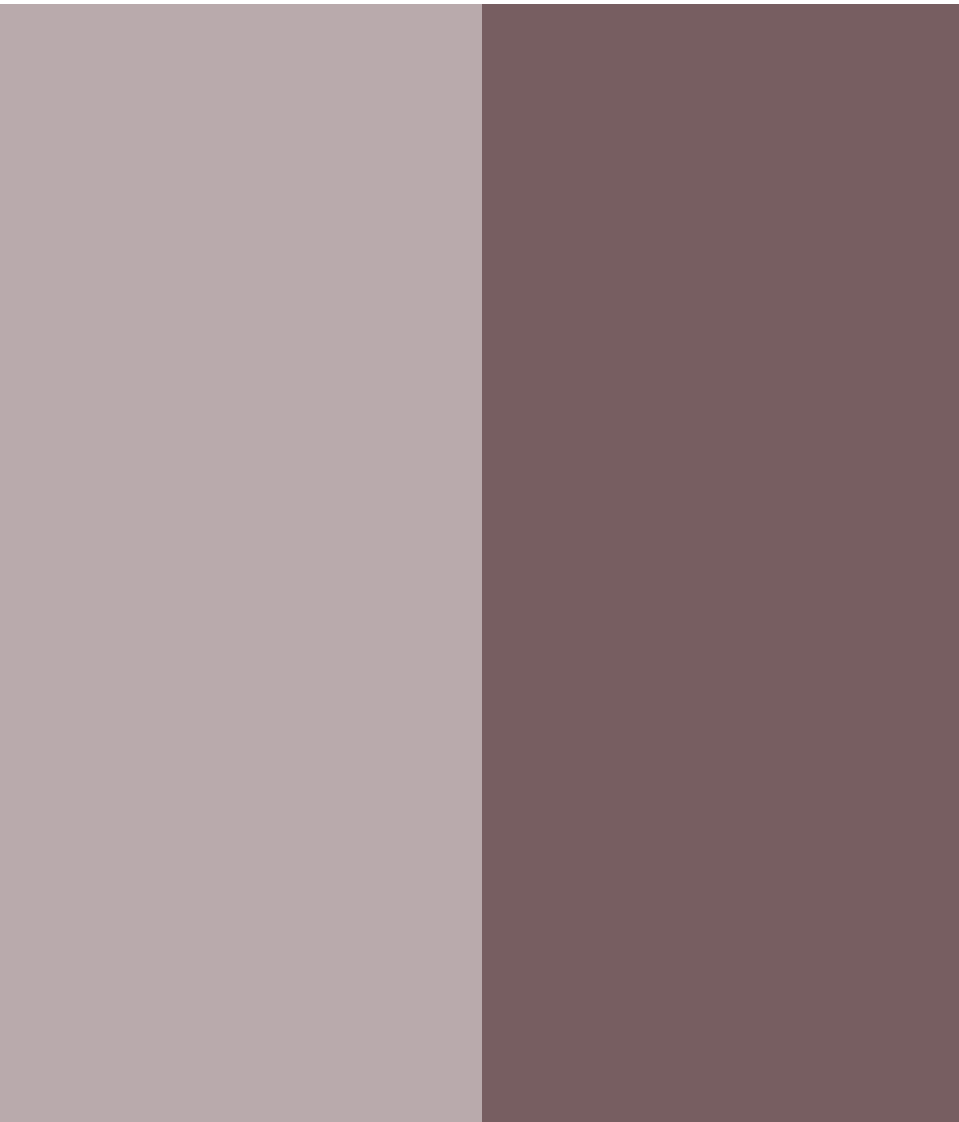




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Annual Report 2015/16



Annual Report 2015/16

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

September 2016

ISSN 1179-8963

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Auditor-General's overview

It is my pleasure to present my final annual report as the Controller and Auditor-General of New Zealand. It has been another very good year for the Office. I am proud of our achievements during 2015/16.

This year we welcomed a new Deputy Auditor-General and new members to our Leadership Team. The Office is in good hands. Deputy Auditor-General Greg Schollum has led by example from day one. Assistant Auditors-General Andrea Reeves, Melanie Webb, and Todd Beardsworth bring expertise and new perspectives to the leadership of the Office, complementing the skills and experience of our existing members.

Reflecting on 2015/16 and my term as Auditor-General

Reflecting on the themes from my first annual report has been interesting. Many things have changed for the better and some have endured – namely, the Office's spirit of collegiality, its commitment to quality, and openness to debate.

The past seven years have also been a time of turbulence and – in turn – significant change.

In my first few annual reports, I wrote about how the global economic recession created higher levels of debt and a strong drive for value for money, with the public sector required to do more with less. During my term, I have audited several innovative projects that often involved public entities working closely with each other and with the private sector. I am encouraged by the public sector's growing willingness to work in smarter and more collaborative ways to deliver quality public services.

In 2009, my predecessor, Kevin Brady, expressed concerns about the appropriateness of New Zealand's financial reporting standards. The new Accounting Standards Framework, adopted last year, means we now have reporting standards that are suitable for the various sizes and natures of our public entities. My hope is that this will lead to clearer, less cluttered, and more user-friendly reporting on the use of public resources.

Our two biggest regions have undergone intense challenges in the past seven years. The Canterbury earthquakes caused great upheaval and tragedy. The rebuild is complex and has cost taxpayers and ratepayers a significant amount. Auckland has undergone a major reorganisation of its local government, with eight councils merging into one. My Office's focus has been on providing assurance that these transformations have run as effectively and efficiently as possible. We have carried out many audits with this goal in mind, with more to come. I am proud of our work relating to these events and their impact on our country.

Improving the performance of, and the public's trust in, the public sector was as important a goal for my Office when I started as it is now. What's changed is that we are better at using our reporting and persuasive powers.

We are getting better at planning for impact and creating opportunities to make a difference.

Improving our impact

I am pleased with how we have used multi-year themes when planning our annual work programme to provide greater insight and value from our audits. Our reflections reports, which discuss the learnings from each year's theme, are consistently stimulating conversation and action within the public sector. These reports enable us to use our unique view across the entire public sector to make observations and pull out the "nuggets" about practices and principles that can be applied more widely. This year's report, *Reflections from our audits: Governance and accountability*, has been in high demand and welcomed as timely, topical, and practical.

This year, we delivered an ambitious work programme, again carried out high-quality audits, and improved the timeliness of our reporting. Overall, our reports to Parliament and our recommendations to public entities have been well received and useful to them.

I appreciate the commitment shown by my staff and other audit service providers to meet the ongoing challenge of maintaining quality in a rapidly changing environment. Demand for our analysis and views continues to increase, along with competing pressure to deliver results more quickly. Getting the right balance between quality and timeliness is important, and we have worked hard internally and with others to put in place the right approach and support, including people, processes, and systems.

Our strategy (*The Auditor-General's strategy 2013-17*) has guided us well, and we have made good progress implementing projects and activities that will have long-term impact on strengthening the public sector and our own organisation, lifting our citizen focus, and preparing for the future. I am very pleased with how my staff have taken ownership of our strategy and used it in their work to improve the impact of our audits and reports.

Making a difference

During the year, I have encouraged staff and other audit service providers to be the Auditor-General's eyes and ears, and more recently voice, and to continually seek to provide greater value in our audits. This has mutual benefits for my Office and the public entities that we audit. My auditors and other staff are engaging

in conversations to better understand each public entity's business environment and to share learnings from our reports and other work. This approach makes a difference to our ability to influence and encourage improvement in the public sector, and enhances the quality of our audits and our working relationships. The difference our approach has made is evident in the increasing number of recommendations from our annual audits and performance audits that entities are putting into practice.

We also gained momentum in helping to improve Parliamentary scrutiny. With the support of Parliamentary staff, we have been able to brief select committees in a more timely way about our work and matters that need attention. This has led to improvements in the information we present so that committee members can properly hold public entities to account.

The success of these approaches is evident in the positive feedback received in this year's client and stakeholder surveys.

In 2015/16, we joined the dots from our work with citizens as users of New Zealand's public services to help plan and inform our future work. We were very encouraged by the results of our first citizen panel exercise and intend to do more to connect directly with citizens.

Making a difference overseas

Internationally, we have also continued to build our reputation and make a difference through the International Organisation of Supreme Audit Institutions (INTOSAI). This year, we were invited to lead our international colleagues in planning how to strengthen INTOSAI's global influence and voice. This work is going well, and we have made solid preparations for the final discussion at the three-yearly congress of INTOSAI at the end of 2016.

I am also very proud of our role in improving public sector auditing in the Pacific through the hard work of my colleagues throughout the region, supported by the Pacific Association of Supreme Audit Institutions (PASAI) secretariat and staff from my Office.

Developing our capability

As part of our strategy, we have been looking at what else we need to do to be a model organisation and ensure that we are well-prepared for the future. In 2015/16, we put in place several important building blocks for developing our capability.

We established an Inquiries Team, which is now fully staffed and delivering improved processes and practices for our inquiry work. We also added data

analysis capability and have been upgrading our information systems to support new and ongoing requirements.

We are currently preparing a workforce strategy to ensure that we continue to have the appropriate capability and capacity to deliver the work of the Auditor-General.

Reporting on our performance

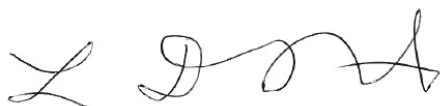
The results of the first stage of our move towards integrated reporting is included in this annual report as a taste of how organisations can give a more comprehensive yet concise picture of their performance. We have been building our understanding and capability for integrated reporting in-house and assessing how integrated our own planning and reporting is.

Conclusion

The environment we live and work in is constantly changing. As I prepare to leave office, I note New Zealand's fall from second to fourth in Transparency International's Corruption Perceptions Index 2015. At the time of my first annual report in 2010, we were ranked first.

Our public management system has strong accountability foundations, but those in positions of governance and management cannot afford to be complacent. This is a wake-up call for everyone.

My team is well positioned to continue working towards its goal of improving the performance of, and the public's trust in, the public sector. I thank them all for their excellent work, and I wish them well for the future.



Lyn Provost
Controller and Auditor-General

12 September 2016

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 is independent of executive government and Parliament. Parliament funds the Auditor-General's work and holds the Auditor-General to account for the use of those funds. By law, the Auditor-General audits all public entities in New Zealand that are required to prepare general purpose financial reports – about 3700 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 role is to help Parliament to ensure that public entities are effective, efficient, and accountable. To be effective in this role, the Auditor-General must be independent of the Government. 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 to account for their use of public resources and powers.

Our organisation

Our work is carried out by about 367 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 call this whole organisation “the Office”. We also contract auditors from about 50 private sector accounting firms to carry out some annual audits on the Auditor-General's behalf.

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 five appropriations¹ that fund our work and are described in Part 4. Two appropriations provide funding for most of our work – *Audit and Assurance Services RDA* (revenue dependent appropriation) and the multi-category appropriation *Statutory Auditor Function*.

