equity		8,566	6,755	6,221	8,601	8,477

* All Estimates information is unaudited.

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2015

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

	Notes	Actual 2014/15 \$000	Actual 2013/14 \$000	Main Estimates 2014/15 \$000*	Supplementary Estimates 2014/15 \$000*	Main Estimates 2015/16 \$000*
Cash flows from operating activities						
Receipts from the Crown		10,147	10,120	10,080	10,147	10,727
Receipts from public entities ¹		43,704	40,136	46,031	45,625	43,262
Payments to suppliers ¹		(11,177)	(10,468)	(15,653)	(13,146)	(13,484)
Payments to employees		(40,098)	(37,691)	(37,971)	(37,934)	(39,273)
Net GST paid ²		(147)	(128)	-	-	-
Capital charge paid		(498)	(498)	(498)	(498)	(498)
<i>Net cash flow from operating activities</i>	15	1,931	1,471	1,989	4,194	734
Cash flows from investing activities						
Receipts from sale of plant and equipment		113	103	86	89	70
Purchase of plant and equipment		(739)	(755)	(707)	(771)	(697)
Purchase of intangible assets		(236)	(273)	(200)	(428)	(480)
<i>Net cash flow used in investing activities</i>		(862)	(925)	(821)	(1,110)	(1,107)
Cash flows from financing activities						
Surplus repayment to the Crown		(455)	(929)	-	(455)	-
<i>Net cash flow used in financing activities</i>		(455)	(929)	-	(455)	-
Total net increase (decrease) in cash held		614	(383)	1,168	2,629	(373)
Cash at the beginning of the year		3,348	3,731	3,195	3,348	6,123
Cash at the end of the year		3,962	3,348	4,363	5,977	5,750

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

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

* All Estimates information is unaudited.

The accompanying notes form part of these financial statements.

Statement of commitments as at 30 June 2015

This statement records expenditure to which the Office is contractually committed at 30 June 2015.

Non-cancellable operating lease commitments

The Office leases property, plant, and equipment in the normal course of its business. The majority of these leases are for premises, which have a non-cancellable leasing period ranging from three to nine years.

The Office's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Office by any of its leasing arrangements.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2014/15 \$000	Actual 2013/14 \$000
Not later than one year	2,466	2,458
Later than one year and not later than five years	8,690	8,994
Later than five years	1,487	3,242
Total non-cancellable operating lease commitments	12,643	14,694

Statement of contingent liabilities and contingent assets as at 30 June 2015

This statement discloses situations that existed at 30 June 2015, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Commissioners of the Kaipara District Council have filed a statement of claim against the Auditor-General relating to various audits of the Kaipara District Council. The Auditor-General is defending the claim (nil as at 30 June 2014).

Contingent assets

The Office did not have any contingent assets as at 30 June 2015 (nil as at 30 June 2014).

Statement of output expenses, other expenses, and capital expenditure against appropriations for the year ended 30 June 2015

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

Vote Audit	Actual 2014/15 \$000	Actual 2013/14 \$000	Main Estimates 2014/15 \$000*	Supplementary Estimates 2014/15 \$000*	Main Estimates 2015/16 \$000*
Appropriations for output expenses					
Statutory auditor function (multi-class appropriation)					
Supporting accountability to Parliament	3,124	3,032	2,720	3,320	2,870
Performance audits and inquiries	5,888	5,767	6,587	5,987	6,987
<i>Total Statutory auditor function</i>	9,012	8,799	9,307	9,307	9,857
Audit and assurance services	150	150	150	150	150
Provision of audit and assurance services (revenue-dependent appropriation) ¹	76,353	71,605	75,390	78,095	75,522
Total appropriations for output expenses	85,515	80,554	84,847	87,552	85,529
Other expenses to be incurred by the Office					
Remuneration of the Auditor-General and Deputy Auditor-General ²	950	923	923	950	950
Total operating expenses	86,465	81,477	85,770	88,502	86,479
Capital expenditure	973	1,028	907	1,199	1,177
Total annual and permanent appropriations	87,438	82,505	86,677	89,701	87,656

1 Revenue-dependent appropriation – Audit and assurance services. In 2014/15, the Office earned \$78.137 million from audit and assurance services – see Note 3. The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation.

2 Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

* All Estimates information is unaudited.

Statement of unappropriated expenditure for the year ended 30 June 2015

The Office incurred no unappropriated expenditure during the year ended 30 June 2015 (nil for the year ended 30 June 2014).

Notes to the financial statements

for the year ended 30 June 2015

Note 1: Statement of accounting policies

Reporting entity

The Controller and Auditor-General (the Office) is a corporation sole established by section 10(1) of the Public Audit Act 2001, is an Office of Parliament for the purposes of the Public Finance Act 1989, and is domiciled and operates in New Zealand. The relevant legislation governing the Office's operations is the Public Audit Act 2001. The Office's ultimate parent is the New Zealand Crown.

The Office's primary objective is to provide independent assurance to Parliament and the public about how public entities are performing, through auditing public entities, carrying out performance audits, providing reports and advice to Parliament, and carrying out inquiries and other special studies.

The Office has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Office are for the year ended 30 June 2015, and were authorised for issue by the Controller and Auditor-General on 30 September 2015.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements of the Office have been prepared in accordance with sections 45A, 45B, 45BA, and 45F of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards, with no material changes on transition.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars (\$000).