The *Audit and Assurance Services RDA* covers the carrying out of audits and related assurance services as authorised by statute. This appropriation is largely funded by audit fees collected directly from public entities. We have established a memorandum account for the *Audit and Assurance Services RDA* to manage fluctuating revenue flows and help keep audit fees at reasonable levels over time.

The *Statutory Auditor Function* appropriation is largely Crown-funded and includes two outputs:

- Performance Audits and Inquiries; and
- Supporting Accountability to Parliament.

How we make a difference

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

Our vision is that our work improves the performance of, and the public's trust in, the public sector. The outcomes we aim for are that New Zealand has a public sector that is trusted, demonstrates responsible behaviour, and performs well. To achieve our outcomes, we aim to have impact in two areas:

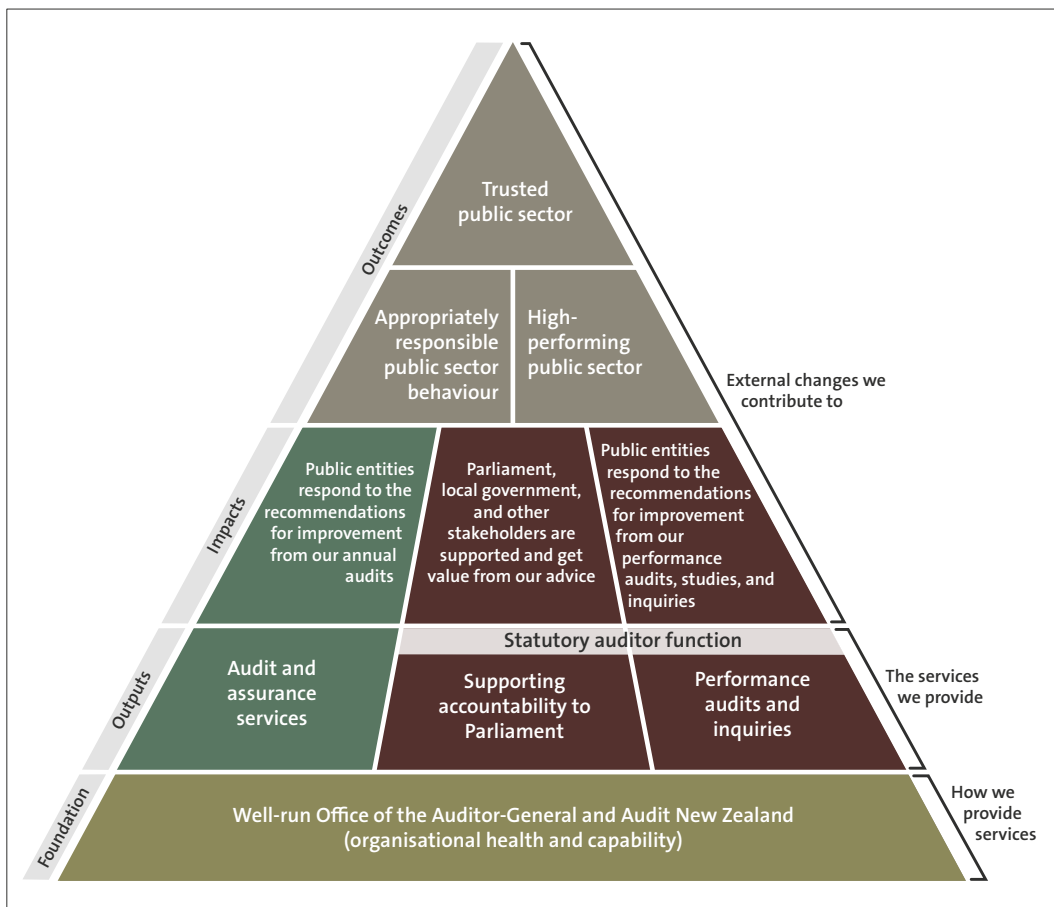
1. Public entities respond to our recommendations; and
2. Parliament and public entities are supported and get value from our advice.

This report outlines how effectively we worked towards our outcomes in 2015/16.

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

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

Figure 1
Our outcomes framework



Our strategic intentions

The Auditor-General's strategic intentions 2014/15 to 2017/18² sets out the outcomes we seek and the four strategic objectives we established to focus our work from 2014/15 to 2017/18. The strategic objectives are not mutually exclusive, and they are designed to be ambitious. They reflect the outcomes we seek and are intended to strengthen our contribution to improving public sector performance.

2 Available on our website at www.oag.govt.nz/2014/strategic-intentions.

Our strategic objectives are:

1. contribute to a stronger public sector;
2. lead by example as a model organisation;
3. demonstrate our relevance to citizens as stakeholders; and
4. position our Office for the future.

We provide an assessment of our progress against our strategic intentions in Part 3.

Introducing integrated reporting

This year, we introduce aspects of integrated reporting into our annual report.

This is our first step in taking up the challenge posed by the International Integrated Reporting Council (IIRC) to adopt integrated reporting. The IIRC defines an integrated report as a concise communication about how an organisation's strategy, governance, performance, and prospects in the context of its external environment lead to value creation over the short, medium, and long term.

Introducing integrated reporting in our own reporting gives us an opportunity to:

- provide greater insight into our organisational performance;
- integrate our strategy, performance, and sustainability; and
- build on our understanding of integrated reporting and its application to the New Zealand public sector.

We intend to progressively adopt principles of integrated reporting into our planning and reporting processes and external accountability documents.

The main features of integrated reporting are conciseness, strategic focus and future orientation, and key aspects of value (known as “capitals”) and the connections between them.

In this report, we introduce our six proposed capitals and provide insight into two of those capitals – independence and people.

Our capitals



Independence

Our independence and strong mandate that underpin all our work and activities.



Relationships

Our mutually productive and respectful relationships with all our stakeholders.



Knowledge and learning

Our collective knowledge and expertise about the public sector.



People

Our skills, competence, and engagement that enable us to deliver high quality work.



Natural resources and environmental

Our use of natural resources to support our activities.



Financial and physical resources

Our use of financial and physical resources.



Independence

Our independence and strong mandate that underpin all our work and activities.

Our independence is fundamental to everything we do and to our ability to create value over time.

The whole point of our governing legislation – the Public Audit Act 2001 – and our role as an Officer of Parliament is to provide an independent view on whether the public sector is operating as it said it would. Our independence is given statutory recognition and protection under our legislation. The Act requires the Auditor-General to act independently and gives us our strong mandate and status as an Officer of Parliament, separate from and independent of the Government and the entities that we audit. The Act also gives us power to report the results of our work to any person.

Our job is to impartially assess and report on how public entities are performing and spending public money, individually and collectively. We apply independent scrutiny and professional judgement to financial audits of about 3700 public entities each year, along with numerous performance audits, inquiries, and advice to parliamentary select committees about the Government's proposed spending and audit results.

Our work gives public entities an objective viewpoint to work with and enables others – including Parliament, governing boards, and those who use public services – to hold public entities to account and to seek improvement in one, many, or all of the organisations that make up the public sector.

Our independence is critical to what we do

Being independent of the entity being audited is fundamental to the role of the auditor. It would be difficult to fulfil our auditing responsibilities and achieve our overall purpose of improving the performance of, and the public's trust in, the public sector without being, and being seen to be, independent.

We do not take our independence for granted. Our reputation would suffer if we were to breach or compromise it, as would our ability to add value to the public sector. We are acutely aware of the significance and responsibility of having our independent role and mandate set and protected under law. Not all of our international counterparts are in the same position of having financial and operational independence from the executive government, or have broad reporting powers. Some of our international effort in the Pacific is focused on measures to help strengthen their independence and increase their effectiveness.

How we protect our independence

We have high expectations of the independence standards to be met by all auditors who work for us, as expressed in *The Auditor-General's Auditing Standards*. These standards exceed the minimum independence standards required of auditors operating in the private sector.

In administering the Auditor-General's independence requirements, we expect all our auditors to have a very good understanding of the requirements and the consequences of not meeting them. They have ready access to advice from staff within the Office of the Auditor-General about maintaining their independence.

All our audit reports to public entities about their financial and performance information confirm in writing the auditor's independence from the entity being audited and the auditor's compliance with the Auditor-General's independence requirements. This is an important part of the assurance that we provide to public entities and to Parliament and the public.

Our independence requirements limit the amount and nature of additional work that can be carried out for public entities by auditors acting on the Auditor-General's behalf. This eliminates the potential risk that other work could be seen to compromise the objectivity of the auditor and so diminish the standing of the auditor's report and erode its value.

We have comprehensive systems and processes in place to identify and mitigate risks to our independence. These include:

- a formal declaration of our independence for every audit or assurance engagement we do;
- formal monitoring systems to ensure staff with independence conflicts prohibiting them from working on certain public entities are not inadvertently assigned to work on those entities;
- formal declarations from all our staff every six months to confirm their independence from public entities they audit or are otherwise involved in through their work;
- training and regular reminders to staff about declaring potential risks and updating changes to their own independence situations;
- a gift and hospitality register that is regularly reported to the Office of the Auditor-General and Audit New Zealand leadership teams;
- good working relationships with all audit service providers who work for the Auditor-General so that any difficult independence situations are communicated and resolved before they become a problem;
- experienced staff, who understand the absolute importance of preserving independence and administering the Auditor-General's independence requirements;
- referral of difficult independence situations to senior staff within the Office of the Auditor-General and Audit New Zealand for appropriate resolution; and
- regular reporting on independence situations and their resolution to the Office of the Auditor-General and Audit New Zealand leadership teams.

Although we currently report on the above matters internally, we will consider whether to introduce external reporting measures for independence as we move to fully integrated reporting.



People

Our skills, competence, and engagement that enable us to deliver high quality work.

Our people are an absolutely critical resource. Their experience, knowledge, skills, and commitment are vital to our work, and to our vision to improve public sector performance, and the public's trust in the public sector. It is essential that we attract, develop, and retain talented staff.

We are a relatively small organisation of 367 people whose work takes us into every part of the public sector. We aspire to be a model organisation demonstrating the behaviours and standards expected from public entities. We act with independence, integrity, and professionalism in all we do. Creating a workplace that supports and enables our people to make a difference is very important to us.

A learning organisation

As a professional workforce, we recognise the importance of ongoing professional development, ensuring that we have the best skills available for our work. We are recognised by Chartered Accountants Australia and New Zealand as an approved training organisation, and we provide practical experience and support for about 32 new graduates each year as they work and study to become chartered accountants. In 2015/16, 23 of our people qualified as chartered accountants. We are proud that many of our qualified chartered accountants retain a strong public sector ethos and continue to develop their careers within the New Zealand public sector.

Our focus on development extends to all our people. We recognise that their collective knowledge and expertise about the public sector and the quality of their professional relationships are assets that help us to achieve our vision. We encourage and support the development of our people through on-the-job learning, and formal training and development programmes.

Organisational culture and employee engagement

We recognise how important a positive organisational culture is to the engagement and motivation of our people and the quality of their work and professional relationships. Each year, we formally "take the temperature" through an employee engagement survey. This year, we again exceeded our target (3.8) with a rating of 4.0 out of 5.0.