2014/15 Main Estimates and Supplementary Estimates

The Main Estimates and Supplementary Estimates figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing the 2014/15 financial statements.

The 2014/15 Main Estimates figures are those included in the Office's annual plan for the year ended 30 June 2015. In addition, the financial statements also present updated figures from the Supplementary Estimates. The budget figures are unaudited.

2015/16 forecast financial statements

The 2015/16 forecast financial statements comply with PBE FRS No. 42: *Prospective Financial Statements*, and have been prepared in accordance with NZ GAAP.

The 2015/16 forecast financial statements are based on the Main Estimates published in Budget 2015, and are unaudited. There is no material impact on this information since the publication of the Main Estimates.

Statement of significant underlying assumptions

The forecast financial statements were compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Controller and Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Controller and Auditor-General will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of annual audits will remain substantially the same; 2015/16 excludes the triennial audits of local authorities' long-term plans, which are next due to be carried out in 2017/18.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand and the effects of the Public Audit Act 2001.
- The Controller and Auditor-General will continue to use audit expertise from Audit New Zealand and private sector accounting firms.
- Forecast personnel costs are based on expected staff numbers necessary to deliver the work of the Office, incorporating remuneration rates that are based on current costs adjusted for anticipated market changes.

- Operating costs are based on estimates of costs that will be incurred under the Office's current operating model, with small allowances for price increases.
- Forecast capital expenditure and depreciation are based on planned replacement of motor vehicles and IT equipment, plus continued investment in developing the Office's software programs.

These assumptions were adopted as at 31 March 2015.

Accounting policies

There have been no changes in accounting policies during the financial year. The transition to PBE accounting standards has not required any significant changes in accounting policies.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is derived mainly from the Crown for outputs provided to Parliament, from fees for the audit of public entities' financial statements, and from fees for other assurance work carried out by the Office, largely at the request of public entities.

The PBE accounting standards require revenue to be classified as exchange or non-exchange. Exchange transaction revenue arises when one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange. The Office's fee revenue is classified as exchange revenue.

Non-exchange transaction revenue arises from transactions without an apparent exchange of approximately equal value. The Office's funding from the Crown is classified as non-exchange revenue.

Funding from the Crown

Revenue from the Crown is measured based on the Office's funding entitlement for the year. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments approved in the Appropriation (Supplementary Estimates) Act for the year.

There are no conditions attached to the funding from the Crown. However, the Office can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue from the Crown has been determined to be equivalent to the funding entitlement.

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

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

Fee revenue generated by contracted audit service providers for audits

Fee revenue generated by contracted audit service providers (other than Audit New Zealand) for audits of public entities is also recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Expenditure

Expenses of audit service providers

Fees for audits of public entities carried out by contracted audit service providers are recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

Leases

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

Foreign currency transactions

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

Capital Charge

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

Financial instruments

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

Cash and cash equivalents

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

Work in progress

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

Receivables

Short-term receivables are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Office will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Property, plant, and equipment

Property, plant, and equipment include furniture and fittings, leasehold improvements, office equipment, information technology hardware, and motor vehicles. The property, plant, and equipment are measured at cost, less accumulated depreciation and impairment losses.

Additions

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

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

In most instances, an item of property, plant, and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Subsequent costs

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

The costs of day to day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

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

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Office's website are recognised as an expense when incurred.

Amortisation

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

The useful life and associated amortisation rate of intangible assets have been estimated at between 2.5 and 5 years (20% - 40%).

Impairment of property, plant, and equipment and intangible assets

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

Value in use is determined using an approach based on a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is also recognised in the surplus or deficit.

Payables

Short-term payables are recorded at their face value.

Revenue in advance

Revenue in advance is recognised where amounts billed are in excess of the amounts recognised as revenue.

Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

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

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

A liability and an expense are recognised for bonuses where it is contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows.

Superannuation schemes

Obligations for contributions to the Auditor-General's Retirement Savings Plan, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution plans, and are recognised as an expense in the surplus or deficit as incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognised for future operating losses.

Equity

Equity is the Crown's investment in the Office and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds and a memorandum account.

Memorandum account

The Office's memorandum account reflects the cumulative surpluses/deficits on audit and assurance services provided that are intended to be fully cost recovered from third parties through audit fees. The balance of the memorandum account is expected to trend toward zero over time.

Commitments

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

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

Goods and Services Tax

All items in the financial statements are presented exclusive of Goods and Services Tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Output cost allocation

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

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

Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output. These costs include: corporate services costs, variable costs such as travel, and operating overheads such as property costs, depreciation, and capital charges. Indirect costs are allocated according to the time charged to a particular activity.

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

Critical accounting estimates and assumptions

The preparation of these financial statements requires judgements, estimations, and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Audit fee revenue and work in progress

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

Depreciation and amortisation

Determining the depreciation rates for physical assets and amortisation rates for intangible assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for depreciation or amortisation costs, accumulated depreciation or amortisation, and net book values.

Retirement and long service leave

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in Note 13.

Note 2: Crown funding

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

Note 3: Audit fee revenue

	Actual 2014/15 \$000	Actual 2013/14 \$000
Fee revenue generated by the Office for audit and assurance services	44,774	40,289
Fee revenue generated by other contracted audit service providers for audits of public entities*	33,363	31,827
Total audit fee revenue and other income	78,137	72,116

* Revenue generated by contracted audit service providers (other than Audit New Zealand) does not involve any cash transactions with the Office.

Note 4: Personnel costs

Employer contributions to defined contribution plans include contributions to the Auditor-General's Retirement Savings Plan, KiwiSaver, and the Government Superannuation Fund.

	Actual 2014/15 \$000	Actual 2013/14 \$000
Salaries and wages	38,851	36,554
Other employee-related costs	270	142
Employer contributions to defined contribution plans	1,143	1,130
Decrease in employee entitlements	(141)	(162)
Total personnel costs	40,123	37,664

Note 5: Other operating costs

	Actual 2014/15 \$000	Actual 2013/14 \$000
Decrease in provision for impairment of receivables	-	(85)
Fees to CST Nexia for the audit of the Office's financial statements	98	94
Fees to CST Nexia for other assurance services provided to the Office	-	6
Operating lease payments	2,399	2,357
Fees for audits of public entities carried out by CST Nexia*	126	127
Fees for audits of public entities carried out by other contracted audit service providers*	33,237	31,700
Net loss on disposal	-	1
Other expenses	8,978	7,879
Total other operating costs	44,838	42,079

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

Note 6: Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 31 May and 30 November each year. The capital charge rate is determined by the Treasury, and for the year ended 30 June 2015 was 8% (2014 – 8%).

Note 7: Overdraft facility

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

During this financial year, no funds were drawn down under the facility (and none were drawn down in 2013/14).

Note 8: Receivables

	Actual 2014/15 \$000	Actual 2013/14 \$000
Receivables under exchange transactions		
Debtors	8,784	6,464
Other receivables	9	6
Total receivables under exchange transactions	8,793	6,470
Total receivables under non-exchange transactions	-	-
Total receivables	8,793	6,470

The carrying value of receivables approximates their fair value.

The ageing profile of receivables at year-end is detailed below:

	Actual 2014/15			Actual 2013/14		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	6,994	-	6,994	5,115	-	5,115
Past due 1-30 days	946	-	946	938	-	938
Past due 31-60 days	437	-	437	349	-	349
Past due 61-90 days	155	-	155	3	-	3
Past due over 90 days	252	-	252	59	-	59
Carrying amount	8,784	-	8,784	6,464	-	6,464

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

There are no specific debtors assessed as requiring a provision this year.

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

	Actual 2014/15 \$000	Actual 2013/14 \$000
Balance at 1 July	-	85
Provisions written back during the year	-	(85)
Balance at 30 June	-	-

Note 9: Plant and equipment

	Furniture and fittings \$000	Office equipment \$000	Leasehold improvements \$000	IT hardware \$000	Motor vehicles \$000	Total \$000
Cost						
Balance at 1 July 2013	2,068	500	2,612	2,095	1,292	8,567
Additions	20	16	406	207	106	755
Disposals	(375)	(120)	-	(116)	(185)	(796)
Balance at 30 June 2014	1,713	396	3,018	2,186	1,213	8,526
Additions	15	4	43	345	330	737
Disposals	(124)	-	-	(3)	(348)	(475)
Balance at 30 June 2015	1,604	400	3,061	2,528	1,195	8,788
Accumulated depreciation and impairment losses						
Balance at 1 July 2013	2,000	353	79	1,448	478	4,358
Depreciation expense	25	63	200	314	234	836
Elimination on disposal	(375)	(120)	-	(116)	(114)	(725)
Balance at 30 June 2014	1,650	296	279	1,646	598	4,469
Depreciation expense	27	59	215	307	217	825
Elimination on disposal	(124)	(1)	-	(3)	(264)	(392)
Balance at 30 June 2015	1,553	354	494	1,950	551	4,902
Carrying amounts						
Balance at 1 July 2013	68	147	2,533	647	814	4,209
Balance at 30 June 2014	63	100	2,739	540	615	4,057
Balance at 30 June 2015	51	46	2,567	578	644	3,886

Note 10: Intangible assets

	Acquired software \$000	Internally generated software \$000	Total \$000
Cost			
Balance at 1 July 2013	3,545	120	3,665
Additions	273	-	273
Disposals	-	-	-
Balance at 30 June 2014	3,818	120	3,938
Additions	236	-	236
Disposals	(71)	-	(71)
Balance at 30 June 2015	3,983	120	4,103
Accumulated amortisation and impairment losses			
Balance at 1 July 2013	2,861	112	2,973
Amortisation expense	392	8	400
Disposals	-	-	-
Balance at 30 June 2014	3,253	120	3,373
Amortisation expense	181	-	181
Disposals	(71)	-	(71)
Balance at 30 June 2015	3,363	120	3,483
Carrying amounts			
At 1 July 2013	684	8	692
At 30 June 2014	565	-	565
At 30 June 2015	620	-	620

There are no restrictions over the title of the Office's intangible assets. No intangible assets are pledged as security for liabilities.

Note 11: Payables

	Actual 2014/15 \$000	Actual 2013/14 \$000
Payables under exchange transactions		
Creditors	1,826	1,442
Income in advance	2,921	2,073
Accrued expenses	367	525
<i>Total payables under exchange transactions</i>	5,114	4,040
Payables under non-exchange transactions		
GST payable	796	648
<i>Total payables under non-exchange transactions</i>	796	648
Total payables	5,910	4,688

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

Note 12: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year.