We know that auditing and the role of the auditor is likely to change in the future. Our workforce planning project is helping us to identify our future capability and capacity needs and how we might meet these.

Supporting our people in their work

Our people carry out their work in a diverse range of entities throughout New Zealand. They also work in parts of the Pacific, such as Niue and Samoa. We work to ensure that they have the right tools, technology, and support services to work effectively wherever they are.

Our people work hard – especially during peak periods – and we are very focused on providing a safe and healthy workplace. We carry out workplace assessments, and we provide free influenza vaccinations and eye tests, subsidised eyewear, and advanced driver training.

We have an active employees' Health and Safety Committee, with staff representatives from each of our seven office locations. The committee works to promote positive health and safety policies and practices in all of the Office's workplaces, identifies risks to staff, and implements health and safety activities.

Equal employment opportunities

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

We are committed to inclusive work practices and culture, and base appointments on merit. Our managers are made aware of, and give support to fulfil, our good employer obligations through specific programmes and courses. We monitor our recruitment and employment decisions and practices. Details about our staff profile are shown in the table below. Further details are available on our website.

Figure 2
Staff profile

| | at 30/6/16 | at 30/6/15 |
|--|------------|------------|
| Staff numbers (full-time equivalents) | | |
| Office of the Auditor-General | 74 | 72 |
| Audit New Zealand | 247 | 267 |
| Corporate Services* | 46 | 52 |
| Total | 367 | 391 |
| Gender distribution – all staff | | |
| Women | 54% | 53% |
| Men | 46% | 47% |
| Gender numbers – executive management | | |
| Women | 5 | 4 |
| Men | 7 | 7 |
| Ethnicity distribution | | |
| NZ European | 47% | 44% |
| NZ Māori | 3% | 3% |
| Pacific Islander | 2% | 3% |
| Asian | 16% | 15% |
| Other European | 15% | 12% |
| Other ethnic groups | 11% | 7% |
| Undeclared | 6% | 16% |

367 people working to achieve our vision:
To improve the performance of, and the public's trust in, the public sector

* The Corporate Services function is shared between the Office of the Auditor-General and Audit New Zealand.

3

Progress against our outcomes and strategic intentions

Achieving the outcomes we aim for

We assess that, in 2015/16, we mostly maintained or improved the outcomes that we seek to influence.

| Outcome: A trusted public sector | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|----------|------|------|------|------|------|--------------------------|----|----|----|----|----|---------------------|----|----|----|----|----|--------------------------|----|----|----|----|----|--------------------|----|----|----|----|----|-------------|----|----|----|----|----|-----------------------|----|----|----|----|----|
| Measure | New Zealand's ranking in or above the 90 th percentile of the Worldwide Governance Indicators is improved (or at least maintained).* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Result | Achieved when last assessed in 2014. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Comment | Results for the Worldwide Governance Indicators are usually published every September for the previous calendar year. The 2015 results are not yet available. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Figure 3 New Zealand's ranking in the Worldwide Governance Indicators, 2010 to 2014</p> <table border="1"> <caption>Approximate data for Figure 3: % of countries ranked below New Zealand</caption> <thead> <tr> <th>Category</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Voice and accountability</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> <tr> <td>Political stability</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> <tr> <td>Government effectiveness</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> <tr> <td>Regulatory quality</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> <tr> <td>Rule of law</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> <tr> <td>Control of corruption</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> <td>92</td> </tr> </tbody> </table> | | Category | 2010 | 2011 | 2012 | 2013 | 2014 | Voice and accountability | 92 | 92 | 92 | 92 | 92 | Political stability | 92 | 92 | 92 | 92 | 92 | Government effectiveness | 92 | 92 | 92 | 92 | 92 | Regulatory quality | 92 | 92 | 92 | 92 | 92 | Rule of law | 92 | 92 | 92 | 92 | 92 | Control of corruption | 92 | 92 | 92 | 92 | 92 |
| Category | 2010 | 2011 | 2012 | 2013 | 2014 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Voice and accountability | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Political stability | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Government effectiveness | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Regulatory quality | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rule of law | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Control of corruption | 92 | 92 | 92 | 92 | 92 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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>The Kiwis Count Survey measures New Zealanders' trust in public services in two ways: by perception and by experience. Respondents rate their perception of trust in the public service and their trust based on their most recent public service experience.</p> <p>New Zealanders' levels of trust in public services based on experience increased to 79% in 2015. This is a two-point increase from 2014 and a five-point increase since 2012. However, New Zealanders' perception of trust has declined to 43%, two points lower than the 2014 result. Since 2012, perception of trust results have varied between 41% and 45%.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | |
|----------------|---|
| Measure | New Zealand's score on the Transparency International Corruption Perceptions Index*** is improved (or at least maintained) |
| Result | Not achieved. |
| Comment | New Zealand's world ranking has changed from second to fourth least corrupt country of the 168 surveyed. In 2015, New Zealand scored 8.8 out of 10 in the Transparency International Corruption Perceptions Index rankings. This was a decrease from 9.1 in 2014. From 2010 to 2014, New Zealand's score has consistently been between 9.0 and 9.5. |

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

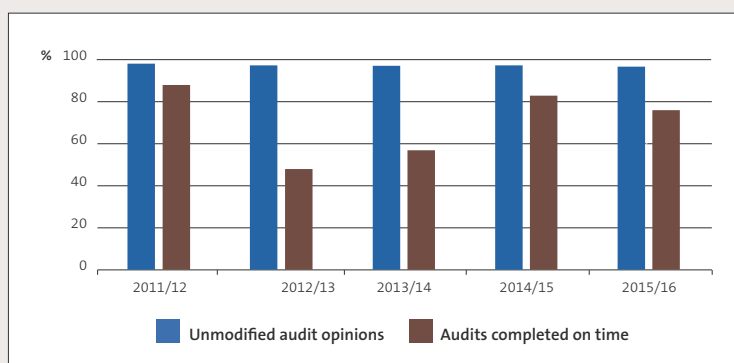
** For survey results, contact the State Services Commission, www.ssc.govt.nz.

*** See the Transparency International website, <http://www.transparency.org/cpi2015>

| Outcome: A public sector that demonstrates responsible behaviour | |
|---|---|
| Measure | Public sector behaviour is more responsible in the area of accountability for public resources. |
| Result | Achieved based on our assessment of results for the four indicators. |
| Comment | <p>Holding public entities accountable for their use of public resources is a fundamental part of our work. Indicators of responsible behaviour in the area of accountability for public resources include:</p> <ol style="list-style-type: none"> 1. timely information; 2. reliable information; 3. sound management; and 4. good governance. <p>We examined trends for these aspects of public sector behaviour to assess an overall outcome for this measure.</p> <p>Figure 3 illustrates trends in 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). This year, 76% of public entities' audit reports were signed within the statutory time frame, compared to 83% in 2014/15. Schools transitioning to new accounting standards and ongoing delayed production of year-end payroll reports contributed to the late completion of school audits and to the decline in 2015/16. However, overall timeliness has improved since 2012/13.</p> <p>We currently collect data about timeliness of public release only for local authority annual reports. For 2014/15, 96% of local authority annual reports were publicly available on time (92% for 2013/14).</p> <p>The percentage of unmodified opinions remains relatively steady. This year, 96.7% of audit opinions were unmodified, compared to 97.3% in 2014/15 and 97.1% in 2013/14.</p> |

* Audits completed on time is a proxy for the timeliness of public entities completing their financial and performance information within statutory time frames.

Figure 4
Percentage of unmodified audit opinions and audits completed on time, 2011/12 to 2015/16



Results for the central government sector (excluding schools) show an improving picture for management control environment (MCE), financial information systems and controls (FISC), and service performance information and associated systems and controls (SPIASC).

Figure 5
Ratings for central government entities, 2011/12 to 2014/15

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-------------------|---------|---------|---------|---------|
| MCE | | | | |
| Very good | 56% | 62% | 59% | 62% |
| Good | 39% | 32% | 34% | 32% |
| Needs improvement | 5% | 6% | 7% | 6% |
| FISC | | | | |
| Very good | 47% | 52% | 48% | 53% |
| Good | 47% | 45% | 43% | 42% |
| Needs improvement | 6% | 3% | 9% | 5% |
| SPIASC | | | | |
| Very good | 4% | 8% | 9% | 8% |
| Good | 66% | 74% | 73% | 79% |
| Needs improvement | 30% | 18% | 18% | 13% |

| | |
|--|--|
| | <p>In 2014/15, we reported information from the State Services Commission's Integrity and Conduct Survey as indicators for our outcome: A public sector that demonstrates responsible behaviour.</p> <p>The three-yearly Integrity and Conduct Survey was scheduled to be held again in 2016. However, we understand that the State Services Commission has not committed to operating the survey in 2016. We therefore intend to explore new indicators for this outcome.</p> |
|--|--|

| Outcome: A 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 | The overall service quality score for 2015 is 74, one point higher than for 2014 and two points higher than for 2013 and 2012. |

Progress against our strategic intentions

The Auditor-General's strategic intentions 2014/15 to 2017/18 was developed to guide and focus our work from 2014/15 to 2017/18. The strategic intentions reflect the outcomes we seek and our intention to position our Office to influence future challenges and take advantage of opportunities presented.

Overall, we have made very good progress against our strategic intentions. We are strongly positioned to continue promoting transparency and accountability by public entities, and to play an important role in influencing and promoting lasting improvements in the performance of the public sector. Specific measures and performance targets for aspects of our strategic intentions are reflected in the measures for our outcomes.

We have enhanced the value of our core work by providing greater insight and value from our audits to help improve public sector performance. For example, our reflections reports, which bring together our insights and observations about our work, are now a product of our multi-year theme-based work programme. During 2015/16, we published our third reflections report, *Reflections from our audits: Governance and accountability*.

We have made good progress on our intention to lead by example as an organisation, and as individuals. Our staff engagement is on track, and we focus on continuously improving quality in all we do. Our project management and reporting disciplines are improving, but there is still work to do. For example,

timeliness of completing the projects in our work programme has improved but is still well under target. Reviewing ourselves has provided further opportunities to improve.

Our work to connect more with citizens has seen us better equip our staff to act as Office “ambassadors” and seek the views of citizens about our work and to inform our work programme. We now regularly use social media channels to help our work reach more citizens.

Our work under the “Position our office for the future” strategic goal has seen us continue to contribute to and actively influence public auditing internationally and within New Zealand. We know our contribution to the international auditing community and to relevant legislative and administrative changes is valued. For example, we are chairing one of two Congress themes at the 2016 International Congress of Supreme Audit Institutions. We are also placing more focus on how to encourage and promote financial sustainability and integrated reporting in the public sector.

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 the Auditor-General to identify and manage risk. The Committee’s report for 2015/16, available on our website, outlines the Committee’s purpose and summarises its work during 2015/16.

Reporting against appropriations

In this Part, we report on the services that we were funded to deliver in 2015/16 and how well we delivered those services.

Reporting against appropriations

The Office is funded through Vote Audit, which has five appropriations:

1. *Audit and Assurance Services RDA* (revenue dependent appropriation);
2. *Audit and Assurance Services* (related to audits of small entities funded by the Crown);
3. *Statutory Auditor Function MCA* (multi-category appropriation);
4. *Remuneration of Auditor-General and Deputy Auditor-General PLA* (permanent legislative authority); and
5. *Controller and Auditor-General – Capital Expenditure PLA*.

In the pages that follow, we set out (where relevant) for each appropriation:

- the scope and what is intended to be achieved;
- an assessment of our performance, standards, and results;
- an explanation of our performance; and
- financial performance.

Appropriation: *Audit and Assurance Services RDA*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to audit and related assurance services as authorised by statute. It is intended to provide for audit services to all public entities (except smaller public entities such as cemetery trusts and reserve boards) and other audit-related assurance services.

Assessment of our performance, standards, and results

Figure 6
2015/16 results and previous performance for *Audit and Assurance Services RDA*

| Measure | Performance standard | 2015/16 result | 2014/15 result |
|--|---|---|---|
| Key recommendations our auditors include in management reports are accepted and acted on. | At least 70% | Achieved* 82% | Achieved 73% |
| Public entities' audited reports are signed by the statutory time frame. | At least 75% | Achieved 76% | Achieved 83% |
| Audit reports not signed by the statutory time frame are because of inaction on our part. | Less than 30% | Achieved 7% | Achieved 15% |
| Management reports are issued within six weeks of issuing the audit report. | 100% | Not achieved 96% | Not achieved 94% |
| Long-term plan (LTP) audit opinions are signed by 30 June (unless held up by the local authority). | 100% | Not assessed, as not an LTP year | Achieved 100% |
| Long-term plan (LTP) management reports are issued within six weeks of issuing the LTP audit opinion. | 100% | Not assessed, as not an LTP year | Not assessed, as measure requires review |
| 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. | Confirmation by annual independent review | Achieved Confirmed by independent review | Achieved Confirmed by independent review |
| Percentage of respondents from our satisfaction survey of public entities who are satisfied with their audit (including the expertise of audit staff and the public entity's relationship with those staff). | At least 85% | Not achieved 84% | Achieved 87% |
| Appointed auditors who have a quality assurance grade of at least "satisfactory", based on our most recent quality assurance review. | 100% | Not achieved 97% | Not achieved 95% |

* For the years ended 30 June 2016 and 30 June 2015, a sample of 45 entities were assessed against this measure.

Explanation of our performance

We explain below the 2015/16 results for *Audit and Assurance Services RDA*.

Annual audits

We audit all public entities³ 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 2015/16, our annual audits and other assurance services accounted for 88% of our total expenditure.

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. Our audit report 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 prepare their reports within statutory time frames. Reliable and timely information is an important indicator of one of our main outcomes – public entities that demonstrate responsible behaviour.

In 2015/16, 76% of public entities met their reporting obligations in a timely manner. The 24% that did not were mostly subsidiaries of public entities or small public entities such as schools. Although we achieved our target of at least 75% of our audit reports being signed by the statutory time frame, we note the 7% decline from 2014/15. Schools transitioning to new accounting standards and ongoing delayed production of year-end payroll reports contributed to this decline. Our target for audit reports not signed by the statutory time frame due to our inaction is 30% or less. This year, only 7% of the audit reports not signed by the statutory time frame were due to our inaction, which is a very pleasing result.

The Auditor-General has a statutory duty to issue audit reports on local authorities' long-term plans (LTPs), which are prepared every three years. We last audited LTPs in 2014/15. The next audits will be carried out in 2017/18.

We measure the timeliness of our auditors' feedback on the final phase of the long-term planning process. After we adopted this measure in 2014/15, the Local Government Act 2002 was amended to include changed requirements for preparing LTPs. The changes shifted the focus on to consultation documents. We

³ In accordance with section 19 of the Public Audit Act 2001, we also audit some organisations that are not public entities. See Appendix 1.

intend to review the measure to focus on the audit of the consultation documents and preparation of information to support the LTPs in time for the next round of LTP reporting.

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 to Audit New Zealand and private sector accounting firms to ensure that these principles are followed.

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. For 2015/16, the Auditor-General appointed a new independent reviewer, John Strahl, to carry out that work. This year's independent review confirmed the probity and objectivity of those methods and systems. Appendix 2 contains the review report by John Strahl.

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 2015/16, fees were increased for various reasons. These were:

- changes in the scale of operations of some entities;
- the variable quality of the financial statements and performance information prepared by some entities;
- small changes in auditor charge-out rates (the average hourly cost of carrying out audits); and
- in the case of schools, the new financial reporting standards.

Figure 7 summarises the movements in audit fees from 2013/14 to 2015/16, based on the audit fees that had been agreed at the time our 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 large increase for schools reflects the additional audit work required as a result of the transition to new accounting standards. Additional audit fees for the transition of the Canterbury Earthquake Recovery Authority's responsibilities and balance sheet to other departments are included in the central government entities' fee increase.

The figures exclude additional audit fees negotiated with public entities as a result of unforeseen problems arising after audit fees were agreed. These are usually the exception, and each case is considered on its merits. For example, in 2015/16, some auditors, including those for a significant number of schools, incurred additional audit costs because the public entities were not fully prepared for the transition to the new accounting standards.

Figure 7
Changes in audit fees, 2013/14 to 2015/16

| Sector | 2013/14 to 2014/15 | | | | 2014/15 to 2015/16 | | | |
|--------------------|-----------------------|----------------------------|---------------------------------------|--------------------|-----------------------|----------------------------|---------------------------------------|--------------------|
| | 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 | 2.4 | 0.2 | 2.2 | 409 | 3.6 | 3.3 | 0.3 | 358 |
| Local government | 2.3 | 0.3 | 2.0 | 455 | 2.0 | (0.1) | 2.1 | 443 |
| Schools | 2.7 | 0.3 | 2.4 | 2404 | 11.0 | 11.2 | (0.2) | 2401 |
| Total | 2.4 | 0.2 | 2.2 | 3268 | 4.3 | 3.5 | 0.8 | 3202 |

Maintaining auditors' independence

Maintaining our independence is fundamental to our work. The Auditor-General's staff (including Audit New Zealand) and appointed auditors and their staff from private sector accounting firms must meet the high standards of independence required under *The Auditor-General's Auditing Standards*. The Office has processes in place to monitor compliance with the Auditor-General's independence requirements. We discuss more about our independence standards and processes in Part 2.

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. The Act also requires 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.

Following recent legislative changes, we have since updated two standards:

- AG-2: The appropriation audit and the controller function (issued in August 2015); and
- AG-4: The audit of performance reports (issued in November 2015).

An updated version of *The Auditor-General's Auditing Standards* is 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*. During a three-year period, we review the quality of the work of all our appointed auditors. As a result, every appointed auditor is reviewed at least once every three years. We expect all our auditors to achieve at least a “satisfactory” grade. This year, 97% of our auditors met this target. The 3% who did not achieve a “satisfactory” grade were auditors of schools from small audit firms. A follow-up review of auditors who do not achieve a “satisfactory” grade is carried out in the year after their review.

Public entities' satisfaction with our auditing services

Each year, we survey public entities to assess their satisfaction with the services our auditors provide. We expect at least 85% of the entities we survey to be satisfied with their audit and the expertise of our auditors. This year, we fell just short of our target, with 84% of those surveyed confirming their satisfaction. We plan to follow up with the entities who indicated a low level of satisfaction with their audit service, along with those who indicated a high level of satisfaction, to ensure that we understand where changes need to be made.

Responding to regulatory and external reporting changes

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 sector public benefit entities came into effect for the period beginning 1 July 2014. Except for the schools sector and a small number of other public entities, the transition to the new standards has gone relatively smoothly. Considerable work was required by public entities and our auditors to assess the effect of the changes in the standards. In some cases, this work continues.

Figure 8
Financial performance for Audit and Assurance Services RDA

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|----------------------------|----------------------------|----------------------------|--|---|--|
| Income from third parties | 78,335 | 78,164 | 75,222 | 75,864 | 75,295 |
| Expenditure | (77,436) | (76,353) | (75,222) | (75,864) | (75,295) |
| Surplus/(Deficit)** | 899 | 1,811 | - | - | - |

* All Estimates information is unaudited.

** Note 13 in the notes to the financial statements provides more information about transfer of the surplus to the Office's memorandum account as part of calculating the repayment of the surplus to the Crown.

Audit and Assurance Services RDA revenue was \$2.4 million higher than budgeted. Revenue for the year includes the estimated value of the work to date on audits that were under way at 30 June 2016. This was higher than budgeted, particularly for audits undertaken by contracted audit service providers. School audit fees were also higher than budgeted because extra work was required for auditing payroll controls that are now based at each school and the transition to new accounting standards. Costs were \$1.4 million higher than budgeted. This reflects the additional costs associated with the work carried out by contracted audit service providers, partially offset by lower personnel costs in Audit New Zealand.

Appropriation: *Audit and Assurance Services*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. It is intended to provide for audit and related assurance services of smaller entities such as cemetery trusts and reserve boards funded by the Crown. This appropriation also provides for when costs exceed revenue under the *Audit and Assurance Services RDA*. These deficits are funded by prior year surpluses from this output class which are held in the Office's memorandum account.

Our performance

We have no specific performance measures relating to this appropriation. However, performance for this appropriation can be inferred through the performance measures for *Audit and Assurance Services RDA*.

Figure 9
Financial performance for Audit and Assurance Services

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--------------------------|----------------------------|----------------------------|--|---|--|
| Income | 150 | 150 | 150 | 150 | 150 |
| Expenditure | (150) | (150) | (450) | (650) | (1,800) |
| Surplus/(Deficit) | - | - | (300) | (500) | (1,650) |

* All Estimates information is unaudited.

The budgeted deficits in this output class represent the appropriations that enable the use of prior year surpluses from this output class. This funding is held in the Office's memorandum account, enabling the Office to manage audit costs and revenue over multiple years.

Appropriation: *Statutory Auditor Function MCA*

Purpose of the appropriation

The overarching purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

Scope of the appropriation and what is intended to be achieved

Performance Audits and Inquiries

This category is limited to undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.

This category is intended to provide Parliament with assurance about how well public entities use resources and manage a range of matters and programmes, making recommendations where we consider improvements can be made.

Supporting Accountability to Parliament

This category is limited to reporting to Parliament and others as appropriate on matters arising from audits and inquiries, reporting to and advising select committees, and advising other agencies in New Zealand and abroad to support Parliament and governing bodies in holding their executives to account for the use of public resources.

This category is intended to provide advice and assistance to Parliament and our other stakeholders to assist them in their work to improve the performance and accountability of public entities. Our Controller function provides independent assurance to Parliament that public money has been spent appropriately and lawfully.