	Note	Actual 2014/15 \$000	Actual 2013/14 \$000
Surplus		2,075	989
Less Surplus transferred to memorandum account	20	(1,811)	(534)
Total provision for surplus repayment to the Crown		264	455

Note 13: Employee entitlements

	Actual 2014/15 \$000	Actual 2013/14 \$000
Current portion		
Salary and other accruals	998	1,494
Annual leave	2,470	2,217
Long service leave	62	66
Time off in lieu of overtime worked	180	86
Retiring leave	169	134
Sick leave	88	98
<i>Total current portion</i>	3,967	4,095
Non-current portion		
Long service leave	-	-
Retiring leave	536	549
<i>Total non-current portion</i>	536	549
Total employee entitlements	4,503	4,644

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

The discount rate is based on NZ Government bond data at 30 June 2015. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$36,485 higher/lower.

If the salary inflation factor were to differ by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$49,439 higher/lower.

Note 14: Equity

	Note	Actual 2014/15 \$000	Actual 2013/14 \$000
Taxpayers' funds			
Balance at 1 July 2014		6,221	6,221
Surplus		2,075	989
Transfer of memorandum account net surplus for the year		(1,811)	(534)
Capital injection		-	-
Repayment of surplus to the Crown		(264)	(455)
Balance at 30 June 2015		6,221	6,221
Memorandum account	20		
Balance at 1 July 2014		534	-
Memorandum account net surplus for the year		1,811	534
Balance at 30 June 2015		2,345	534
Total equity		8,566	6,755

Note 15: Reconciliation of net surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the statement of comprehensive revenue and expense on page 43, to arrive at the net cash flow from operating activities disclosed in the statement of cash flows on page 45.

	Actual 2014/15 \$000	Actual 2013/14 \$000
Net Surplus	2,075	989
Add/(Less) non-cash items		
Depreciation and amortisation	1,006	1,236
<i>Total non-cash items</i>	<i>1,006</i>	<i>1,236</i>
Add/(Less) movements in statement of financial position items		
(Increase)/decrease in prepayments	3	(115)
(Increase) in receivables	(2,296)	(803)
Decrease in work in progress	125	424
(Decrease)/increase in payables	1,188	(67)
(Decrease) in employee entitlements	(128)	(150)
<i>Total movements in working capital items</i>	<i>(1,108)</i>	<i>(711)</i>
Add/(Less) items classified as investing activities		
(Gains) on sale of plant and equipment	(30)	(31)
<i>Total items classified as investing activities</i>	<i>(30)</i>	<i>(31)</i>
Other items		
(Decrease) in non-current employee entitlements	(12)	(12)
<i>Total other items</i>	<i>(12)</i>	<i>(12)</i>
Net cash flow from operating activities	1,931	1,471

Note 16: Related party transactions

The Office is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that the Office would have adopted in dealing with the party at arm's length in the same circumstances.

Key management personnel compensation

	Actual 2014/15 \$000	Actual 2013/14 \$000
Salaries and other short-term employee benefits	3,494	3,471
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Total key management personnel remuneration	3,494	3,471

Total full-time equivalent key management personnel	11.7	12.0
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Key management personnel include the Auditor-General, the Deputy Auditor-General, and the ten members of the OAG and Audit New Zealand Leadership Teams.

Note 17: Financial instrument risks

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

Market risk

Currency risk

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

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2014 – nil).

Interest rate risk

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

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

The Office's financial liabilities are outlined in Note 11: Payables. These are all due to be settled on 30-day terms.

Note 18: Categories of financial instruments

The carrying amounts of financial instruments are as follows:

	Note	Actual 2014/15 \$000	Actual 2013/14 \$000
Loans and receivables			
Cash and cash equivalents		3,962	3,348
Receivables	8	8,793	6,470
<i>Total loans and receivables</i>		12,755	9,818
Financial liabilities measured at amortised cost			
Payables	11	5,910	4,688
<i>Total financial liabilities measured at amortised cost</i>		5,910	4,688

Note 19: Capital management

The Office's capital is its equity, which comprise taxpayers' funds and a memorandum account. Equity is represented by net assets.

The Office manages its revenues, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which it has been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes, Treasury Instructions, and the Public Finance Act 1989.

Note 20: Memorandum account

	Actual 2014/15 \$000	Actual 2013/14 \$000
Audit and assurance services		
Balance at 1 July	534	-
Revenue	78,314	72,139
Expenses	(76,503)	(71,605)
Surplus for the year	1,811	534
Balance at 30 June	2,345	534

The memorandum account summarises the accumulated surpluses and deficits incurred in the provision of audit and assurance services by the Office on a full cost recovery basis. These transactions are included as part of the Office's operating income and expenses in the surplus/deficit, but are excluded from the calculation of the Office's repayment of surplus (see Note 12). The cumulative balance of the surplus/deficit of the memorandum account is recognised as a component of equity (see Note 14).

The balance of the memorandum account is expected to trend toward zero over a reasonable period of time. The memorandum account balance will be taken into account when setting audit fees in future years.