Assessment of our performance, standards, and results

Figure 10
2015/16 results and previous performance for *Statutory Auditor Function MCA*

| Statutory Auditor Function | | | |
|---|--|---|---|
| Measure | Performance standard | 2015/16 result | 2014/15 result |
| Quality standards are consistently met: stakeholders surveyed who confirm the relevance of our work to users, and reports independently reviewed that are assessed of high quality. | At least 85% for stakeholders and 100% for reports | Achieved 92% for stakeholders 100% for reports | Achieved 92% for stakeholders 100% for reports |
| Process standards are consistently met: external review and internal quality assurance review confirm our performance audit process standards are consistently complied with and our policies and procedures for statutory auditor functions meet relevant standards. | Confirmation by external and internal review | Achieved Confirmed by external review Confirmed by internal review | Achieved Confirmed by external review Confirmed by internal review |
| Performance Audits and Inquiries | | | |
| Measure | Performance standard | 2015/16 result | 2014/15 result |
| Entities accept the key recommendations made in our reports, and the recommendations influence improvement. | As assessed in follow up reports | Achieved for performance audits Achieved for inquiries when last assessed in 2013/14 | Achieved for performance audits Achieved for inquiries when last assessed in 2013/14 |

| | | | |
|--|--------------|--|--|
| Findings on inquiries reported to the relevant parties within three months for routine inquiries, six months for significant inquiries, and 12 months for major inquiries. | At least 80% | Achieved for routine inquiries 86% Not achieved for significant inquiries 60% Not achieved for major inquiries 0%* | Achieved for routine inquiries 91% Not achieved for significant inquiries 67% Not assessed, as no major inquiries completed in 2014/15 |
| Local Authorities (Members' Interests) Act 1968 (LAMIA) matters that are completed within 30 working days. | At least 80% | Achieved 85% | Achieved 85% |

* One major inquiry (Massey North town centre development) was due to be completed in 2015/16. We did not meet our timeliness target for this inquiry.

| Supporting Accountability to Parliament | | | |
|--|--|---|---|
| Measure | Performance standard | 2015/16 result | 2014/15 result |
| Stakeholders we survey who confirm that our advice assists them. | At least 85% | Not achieved 83% | Achieved 96% |
| Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme). | Stakeholders are satisfied | Achieved Stakeholders satisfied | Achieved Stakeholders satisfied |
| Projects in the programme of work under this output class that are delivered within their planned time frames. | At least 75% | Not achieved* 32% | Not achieved** 17% |
| Briefings given to select committees at least two days before an examination, unless otherwise agreed. | 100% | Achieved 100% | Achieved 100% |
| Controller function: 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 the five working days of receipt of the statement. | All procedures are followed and agreed time frames met | Achieved All procedures followed and agreed time frames met | Achieved All procedures followed and agreed time frames met |

* 32% of projects (8 out of 25) were delivered within their planned time frames. We provide more information about the projects that were not completed on time on page 32.

** 17% of projects (4 out of 23) were delivered within their planned time frames.

Explanation of our performance

We explain below the 2015/16 results for *Statutory Auditor Function MCA*.

Statutory Auditor Function

Overall, we are satisfied that in 2015/16 we met our quality and process-related targets for our work to support Parliament in ensuring accountability for the use of public resources. For example, this year, 92% of our stakeholders confirmed the relevance and usefulness of our work, and an independent assessment of a sample of our reports concluded that they were of high quality. The Australian National Audit Office's most recent review of our performance audit methodology found that it was largely in keeping with the Office's processes and practices. Our most recent quality assurance review confirmed that our policies, procedures, and standards were applied appropriately and that they met relevant standards.

Performance Audits and Inquiries

Performance audits

Our core business is carrying out annual audits. Alongside annual audits, 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, and major inquiries. 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.

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.

In 2015/16, we completed reports on a range of matters. Appendix 3 lists these reports, which are available on our website.

Our reports often highlight complexities to be managed and factors that support good decision-making. Where appropriate, they make recommendations

for improvement. Each year, we assess the progress public entities make in implementing the recommendations from some of our previous performance audits and discuss this in articles we publish on our website. The articles we published in 2015/16 showed that, overall, entities were making improvements by acting on our recommendations. In some instances, progress had been faster and improvements had been greater than previously. We will continue to monitor how our recommendations are acted on to achieve the intended improvements.

Our work programme

Our annual audit work gives us direct interaction with, and insight into, how the public sector is operating. We use our unique view of the public sector to inform our work programme. We extract even greater value from this information by applying a theme across our work and by signalling future themes. After consulting with Parliament on our proposed programme of work, we publish the work we intend to carry out in our Annual Plan.

Achieving our 2015/16 work programme

Our 2015/16 work programme was the fourth in our multi-year themed work programme. The Auditor-General selected *Investment and asset management* as the theme for our 2015/16 work programme because of its importance to New Zealand's future. The significant investments and assets that the public sector manages are essential to the provision of public services. We examined aspects of how well the public sector plans for, funds, manages, and maintains infrastructure and other assets to support long-term delivery of public services. We plan to publish a reflections report on our work under the *Investment and asset management* theme in 2016/17.

During 2015/16, we looked at future themes for our work programme. The Auditor-General has confirmed that the theme for audits and other work in 2016/17 is *Information*. We also explored the content of our proposed themes for 2017/18, *Water*, and for 2018/19, *Sustainable development*.

Our progress with the performance audits and other work in our 2015/16 work programme is outlined in Appendix 4. Progress with the performance audits and other work that was carried over from 2014/15 is outlined in Appendix 5.

Timeliness of completing the projects within our work programme has improved but remains a challenge. In 2014/15, we introduced a new measure to report on the timeliness of project completion. We aspire to deliver 75% of our projects within their planned time frames. We plan an ambitious work programme, so we consider this is a fair but challenging target.

In 2014/15, 17% of projects (4 out of 23) were delivered within their planned time frames, well below our target of 75%. During 2015/16, we placed greater focus on managing the timeliness of project completion, including more realistic planning and increased management of dependencies and risks. This year 32% of projects (8 out of 25) were delivered within their planned time frames.

We will continue to seek further improvements to the timeliness of our project completion.

Consultation on our 2016/17 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 2016/17 work programme and its theme – *Information*. This year, the Finance and Expenditure Committee suggested that we include an additional piece of work, which we considered would add further value to our work programme. We will examine how the Overseas Investment Office collects and manages information relevant to decision-makers.

We selected information as a focus for our work in 2016/17 because of its increasing importance to the effective and efficient delivery of public services now and in the future. This year, we also sought the views of citizens to help inform our work programme. Our two-day online forum and group discussion with members of the public highlighted the importance of accurate and secure information for users of public services.

Inquiries

In contrast to our planned programme of work, our inquiries work is more reactive to matters of current public concern. This year, we established a dedicated inquiries team, which was operating at its full complement of four staff by March 2016. The team's focus has been on managing existing inquiries and inquiry requests while reviewing the way the Office carries out its inquiries work. The improved capacity and processes for our inquiry work are expected to assist with our timeliness of completing inquiries.

In 2015/16, we completed work on 185 inquiry and other issues. When we decide to inquire into an issue, we determine whether that inquiry will be a "routine", "significant", or "major" inquiry. The primary distinction between the three is scope. We expect to complete a major inquiry within 12 months, a significant inquiry within six months, and a routine inquiry within three months. We met our timeliness targets for routine inquiries for central and local government.

This year, we worked on five significant inquiries. They included how the Queenstown Lakes District Council and its chief executive managed the chief executive's interest in a proposed special housing area, the costs and benefits of Health Benefits Limited's work in the health sector, and the involvement of Defence Force personnel in a commercial entity (Miltech). We did not meet our timeliness target for significant inquiries.

Our timeliness target for major inquiries was also not met. Our inquiry into the Massey North town centre development was under way at the beginning of the year, and has yet to be completed. We started a major inquiry into the Saudi Arabia Food Security Partnership, which is due to be completed in 2016/17.

We follow up on the recommendations from our inquiry reports. Inquiry reports do not always include recommendations. In 2015/16 and in 2014/15, no assessments were necessary because there were no recommendations that needed to be followed up.

Local Authorities (Members' Interests) Act 1968

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

Supporting Accountability 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 advise Ministers of the results of the annual audits for entities in their portfolio.

In 2015/16, high demand from select committees for our advice continued. We provided advice in support of 83 annual reviews, 41 Estimates of Appropriation examinations, and nine sector briefings.

A joint project with the Office of the Clerk of the House of Representatives to improve Parliamentary scrutiny has been a special feature of our work in advising select committees this year. The project has made a very real difference to committees' uptake of our reports. It is now more common for committees to report to Parliament on the matters we raise than it was two years ago. All except one of our 2015/16 performance audits were the subject of a specific briefing by us to a select committee.

During 2015/16, we also provided advice to the Regulations Review Committee in its hearing into a complaint concerning the Shipping (Charges) Amendment Regulations 2013 and the Marine Safety Charges Amendment Regulations 2013.

To help assess the impact of our work, each year we commission an independent survey of a sample of our stakeholders about how they perceive the quality and usefulness of our work. In 2015/16, this involved interviews with 12 select committee chairs and 12 senior public servants. This year, 92% of our stakeholders agreed that our advice is relevant and useful. All select committee chairs agreed that our advice assists their select committee in its work. There was a more mixed picture with senior public servants. Eight of the 12 interviewed agreed that our advice assists their organisation.

The interview results indicated that, overall, the Office is highly regarded as an organisation of great integrity, professionalism, and expertise and is staffed by a strong team of proactive communicators. The Office is credited with improving public trust in government agencies and driving better performance across the public sector.

All those interviewed agreed that we act with integrity and independently of government. We thank the respondents for their considered and thoughtful input.

Controller function

The Controller function provides independent assurance to Parliament that expenditure by government departments and Offices of Parliament is lawful, 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 2014/15 central government

audits showed that there were 19 instances of unauthorised expenditure. Most of these were associated with uncertainties arising from the Canterbury rebuild, and they equated to 0.07% of the total funding approved through Budget 2014.

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 28 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). This year, our focus was on supporting PASAI to implement PASAI's 2014-24 strategy.

We supported PASAI's technical programme, which included the development of an approach for auditing procurement in the Pacific region and the use of specialist audit computer applications. As part of PASAI's Pacific region support initiatives (known as the twinning programme), we assisted the Cook Islands Audit Office to improve its performance audit function and the Samoan Audit Office to plan the implementation of its strategy. 2016 was the final year of our five-year contract with the Ministry of Foreign Affairs and Trade (MFAT) to support PASAI. We negotiated a further contract with MFAT for supporting PASAI from 2016-19. This funding is provided as part of New Zealand's Official Development Assistance programme.

Hosting international delegations provides opportunities to exchange information and build professional networks. This year, we were pleased to assist visiting representatives from the Parliaments, Treasuries, and/or Audit Offices of the Indonesian Ministry of Finance, the Australian Joint Committee of Public Accounts and Audit, the Timor-Leste Ministry of Finance, the Singapore Ministry of Finance, the Australian Government and National Audit Office, the Republic of South Africa's National Treasury and Department of Defence, and the Korean Board of Audit and Inspection.

We are also well positioned for our chairing of the professionalisation theme at the December 2016 International Congress of Supreme Audit Institutions. We expect a robust discussion in this international forum about how to strengthen INTOSAI's global voice and influence for the benefit of citizens all over the world.