Note 21: Explanation of significant variances against the Main Estimates

Explanations for major variances from the Office's Main Estimates figures in our Annual Report 2013/14 are as follows:

Statement of comprehensive revenue and expense

Actual audit fee revenue was higher than the Main Estimates by \$2.7 million. The increase was due to 2013 schools' audit revenue being deferred into 2014/15 as a result of continued delays in audits arising from Novopay, and an allowance for arrears and other work completed by contracted audit service providers.

Statement of financial position

Debtors and other receivables are \$2.7 million higher than the Main Estimates, mainly due to timing of billing of fees for audits of Councils' long term plans.

Net assets are \$2.3 million higher than the Main Estimates, a reflection of the funds now retained in the memorandum account.

Note 22: Office accommodation statistics

The following statistics are provided in keeping with Government directives about the management of departmental accommodation given to chief executives in 1991.

	Actual 2014/15	Actual 2013/14
Area	6960m ²	6859m ²
Number of staff (FTE)	391	369
Space allocation per person	18m ²	19m ²
Total costs of leased office accommodation	\$2,398,807	\$2,349,120
Rent costs per person	\$6,133	\$6,366
Utility costs per person	\$300	\$296
Vacant accommodation	-	-

Appendix 1

Major reports published in 2014/15

Reports funded from multi-class output: <i>Statutory auditor function</i>
Performance audits
<i>Effectiveness of arrangements for co-ordinating civilian maritime patrols – follow-up article</i> (published 4/7/14)
<i>Inland Revenue Department: Making it easy for taxpayers to comply – follow-up article</i> (published 4/7/14)
<i>Public entities' progress in implementing the Auditor-General's recommendations 2014</i> (published 22/7/14)
<i>Ministry of Social Development: How it deals with complaints</i> (published 12/8/14)
<i>Accident Compensation Corporation: How it deals with complaints</i> (published 12/8/14)
<i>New Zealand Transport Agency: Maintaining and renewing the state highway network – follow-up report</i> (published 10/10/14)
<i>Accident Compensation Corporation: Using a case management approach to rehabilitation</i> (published 5/11/14)
<i>Ministry of Social Development: Using a case management approach to service delivery</i> (published 4/12/14)
<i>Government planning and support for housing on Māori land – follow-up article</i> (published 10/12/14)
<i>Ministry for Primary Industries: Managing the Primary Growth Partnership</i> (published 11/2/15)
<i>Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Fourth monitoring report</i> (published 19/2/15)
<i>Education for Māori: Relationships between schools and whānau</i> (published 24/2/15)
<i>Inland Revenue Department: Governance of the Business Transformation programme</i> (published 30/4/15)
<i>Whānau Ora: The first four years</i> (published 5/5/15)
<i>Effectiveness of governance arrangements in the arts, culture, and heritage sector</i> (published 27/5/15)
Inquiries
<i>Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge</i> (published 14/10/14)
<i>AgResearch's Future Footprint project</i> (letter published 17/3/15)
<i>Health Promotion Agency – Katherine Rich – Possible conflicts of interest</i> (letter published 14/5/15)
Other reports and studies
<i>From auditor to soldier – Stories of the men who served</i> (published 25/8/14)
<i>Making the most of audit committees in the public sector</i> (published 19/11/14)
<i>Water and roads: Funding and management challenges</i> (published 25/11/14)
<i>Reflections from our audits: Service delivery</i> (published 16/6/15)

Reports funded from output class: <i>Audit and assurance services</i>
<i>State-owned enterprises: Results of the 2012/13 audits</i> (published 30/7/14)
<i>Continuing to improve how you report on your TEI's service performance</i> (letter published 23/10/14)
<i>Challenges facing licencing trusts</i> (published 30/10/14)
<i>Central government: Results of the 2013/14 audits</i> (published 9/12/14)
<i>Local government: Results of the 2013/14 audits</i> (published 26/2/15)
<i>Model financial statements for Crown Entities</i> (published 2/2/15)
<i>Model financial statements for Tier 3 Reporting Entities 2014/15</i> (published 8/6/15)
<i>Model financial statements for local authorities 2014/15</i> (published 29/6/15)

Appendix 2

Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act 2001 (the Act) requires us to include in the annual report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

At 30 June 2015, arrangements had been entered into for audits of the following entities:

- Māori Education Trust
- Literacy Aotearoa
- NZ Sports Foundation Charitable Trust
- The AUT/Millennium Ownership Trust
- ANDRILL Joint Venture
- New Zealand Antarctic Research Institute
- Taranaki Rural Fire Authority
- Te Rūnanga o Ngāti Whātua
- Treaty Relationship Company Limited.

Appendix 3

Report from the independent reviewer

From SIR DAVID GASCOIGNE

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25 August 2015

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

Dear Mrs Provost

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES

1. You have retained me as an independent reviewer of the basis upon which auditors are appointed to act on your behalf, and the basis upon which appropriate levels of audit fees are determined.
2. This is my report on those processes for the financial year ended 30 June 2015. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented. No limitation has been placed upon the manner in which I carry out my assignment. I have been free to inspect both paper and computer based files, documents and correspondence as I wished.
4. There are four types of audit appointment:
 - (a) an appointment made by the Auditor-General of an auditor for a given entity, usually for a term of 3 years, in accordance with the now well-established "audit allocation model";
 - (b) an appointment of an auditor for a given entity, following a contestable tender, if you consider that is an appropriate process in the circumstances;
 - (c) a re-appointment of an auditor for a further term, usually a further 3 years, to audit a particular entity;
 - (d) where an audit involves 150 or more budgeted hours, the individual auditor and senior personnel involved in the audits may not undertake the audit work for more than 6 consecutive years, thus a new auditor is required to be appointed, though that may be another person in the same firm.
5. **Allocations:** In the past financial year, the Auditor-General appointed auditors for 32 new entities. That number includes 13 schools or school-related entities. Apart from schools, these new entities include, for example, newly established Crown entities, new subsidiaries of existing entities, and new entities resulting from mergers. There has been no evident dissatisfaction expressed by those entities either with the method or with the terms of any of the appointments effected during the year.
6. **Allocation model:** The appointments just referred to were made under the "audit allocation model". This has been the principal method of appointment since 2003. There is an established and well-publicised set of criteria for those appointments. They are set out in a document

entitled: "Appointing public sector auditors and setting audit fees" (ISBN-978-0-478-38310-2: online).

7. The document has been widely deployed – it is available on the OAG website, and is referred to in correspondence or provided to entities and auditors whenever appropriate. In cases of doubt or difficulty – or where an entity or its auditors do not properly understand the nature of their respective roles or responsibilities – the representatives of the OAG direct them to this publication. The result is nearly always beneficial – a better and shared understanding of what is required generally ensues.
8. The document was last reviewed and revised in 2011. I have reviewed it again, for the purposes of this present report. It is still a clear, succinct and useful expression of principle and practice. For my part, I see no evident need for further change at this stage.
9. **Contestable Tenders:** Although no appointments were made by means of this process during the past year, a small tender of some school audits has been carried out since as a part of the process of putting in place new audits for schools (refer paragraph 13 below). The process of tendering remains available to the Auditor-General, if it suits the particular circumstances, but the reliability and practicality of the audit allocation model - and its cost- effectiveness – mean that the use of contestable tenders is unlikely to occur very often.
10. Nonetheless, during the past year, two public entities have sought a change of auditor and a contestable tender. In one case, the issue was settled without a change. The other, more recent case is still being evaluated.
11. However, the Auditor-General has expressed the view that, for large public entities - especially those with a commercial focus - a contestable tender process may, in some circumstances, appropriately be put in place.
12. **Re-appointments: generally:** Leaving aside the position as to auditors for schools (see the following paragraph 13), existing auditors were re-appointed during the financial year to audit 199 public entities and their subsidiaries for a further term. In addition, in 2 instances a change was effected, with a different auditor being appointed in place of an existing one. The circumstances leading to these latter appointments involved auditor independence and auditor/entity relationship issues. Again, in the case of all 201 appointments covered by this paragraph 12, a careful process has been followed. There have been no unresolved issues arising from the method or the terms of appointment.
13. **Reappointments: schools:** The term of appointment for the auditors of all schools came to an end once the audits of the financial year ended 31 December 2014 were completed. Auditors will need to be reappointed, or new auditors appointed, for most schools for the next 3 year contract period. (As most school audits involve fewer than 150 hours, auditors may, in many cases, carry out the audits for more than 6 consecutive years.) The task of effecting these reappointments and appointments is a large and complex exercise, covering approximately 2,400 schools. But it has commenced well on this occasion, and there have been little evident dissatisfaction expressed as to the process that is being followed. Where dissatisfaction has been expressed, discussions are continuing.
14. Overall, about 70 auditors for schools are appointed, nation-wide, from a variety of audit firms - ranging from small local firms through to the major international firms. All auditors must observe the Auditor-General's auditing standards and instructions. The OAG subjects the auditors to regular quality assurance reviews.
15. Outside of the process of reappointing or appointing auditors for the next 3 year contract period, during the year, a change of auditor was effected in respect of 31 schools. And an auditor was appointed for 13 new schools or school related entities (these have previously been referred to in paragraph 5 above).
16. A change of auditors for schools may be effected for a variety of reasons. For example, where the previous auditor no longer meets the Auditor-General's independence or quality

requirements; where an audit firm has withdrawn from auditing schools; where the auditor or the school request a change for specific and valid reasons; or where the portfolio of school audits of an auditor needs to be increased to improve the auditor's critical mass of school audits.