Our significant ongoing involvement in INTOSAI activities continued in 2015/16. We are a member of the INTOSAI Professional Standards Steering Committee, which is charged with developing international public sector auditing standards. We have also been a member of the project team revising the INTOSAI code of ethics. We continue our membership of the working group on environmental auditing.

In addition, the Deputy Auditor-General has been a member of the Forum for INTOSAI Professional Pronouncements. The Forum has a mandate to review all of INTOSAI's professional pronouncements as part of a review by INTOSAI of its standard-setting arrangements.

Our three-year term as expert panel member on the Organisation for Economic Co-operation and Development's Audit Committee finishes at the end of 2016.

Figure 11
Financial performance for Statutory Auditor Function MCA

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|----------------------------|----------------------------|----------------------------|--|---|--|
| Income | | | | | |
| Crown | 9,627 | 9,047 | 9,627 | 9,627 | 9,627 |
| Other | 167 | 199 | 230 | 230 | 230 |
| Expenditure | (9,758) | (9,012) | (9,857) | (9,857) | (9,857) |
| Surplus/(Deficit)** | 36 | 234 | - | - | - |

* All Estimates information is unaudited.

** Note 13 in the notes to the financial statements provides more information about transfer of the surplus to the Office's memorandum account as part of calculating the repayment of the surplus to the Crown.

Statutory Auditor Function MCA costs were close to budget because of ongoing high volume of work during the year.

Appropriation: Remuneration of Auditor-General and Deputy Auditor-General

Scope of appropriation and what is intended to be achieved

This appropriation is limited to remuneration expenses for both the Auditor-General and the Deputy Auditor-General as authorised by clause 5 of the Third Schedule of the Public Audit Act 2001.

This permanent appropriation provides payment to the Auditor-General and Deputy Auditor-General as determined by the Remuneration Authority.

Our performance

The Auditor-General and Deputy Auditor-General lead the performance of the Office. The performance of the Office's activities, including this appropriation, is reflected in the information provided in this report.

Figure 12
Financial performance for Remuneration of Auditor-General and Deputy Auditor-General PLA

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--------------------------|----------------------------|----------------------------|--|---|--|
| Income | 972 | 950 | 950 | 972 | 958 |
| Expenditure | (972) | (950) | (950) | (972) | (958) |
| Surplus/(Deficit) | - | - | - | - | - |

* All Estimates information is unaudited.

Appropriation: *Controller and Auditor-General – Capital Expenditure PLA*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to the purchase of assets by, and for the use of, the Controller and Auditor-General, as authorised by section 24(1) of the Public Finance Act 1989. It is intended to achieve the renewal and replacement of assets that support the delivery of the Controller and Auditor-General's operations.

Our performance

Figure 13
Financial performance for *Controller and Auditor-General – Capital Expenditure*
PLA

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|----------------------------------|----------------------------|----------------------------|--|---|--|
| Property, plant and equipment | 531 | 407 | 355 | 500 | 375 |
| Intangibles | 179 | 236 | 480 | 403 | 220 |
| Other | 390 | 330 | 342 | 512 | 190 |
| Total capital expenditure | 1,100 | 973 | 1,177 | 1,415 | 785 |

* All Estimates information is unaudited.

Our capital expenditure programme provides for the purchase of facilities and tools to enable our staff to carry out their work – for example, hardware and software for information systems, vehicles, building fit-out, and furniture and fittings. This year, we met our objectives for maintaining these assets. Expenditure on software was lower than planned, mainly because of the timing of projects.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Office for the year ended 30 June 2016.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations for the year ended 30 June 2016

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

End of year performance information for all appropriations is reported in this annual report.

| Annual and permanent appropriations for Vote Audit | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--|-------------------------|-------------------------|----------------------------------|---|----------------------------------|
| Output expenses | | | | | |
| <i>Audit and Assurance Services RDA (revenue dependent appropriation)[†]</i> | 77,436 | 76,353 | 75,222 | 75,864 | 75,295 |
| <i>Audit and Assurance Services</i> | 150 | 150 | 450 | 650 | 1,800 |
| Total appropriations for output expenses | 77,586 | 76,503 | 75,672 | 76,514 | 77,095 |
| Other expenses | | | | | |
| <i>Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority)^{††}</i> | 972 | 950 | 950 | 972 | 958 |
| Capital expenditure | | | | | |
| <i>Controller and Auditor-General – Capital Expenditure PLA^{†††}</i> | 1,100 | 973 | 1,177 | 1,415 | 785 |
| Multi-category appropriations | | | | | |
| <i>Statutory Auditor Function MCA</i> | | | | | |
| Performance Audits and Inquiries | 6,442 | 5,888 | 6,987 | 6,587 | 6,587 |
| Supporting Accountability to Parliament | 3,316 | 3,124 | 2,870 | 3,270 | 3,270 |
| Total Statutory auditor function | 9,758 | 9,012 | 9,857 | 9,857 | 9,857 |
| Total annual and permanent appropriations | 89,416 | 87,438 | 87,656 | 88,758 | 88,695 |

* All Estimates information is unaudited.

† The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2015/16, revenue under this appropriation was \$78.376 million – see Note 3 to the financial statements.

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

††† Costs incurred pursuant to section 24(1) of the Public Finance Act 1989.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority for the year ended 30 June 2016

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority for the year ended 30 June 2016 (2015: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2016

The Office did not receive any capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2016 (2015: Nil).

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Financial statements 2015/16

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Statement of responsibility

I am responsible, as Controller and Auditor-General, for:

- the preparation of the Office's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Office is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Office, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2016 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2017 and its operations for the year ending on that date.

Signed:



Lyn Provost
Controller and Auditor-General
12 September 2016

Countersigned:



Maria Viviers
Chief Financial Officer
12 September 2016

Statement of comprehensive revenue and expense for the year ended 30 June 2016

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 27, 28, 37, 38, and 39 .

| | Notes | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--|-----------|----------------------------|----------------------------|--|---|--|
| Revenue | | | | | | |
| Crown funding | 2 | 10,749 | 10,147 | 10,727 | 10,749 | 10,735 |
| Audit fee revenue | 3 | 78,298 | 78,137 | 75,222 | 75,864 | 75,295 |
| Other revenue | | 204 | 226 | 230 | 230 | 230 |
| Gain on sale of plant and equipment | | 41 | 30 | - | 46 | 18 |
| Total revenue | | 89,292 | 88,540 | 86,179 | 86,889 | 86,278 |
| Expenses | | | | | | |
| Personnel costs | 4 | 40,875 | 40,123 | 41,060 | 41,249 | 42,654 |
| Other operating costs | 5 | 45,855 | 44,838 | 43,611 | 44,205 | 43,313 |
| Depreciation and amortisation expense | 10, 11 | 1,088 | 1,006 | 1,134 | 1,065 | 1,102 |
| Capital charge | 6 | 498 | 498 | 498 | 498 | 498 |
| Total expenses | | 88,316 | 86,465 | 86,303 | 87,017 | 87,567 |
| Surplus/(deficit) | | 976 | 2,075 | (124) | (128) | (1,289) |
| Other comprehensive revenue and expense | | - | - | - | - | - |
| Total comprehensive revenue and expense | | 976 | 2,075 | (124) | (128) | (1,289) |

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 22.

Statement of financial position as at 30 June 2016

This statement reports total assets and liabilities. The difference between the total assets and total liabilities is called equity.

| | Notes | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--------------------------------------|-------|----------------------------|----------------------------|--|---|--|
| Current assets | | | | | | |
| Cash and cash equivalents | 7 | 5,632 | 3,962 | 5,750 | 5,420 | 4,818 |
| Receivables | 8 | 6,979 | 8,793 | 5,750 | 5,750 | 5,750 |
| Prepayments | | 579 | 446 | 449 | 446 | 446 |
| Work in progress | 9 | 1,848 | 1,562 | 2,000 | 2,000 | 2,000 |
| <i>Total current assets</i> | | 15,038 | 14,763 | 13,949 | 13,616 | 13,014 |
| Non-current assets | | | | | | |
| Property, plant and equipment | 10 | 3,852 | 3,886 | 3,517 | 3,910 | 3,661 |
| Intangible assets | 11 | 526 | 620 | 1,031 | 779 | 672 |
| <i>Total non-current assets</i> | | 4,378 | 4,506 | 4,548 | 4,689 | 4,333 |
| Total assets | | 19,416 | 19,269 | 18,497 | 18,305 | 17,347 |
| Current liabilities | | | | | | |
| Payables and deferred revenue | 12 | 5,477 | 5,910 | 5,288 | 5,372 | 5,354 |
| Repayment of surplus due to Crown | 13 | 77 | 264 | - | - | 18 |
| Employee entitlements | 14 | 3,910 | 3,967 | 4,161 | 3,948 | 4,027 |
| <i>Total current liabilities</i> | | 9,464 | 10,141 | 9,449 | 9,320 | 9,399 |
| Non-current liabilities | | | | | | |
| Employee entitlements | 14 | 453 | 536 | 571 | 547 | 558 |
| Income in advance | | 34 | 26 | - | - | - |
| <i>Total non-current liabilities</i> | | 487 | 562 | 571 | 547 | 558 |
| Total liabilities | | 9,951 | 10,703 | 10,020 | 9,867 | 9,957 |
| Net assets | | 9,465 | 8,566 | 8,477 | 8,438 | 7,390 |
| Equity | | | | | | |
| Taxpayers' funds | 15 | 6,221 | 6,221 | 6,221 | 6,221 | 6,221 |
| Memorandum account | 21 | 3,244 | 2,345 | 2,256 | 2,217 | 1,169 |
| Total equity | | 9,465 | 8,566 | 8,477 | 8,438 | 7,390 |

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 22.

Statement of changes in equity for the year ended 30 June 2016

| | Notes | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|--|-----------|----------------------------|----------------------------|--|---|--|
| Balance at 1 July | | 8,566 | 6,755 | 8,601 | 8,566 | 8,697 |
| Total comprehensive revenue and expense | | 976 | 2,075 | (124) | (128) | (1,289) |
| Surplus repayment due to the Crown | 13 | (77) | (264) | - | - | (18) |
| Balance at 30 June | 15 | 9,465 | 8,566 | 8,477 | 8,438 | 7,390 |

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 22.