17. The circumstances under which audit fee increases are allowed are generally limited. However, this year (as in the two previous years) these circumstances are discussed with the Ministry of Education before being discussed with the auditors concerned. Notably, Novopay issues have continued to affect and complicate audits, with consequent delays and complexities. Additional audit fees, to take account of the costs arising from these factors in the year just past, are in the course of being negotiated with the Ministry of Education. (See also paragraph 29 (a).)
18. **Issues about fees and performance:** During the course of the past year, a number of entities raised questions or made complaints about the level of their audit fees or, occasionally, about auditor performance. Some of these have been informal in nature (and have been readily and promptly resolved). A few, 11 in number, have been more formal in nature (with well articulated letters expressing the grounds for an entity's concern).
19. The basis for these claims about fees is, sometimes, that in times when an entity's revenue is constrained, it is neither appropriate nor fair that an audit fee should remain at what is perceived to be a high level - or should increase. There is sometimes a perception held by an entity that an alternative auditor could do the task for less than the current fee without affecting audit quality.
20. The OAG has a sophisticated and detailed data-base. It enables an analysis of audit fees for all public entities. The contributing components (audit hours, average hourly charge-out rates, and levels of experience within the audit team) of the fees for all types and sizes of entities, year by year, individually and sector by sector, may be compared and contrasted. In particular, the movement in hourly rates and the time expended on an audit, or a range of audits, can be accurately identified.
21. The OAG uses this material, constructively, to help respond to enquiries or complaints received. The response is usually given by the OAG direct to the entity, though sometimes the auditor responds, using information supplied by the OAG. In either case, the comparative data which is relevant to a particular entity is recorded in an explanatory letter, along with a description of the various factors lying behind the audit costs. While the analysis performed by the OAG often indicates that the audit fee is well substantiated and within an appropriate range, it also indicates where audit fees are outside that range - either higher than expected, or lower. In either case, the auditor and the entity are informed of those findings and expected to negotiate further in order to reach agreement.
22. In some cases, it is apparent that the actions of the entity itself have contributed to the increase in fees. For example, in some cases the materials that will require audit are poorly prepared or checked, are incomplete, or require several iterations before they are correct and complete. Those factors tend to result in an increase in the auditor's time, with a consequent claim for an increase in fees.
23. But in most cases where the issue of fees has been raised, the detailed explanation given to entities by the OAG (or, in some cases, by an auditor using data supplied by the OAG) has led to a resolution, or to a withdrawal of the complaint, or to no further action being taken by the entity. In the year under review I inspected the records relating to 11 entities which had expressed particular concern about the level of fees or auditor performance – or both. In all but one of those cases a resolution has either been achieved between the OAG and the entity, or can be seen to be likely. In that one case, further steps are planned to bring additional objectivity to the matter.
24. My review of the materials for the financial year to 30 June 2015 has again shown that where, occasionally, there is some dissatisfaction expressed by entities or auditors, it tends to centre on two particular issues.
25. The first is related to auditor performance or to the auditor/entity relationship. This arises very infrequently, but when it does, it has consistently been resolved. The resolution occasionally

entails a well-considered change in the appointed auditor. That was required for a small number of school audits in the year under review.

26. The second relates to the level of fees - either initially or upon a subsequent claim for increase. Viewed broadly, the role of the Auditor-General, acting through the OAG, is to ensure that audit fees are fair and reasonable. The OAG provides detailed information, when needed, with a view to assisting the entity and the auditor to come to an accord about this.
27. Generally, agreement is reached between entity and auditor. The Auditor-General's clear preference is that it is desirable that the audit fee should be the result of an accord between those two parties – often within a range expected by the OAG (using its data base) and acceptable to her.
28. In practice, that approach can be seen to work very well. The Auditor-General has the statutory power to set audit fees, if needed. But since 2003 that power has been exercised on only three occasions, most recently in 2009.
29. **Other issues:** I have observed a number of other issues affecting audits that have evolved during the past year:

- (a) **Novopay – effect on school audits:** The two most recent reports by Independent Reviewers have referred to the complex issues, affecting the payment of teachers and staff, arising from the Ministry of Education's payroll system known as "Novopay." Put simply, the difficulty has been the additional time and effort required by schools, the Ministry, school auditors and the OAG to gain certainty about payroll reports, and to complete – and then audit – accurate financial statements in a timely way.

The problems for the 2012 and 2013 years were severe, but for the year to 31 December 2014 there has been significant improvement. School audits are required by statute to be completed by 31 May. For the period to this past 31 May 2015, around 86% of the approximately 2,400 school audits had been completed. But delays in obtaining audit comfort from the Ministry and the payroll provider have again meant that some school audits have been unable to be completed by that date. While there has been a significant improvement in the accuracy of the data, the main remaining concern is about timeliness of issue of the year-end payroll reports. For the year ended 31 December 2014, year-end payroll reports were not available to schools and auditors until 27 February 2015, which is about 3 weeks later than under the previous payroll system. That resulted in a compressed time frame for preparation and audit of schools financial statements, resulting in some not meeting the statutory timeframe for their completion.

- (b) **Timeliness:** In June of this year the Auditor-General issued a report entitled *"Being accountable to the public: Timeliness of reporting by public entities."* It took a snapshot of how well public entities met their reporting deadlines for the 2013/2014 year. Most entities did meet their deadlines, but some entities (which were named) fell behind. In my current review of the 2014/2015 year, I have noticed that many entities are still not managing to meet their reporting obligations in a timely way. Notably, these include some schools and entities such as the smaller licensing trusts. In many, if not all of those cases, those entities will have limited capability or capacity to complete their financial and performance reports, so as to comply with generally accepted accounting standards. For many of them, a lack of financial resources will exacerbate the problem.

Nonetheless, those entities, because they are wholly or partly publicly funded, do have a legal obligation to comply with their reporting requirements. Recent amendments to the Crown Entities Act 2004 and to the Companies Act 1993 now mean that some subsidiaries will no longer be required to report separately, but only as a part of the group reporting of their shareholders. In addition, the introduction of tiered reporting standards should simplify reporting for the smaller entities. Those changes will lighten the burden for many smaller entities. Nonetheless, the issue of lapses in timeliness is one to which the Auditor-General and the OAG are giving increased emphasis.

- (c) **Local authorities: long term plans:** Every three years all local authorities are required to complete a long term plan for areas within their jurisdiction. A change to the Local Government Act in 2014 introduced a requirement for a consultation document, covering the key issues affecting the community, followed then by a long term plan. The Auditor-General is the auditor of all local authorities, and auditors appointed by her must conduct an audit of both the consultation document and long term plan. The most recent long term plans were required to be approved by councils, and the respective audits completed, by 30 June. Most plans were finalised and audits completed by those dates. And most consultation documents and long term plans were of a reasonable standard considering this was the first time the changed requirements needed to be met. However 3 out of 78 long term plans were not completed on time. This is an area that will require continuing scrutiny.

- (d) **Audit New Zealand's position:** Audit New Zealand carries out audits of public entities at the direction of the Auditor-General and is directly answerable to her. In November 2013 an inquiry was completed for the Auditor-General into the Mangawhai community wastewater scheme. The local authority which had commissioned that scheme was the Kaipara District Council. The inquiry concluded that the audits of the Council, conducted by Audit New Zealand between 2006 and 2009, were substandard in significant respects. In the interest of ensuring audit quality, the Auditor-General then decided not to allocate any new audits to Audit New Zealand until Audit New Zealand can assure the Auditor-General that it has reached the objective of delivering consistent audit quality throughout the whole of its current audit portfolio.

Since that decision was taken, Audit New Zealand has reviewed all its operations and processes, with a view to demonstrating that it merits a lifting of that restriction. Substantial progress has been made towards that end, but the Auditor-General has yet to conclude that the restriction may safely be removed (and if so, upon what terms and conditions).

- (e) **Legislative and regulatory provisions:** For the purpose of this report, I have considered a variety of such provisions, insofar as they have a bearing on the conduct of public sector audits. Examples include the provisions of the Financial Markets Conduct Act 2013 and the Companies Act 1993, especially as they relate to the reporting obligations of an "issuer"; the Crown Entities Amendment Act 2013 and its requirements as to which subsidiaries need – or need not – report separately; the new Accounting Standards Framework, promulgated by the External Reporting Board (established under the Financial Reporting Act 1993), which has recently set out a four tier framework for public entities that are required to prepare financial statements. In my view, the OAG is well aware of how these differing requirements are to be applied. To date, there have been no apparent difficulties with their application. (The OAG has pointed out to me, however, an inconsistency in the practical implementation of the reporting requirements for subsidiaries that are linked in a chain. But that small issue has no adverse impact on the OAG's own operations or on its surveillance obligations.)

- (f) **Auditor-General's and OAG's publications:** For the purposes of this report, I have kept a watchful eye on the regular reports and publications issued throughout the year by the Auditor-General herself. I have also considered the papers issued by the OAG for the guidance of entities with which it deals. In that latter regard, I am thinking particularly of documents issued with a view towards assisting schools and their auditors in the estimation of time and costs in relation to school audits. Overall, the reports and publications that I have seen have been of a consistent and commendably high quality.

30. **Conclusions:** I now state my overall conclusions. These follow from what I have said in the preceding paragraphs of this letter. My conclusions are:

- (a) On the basis of the written material I have seen and the explanations I have been given by OAG personnel, I consider that the processes adopted by the Auditor-General and by

the OAG in relation to the allocation and appointment of auditors for audits falling within the Auditor-General's mandate, during the financial year to 30 June 2015:

- (i) have been appropriate for their purpose; and
 - (ii) have been applied in a way which is fair and responsible, having regard to the respective interests of the parties concerned;
- (b) That observation applies both to the way in which auditors have been appointed or re-appointed, and to the way in which questions as to the appropriateness of an audit fee have been dealt with;
- (c) In cases where issues have been raised by entities as to fee levels or as to auditor performance, those issues have been, or are being, dealt with fairly and professionally;
- (d) Other issues which I have examined (such as those referred to in paragraph 29) which touch upon the Auditor-General's mandate and the operations of the OAG have, in my view, been evolved reasonably and responsibly.
31. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated and fees have been set, in the financial year to 30 June 2015, have been carried out ~~with~~ due probity and objectivity.

Yours sincerely



Sir David Gascoigne, KNZM, CBE

Publications by the Auditor-General

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

- Service performance reporting: Results of the annual audits of TEIs for the year ended 31 December 2014
- Request for inquiry into the regulation of the ancient swamp kauri industry
- Kaipara District Council: The Auditor-General's decision on requests to make a report under section 44 of the Local Government Act 2002
- Consulting the community about local authorities' 10-year plans
- New Zealand Police: Enforcing drink-driving laws – Progress in responding to the Auditor-General's recommendation
- Response to queries about recovery from the Canterbury earthquakes
- Annual Plan 2015/16
- Reflections from our audits: *Service delivery*
- Being accountable to the public: Timeliness of reporting by public entities
- Effectiveness of governance arrangements in the arts, culture, and heritage sector
- Health Promotion Agency – Katherine Rich – Possible conflicts of interest
- Whānau Ora: The first four years
- Inland Revenue Department: Governance of the Business Transformation programme
- Auckland Council: How it deals with building consents
- Draft annual plan 2015/16
- Auditor-General's findings about AgResearch's Future Footprint project
- Local government: Results of the 2013/14 audits
- Education for Māori: Relationships between schools and whānau

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