Statement of cash flows for the year ended 30 June 2016

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 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Supplementary Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|---|-------|----------------------------|----------------------------|--|---|--|
| Cash flows from operating activities | | | | | | |
| Receipts from the Crown | | 10,749 | 10,147 | 10,727 | 10,749 | 10,735 |
| Receipts from public entities ¹ | | 45,975 | 43,704 | 43,262 | 46,129 | 42,700 |
| Payments to suppliers ¹ | | (12,578) | (11,177) | (13,484) | (13,895) | (12,140) |
| Payments to employees | | (40,771) | (40,098) | (39,273) | (39,559) | (40,930) |
| Net GST paid ² | | (24) | (147) | - | - | - |
| Capital charge paid | | (498) | (498) | (498) | (498) | (498) |
| <i>Net cash flow from operating activities</i> | 16 | 2,853 | 1,931 | 734 | 2,926 | (133) |
| Cash flows from investing activities | | | | | | |
| Receipts from sale of plant and equipment | | 181 | 113 | 70 | 211 | 57 |
| Purchase of plant and equipment | | (921) | (739) | (697) | (1,012) | (565) |
| Purchase of intangible assets | | (179) | (236) | (480) | (403) | (220) |
| <i>Net cash flow used in investing activities</i> | | (919) | (862) | (1,107) | (1,204) | (728) |
| Cash flows from financing activities | | | | | | |
| Surplus repayment to the Crown | | (264) | (455) | - | (264) | - |
| <i>Net cash flow used in financing activities</i> | | (264) | (455) | - | (264) | - |
| Total net increase (decrease) in cash held | | 1,670 | 614 | (373) | 1,458 | (861) |
| Cash at the beginning of the year | | 3,962 | 3,348 | 6,123 | 3,962 | 5,679 |
| Cash at the end of the year | 7 | 5,632 | 3,962 | 5,750 | 5,420 | 4,818 |

* All Estimates information is unaudited.

- 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.

Statement of commitments as at 30 June 2016

This statement records expenditure to which the Office is contractually committed at 30 June 2016.

Non-cancellable operating lease commitments

The Office may lease property, plant, and equipment in the normal course of its business. All current 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 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Not later than one year | 2,493 | 2,466 |
| Later than one year and not later than five years | 8,030 | 8,690 |
| Later than five years | 73 | 1,487 |
| Total non-cancellable operating lease commitments | 10,596 | 12,643 |

Statement of contingent liabilities and contingent assets as at 30 June 2016

This statement discloses situations that existed at 30 June 2016, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2016.

As at 30 June 2015, the Auditor-General was defending a statement of claim from the Commissioners of Kaipara District Council relating to various audits of Kaipara District Council. This was settled during the 2015/16 financial year.

Contingent assets

The Office did not have any contingent assets as at 30 June 2016 (2015: Nil).

Notes to the financial statements for the year ended 30 June 2016

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 2016 and were authorised for issue by the Controller and Auditor-General on 12 September 2016.

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 the requirements 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 Standards.

These financial statements comply with PBE Standards.

Presentation currency and rounding

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

Budget and forecast figures

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2015/16 Main Estimates and Supplementary Estimates

The 2015/16 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2015, and in the Office's 2014/15 annual report.

The 2015/16 Supplementary Estimate forecast financial statements are based on the updated forecasts published in Budget 2016.

2016/17 Main Estimates

The 2016/17 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2016. They have been prepared in accordance with PBE Financial Reporting Standard 42: *Prospective Financial Statements* and comply with that standard.

The 2016/17 forecast financial statements were approved for issue by the Controller and Auditor-General on 24 March 2016. The Controller and Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Office regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2017 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what may occur during the 2016/17 year. The forecast figures have been compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee.

The main assumptions, which were adopted as at 24 March 2016, were as follows:

- 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; 2016/17 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.

The actual financial results achieved for 30 June 2017 are likely to vary from the forecast information presented, and the variations may be material. There are no known significant changes since the approval of the forecasts.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

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 RDA*.

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

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of

causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below:

- Audit fee revenue, work in progress, and income in advance – refer to Notes 3, 9, and 12.
- Depreciation and amortisation – refer to Notes 10 and 11.
- Retirement and long service leave – refer to Note 14

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.

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 the use of 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.

Accounting policy

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.

Note 3: Audit fee revenue

Accounting policy

The specific accounting policies for audit fee revenue are explained below:

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.

Critical accounting estimates and assumptions

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 for income in advance or work in progress.

Breakdown of fee revenue

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|---|----------------------------|----------------------------|--|--|
| Fee revenue generated by the Office for audit and assurance services | 43,593 | 44,774 | 43,031 | 42,471 |
| Fee revenue generated by other contracted audit service providers for audits of public entities** | 34,705 | 33,363 | 32,191 | 32,824 |
| Total audit fee revenue | 78,298 | 78,137 | 75,222 | 75,295 |

*All Estimates information is unaudited.

** 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

Accounting policy

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.

Breakdown of personnel costs

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Salaries and wages | 39,559 | 38,851 |
| Other employee-related costs | 270 | 270 |
| Employer contributions to defined contribution plans | 1,186 | 1,143 |
| Decrease in employee entitlements | (140) | (141) |
| Total personnel costs | 40,875 | 40,123 |

Note 5: Other operating costs

Accounting policy

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.

Operating 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.

Breakdown of other operating costs

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates 2015/16 \$000* | Main Estimates 2016/17 \$000* |
|---|----------------------------|----------------------------|--|--|
| Provision for impairment of receivables | 27 | - | - | - |
| Fees to auditors for the audit of the Office's financial statements (from 2016: PKF Goldsmith Fox Audit, 2015: CST Nexia) | 90 | 98 | 110 | 108 |
| Operating lease payments | 2,451 | 2,399 | 2,593 | 2,691 |
| Fees for audits of public entities carried out by PKF Goldsmith Fox Audit (2015: CST Nexia)** | 7 | 126 | 128 | 7 |
| Fees for audits of public entities carried out by other contracted audit service providers** | 34,698 | 33,237 | 32,063 | 32,817 |
| Other expenses | 8,582 | 8,978 | 8,717 | 7,690 |
| Total other operating costs | 45,855 | 44,838 | 43,611 | 43,313 |

* All Estimates information is unaudited.

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

Note 6: Capital charge

Accounting policy

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

Further information on the 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 2016 was 8% (2015: 8%).

Note 7: Cash and cash equivalents

Accounting policy

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

Further information on cash and cash equivalents

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 (2015: Nil).

Note 8: Receivables

Accounting policy

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

A receivable is considered impaired when there is sufficient 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.

Breakdown of receivables and further information

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Receivables under exchange transactions | | |
| Debtors | 6,999 | 8,784 |
| Other receivables | (27) | 9 |
| <i>Total receivables under exchange transactions</i> | 6,972 | 8,793 |
| Total receivables under non-exchange transactions | 7 | - |
| Total receivables | 6,979 | 8,793 |

The carrying value of receivables approximates their fair value.

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

| | Actual 2015/16 | | | Actual 2014/15 | | |
|------------------------|----------------|----------------------------------|--------------|----------------|----------------------------------|--------------|
| | Gross \$000 | Impairment provision \$000 | Net \$000 | Gross \$000 | Impairment provision \$000 | Net \$000 |
| Not past due | 5,457 | - | 5,457 | 6,994 | - | 6,994 |
| Past due 1-30 days | 863 | - | 863 | 946 | - | 946 |
| Past due 31-60 days | 3 | - | 3 | 437 | - | 437 |
| Past due 61-90 days | 482 | - | 482 | 155 | - | 155 |
| Past due over 90 days | 194 | (27) | 167 | 252 | - | 252 |
| Carrying amount | 6,999 | (27) | 6,972 | 8,784 | - | 8,784 |

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.

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

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Balance at 1 July | - | - |
| Additional provisions made during the year | 27 | - |
| Balance at 30 June | 27 | - |

Note 9: Work in progress

Accounting policy

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

Critical accounting estimates and assumptions

The value of work in progress is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a 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 for income in advance or work in progress.

Note 10: Property, plant, and equipment

Accounting policy

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 groups 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.

Impairment of property, plant, and equipment

Property, plant, and equipment 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.

Critical accounting estimates and assumptions

Determining the depreciation rates for physical 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 costs, accumulated depreciation, and net book values.

Breakdown of property, plant, and equipment and further information

| | Furniture and fittings \$000 | Office equipment \$000 | Leasehold improvements \$000 | IT hardware \$000 | Motor vehicles \$000 | Total \$000 |
|---|---------------------------------|---------------------------|---------------------------------|----------------------|-------------------------|----------------|
| Cost | | | | | | |
| Balance at 1 July 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 |
| Additions | 84 | 18 | 93 | 336 | 390 | 921 |
| Disposals | (126) | (34) | - | (2) | (466) | (628) |
| Balance at 30 June 2016 | 1,562 | 384 | 3,154 | 2,862 | 1,119 | 9,081 |
| Accumulated depreciation and impairment losses | | | | | | |
| Balance at 1 July 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 |
| Depreciation expense | 32 | 37 | 223 | 317 | 205 | 814 |
| Elimination on disposal | (126) | (34) | - | (2) | (325) | (487) |
| Balance at 30 June 2016 | 1,459 | 357 | 717 | 2,265 | 431 | 5,229 |
| Carrying amounts | | | | | | |
| Balance at 1 July 2014 | 63 | 100 | 2,739 | 540 | 615 | 4,057 |
| Balance at 30 June 2015 | 51 | 46 | 2,567 | 578 | 644 | 3,886 |
| Balance at 30 June 2016 | 103 | 27 | 2,437 | 597 | 688 | 3,852 |

Note 11: Intangible assets

Accounting policy

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%).

Critical accounting estimates and assumptions

Determining the 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 amortisation costs, accumulated amortisation and net book values.

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:

| | Acquired software \$000 | Internally generated software \$000 | Total \$000 |
|---|----------------------------|--|----------------|
| Cost | | | |
| Balance at 1 July 2014 | 3,818 | 120 | 3,938 |
| Additions | 236 | - | 236 |
| Disposals | (71) | - | (71) |
| Balance at 30 June 2015 | 3,983 | 120 | 4,103 |
| Additions | 179 | - | 179 |
| Disposals | - | - | - |
| Balance at 30 June 2016 | 4,162 | 120 | 4,282 |
| Accumulated amortisation and impairment losses | | | |
| Balance at 1 July 2014 | 3,253 | 120 | 3,373 |
| Amortisation expense | 181 | - | 181 |
| Disposals | (71) | - | (71) |
| Balance at 30 June 2015 | 3,363 | 120 | 3,483 |
| Amortisation expense | 274 | - | 274 |
| Disposals | (1) | - | (1) |
| Balance at 30 June 2016 | 3,636 | 120 | 3,756 |
| Carrying amounts | | | |
| At 1 July 2014 | 565 | - | 565 |
| At 30 June 2015 | 620 | - | 620 |
| At 30 June 2016 | 526 | - | 526 |

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

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at their face value.

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

Critical accounting estimates and assumptions

The value of income in advance is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a 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 for income in advance or work in progress.

Breakdown of payables and deferred revenue

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Payables and deferred revenue under exchange transactions | | |
| Creditors | 1,419 | 1,826 |
| Income in advance | 2,818 | 2,921 |
| Accrued expenses | 559 | 367 |
| <i>Total payables and deferred revenue under exchange transactions</i> | <i>4,796</i> | <i>5,114</i> |
| Payables and deferred revenue under non-exchange transactions | | |
| GST payable | 681 | 796 |
| <i>Total payables and deferred revenue under non-exchange transactions</i> | <i>681</i> | <i>796</i> |
| Total payables | 5,477 | 5,910 |

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 13: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year. The amount to be repaid includes any unused Crown funding and/or gains on sale of assets from the previous financial year. Any surplus arising from audit fees collected under the revenue dependent appropriation is transferred to the memorandum account and held for use in the *Audit and Assurance Services RDA* output class in future years. The memorandum account is explained further in Note 21.

| | Note | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|---|------|----------------------------|----------------------------|
| Surplus | | 976 | 2,075 |
| Less Surplus transferred to memorandum account | 21 | (899) | (1,811) |
| Total provision for surplus repayment to the Crown | | 77 | 264 |

Note 14: Employee entitlements

Accounting policy

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 a 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.

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

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 New Zealand Government bond data at 30 June 2016. 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 \$35,477 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 \$49,337 higher/lower.

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|-------------------------------------|----------------------------|----------------------------|
| Current portion | | |
| Salary and other accruals | 1,134 | 998 |
| Annual leave | 2,381 | 2,470 |
| Long service leave | - | 62 |
| Time off in lieu of overtime worked | 125 | 180 |
| Retiring leave | 170 | 169 |
| Sick leave | 100 | 88 |
| <i>Total current portion</i> | 3,910 | 3,967 |
| Non-current portion | | |
| Retiring leave | 453 | 536 |
| <i>Total non-current portion</i> | 453 | 536 |
| Total employee entitlements | 4,363 | 4,503 |

Note 15: Equity

Accounting policy

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.

Breakdown of equity

| | Note | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|---|------|----------------------------|----------------------------|
| Taxpayers' funds | | | |
| Balance at 1 July | | 6,221 | 6,221 |
| Surplus | | 976 | 2,075 |
| Transfer of memorandum account net surplus for the year | | (899) | (1,811) |
| Repayment of surplus to the Crown | 13 | (77) | (264) |
| Balance at 30 June | | 6,221 | 6,221 |
| Memorandum account | 21 | | |
| Balance at 1 July | | 2,345 | 534 |
| Memorandum account net surplus for the year | | 899 | 1,811 |
| Balance at 30 June | | 3,244 | 2,345 |
| Total equity | | 9,465 | 8,566 |

Note 16: 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 44 to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 47.

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|--|----------------------------|----------------------------|
| Net surplus | 976 | 2,075 |
| Add/(Less) non-cash items | | |
| Depreciation and amortisation | 1,088 | 1,006 |
| <i>Total non-cash Items</i> | 1,088 | 1,006 |
| Add/(Less) movements in Statement of financial position items | | |
| (Increase)/decrease in prepayments | (133) | 3 |
| (Increase)/decrease in receivables | 1,814 | (2,296) |
| (Increase)/decrease in work in progress | (286) | 125 |
| (Decrease)/increase in payables | (425) | 1,188 |
| (Decrease) in employee entitlements | (140) | (140) |
| <i>Total movements in working capital items</i> | 830 | (1,120) |
| Add/(Less) items classified as investing activities | | |
| (Gains) on sale of plant and equipment | (41) | (30) |
| <i>Total items classified as investing activities</i> | (41) | (30) |
| Net cash flow from operating activities | 2,853 | 1,931 |

Note 17: 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 2015/16 \$000 | Actual 2014/15 \$000 |
|---|----------------------------|----------------------------|
| Key management personnel remuneration | 3,596 | 3,494 |
| Full-time equivalent key management personnel | 11.7 | 11.7 |

Key management personnel include the Auditor-General, the Deputy Auditor-General, and the 10 members of the OAG and Audit New Zealand Leadership Teams.

Note 18: 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 (2015: 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 Notes 7 and 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 12: Payables. These are all due to be settled on 30-day terms.

Note 19: Categories of financial instruments

The carrying amounts of financial instruments are as follows:

| | Note | Actual 2015/16 \$000 | Actual 2014/15 \$000 |
|---|------|----------------------------|----------------------------|
| Loans and receivables | | | |
| Cash and cash equivalents | 7 | 5,632 | 3,962 |
| Receivables | 8 | 6,979 | 8,793 |
| Total loans and receivables | | 12,611 | 12,755 |
| Financial liabilities measured at amortised cost | | | |
| Payables | 12 | 5,477 | 5,910 |
| Total financial liabilities measured at amortised cost | | 5,477 | 5,910 |

Note 20: 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 21: Memorandum account

| | Actual 2015/16 \$000 | Actual 2014/15 \$000 | Main Estimates* 2015/16 \$000 |
|-------------------------------------|----------------------------|----------------------------|--|
| Audit and assurance services | | | |
| Balance at 1 July | 2,345 | 534 | 2,380 |
| Revenue | 78,335 | 78,314 | 75,222 |
| Expenses | (77,436) | (76,503) | (75,346) |
| Surplus for the year | 899 | 1,811 | (124) |
| Balance at 30 June | 3,244 | 2,345 | 2,256 |

* All Estimates information is unaudited.

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 13). The cumulative balance of the surplus/deficit of the memorandum account is recognised as a component of equity (see Note 15).

The memorandum account assists the Office to manage fluctuating revenue flows and assist with keeping audit fees at reasonable levels over time. The memorandum account balance will be taken into account when setting audit fees in future years.

Note 22: Explanation of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2015/16 budget figures (2015/16 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

Actual audit fee revenue was higher than the Main Estimates by \$3.1 million.

- School audit fees were higher by \$1.7 million, relating to increases in school audit fees due to extra work required for auditing payroll controls that are now based at each school and the transition to new accounting standards.
- Revenue relating to audits carried out by contracted audit service providers was higher than budgeted by \$0.7 million, reflecting a higher estimated value of the work to date on audits that were under way at 30 June 2016.
- Audit fee revenue collected by Audit New Zealand was \$0.5 million higher than budgeted due to additional work completed during the year.

Operating costs were higher than the Main Estimates by \$2 million, mainly reflecting the additional costs of school and other audits completed by contracted audit service providers.

Statement of financial position and Statement of changes in equity

Debtors and other receivables are \$1.2 million higher than the Main Estimates, due to timing of billing of audit fees.

Net assets are \$1 million higher than the Main Estimates, a reflection of the higher surplus in the *Audit and Assurance Services RDA* for 2015/16, which is held in the memorandum account. This is also reflected in the Statement of changes in equity.

Note 23: 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 2015/16 | Actual 2014/15 |
|--|--------------------|--------------------|
| Area | 6907m ² | 6960m ² |
| Number of staff (FTE) | 367 | 391 |
| Space allocation per person | 19m ² | 18m ² |
| Total costs of leased office accommodation | \$2,450,982 | \$2,398,807 |
| Rent costs per person | \$6,680 | \$6,133 |
| Utility costs per person | \$316 | \$300 |
| Vacant accommodation | - | - |

Independent Auditor's report

PKF Goldsmith Fox Audit
Chartered Accountants



Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

We have been appointed by the House of Representatives to carry out the audit of:

- the financial statements of the Controller and Auditor-General (the Auditor-General) on pages 44 to 76 that comprise the statement of financial position, statement of commitments and statement of contingent liabilities and contingent assets as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2016 on pages 16 to 20; and
- the statement of output expenses, other expenses and capital expenditure against appropriations, and the statement of unappropriated expenditure prepared by the Auditor-General for the year ended 30 June 2016 on pages 21 to 41.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
 - 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:
 - financial position as at 30 June 2016;
 - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General:
 - complies with generally accepted accounting practice in New Zealand;
 - presents fairly, in all material respects, for the year ended 30 June 2016:
 - what has been achieved with each appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the statement of output expenses, other expenses and capital expenditure against appropriations, and the statement of unappropriated expenditure of the Auditor-General for the year ended 30 June 2016, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Other matter

The financial statements and performance information of the Auditor-General for the year ended 30 June 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 30 September 2015.

Our audit was completed on 12 September 2016. This is the date at which our opinion is expressed.

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

PKF Goldsmith Fox Audit
Chartered Accountants



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 service 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 information we audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the information we audited. 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 information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Auditor-General's preparation of the information we audited 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 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 Auditor-General;
- the appropriateness of the reported performance information within the Auditor-General's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited. Also, we did not evaluate the security and controls over the electronic publication of the information we audited.

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

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

- financial statements that present fairly the Auditor-General's financial position, financial performance, and cash flows, that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- a statement of output expenses, other expenses and capital expenditure against appropriations, and a statement of unappropriated expenditure, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

PKF Goldsmith Fox Audit
Chartered Accountants



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

The Auditor-General is also responsible for such internal control as is necessary to ensure the audited information is free from material misstatement, whether due to fraud or error. The Auditor-General is also responsible for the publication of the annual report whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the information we audited 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 an audit of a public entity on behalf of the Auditor-General. The amount of work we carry out on behalf of the Office of the Auditor-General is no more than the amount of work we did prior to our appointment as auditor of the Auditor-General, and is insufficient to threaten our independence. Other than the audit of the public entity on behalf of the Auditor-General and the audit of the Auditor-General, we have no relationship with or interests in the Auditor-General.

PKF Goldsmith Fox Audit

PKF Goldsmith Fox Audit
Christchurch, New Zealand

Appendix 1

Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act 2001 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 2016, arrangements had been entered into for audits of the following entities:

- Māori Education Trust
- Literacy Aotearoa
- The New Zealand Sports Foundation Charitable Trust
- The AUT/Millennium Ownership Trust
- ANDRILL Joint Venture
- New Zealand Antarctic Research Institute
- Taranaki Rural Fire Authority.

Appendix 2

Report from the independent reviewer

John R Strahl
150 Riverside Drive
Lower Hutt

19 July 2016

Mrs Lyn Provost
Controller and Auditor-General
P O Box 3928
Wellington 6140

Dear Mrs Provost,

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES

Background and instructions

Pursuant to section 14 of the Public Audit Act 2001, you are the auditor of all public entities. Under section 42 you are authorised to fix the fee payable for all such audits, which must be reasonable.

Audit New Zealand, a business unit of your Office, has a large and competent staff. However, given that there are approximately 3,800 public entities in New Zealand which must be audited, it is impractical for Audit New Zealand itself to carry out all these audits. You thus contract auditors from the private sector to carry out many of these on your behalf. The Office of the Auditor-General (OAG), sets strategy, policy, and standards, and appoints and oversees auditors, both from Audit New Zealand and the auditors contracted from the private sector who carry out audits on your behalf.

You have retained me as an independent party to review the basis upon which auditors, both from Audit New Zealand and the private sector, are appointed to act on your behalf, and to review the basis upon which the audit fees for these audits are determined.

This is my report on that review for the year ended 30 June 2016.

I am a former partner and chairman of law firm DLA Piper New Zealand. I confirm that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit firms.

My instructions are:

".. to review and confirm the probity and objectivity of the methods and systems used by the Office of the Auditor-General to:

- *Allocate and tender audits*
- *Monitor the reasonableness of audit fees; and*
- *Anything else that impacts on those activities."*

There has been no limitation placed on the manner in which I may carry out my work, and I have been free to inspect any documents or files that I have considered appropriate to the review. I confirm that in the conduct of my review I have been given free access to all matters I have requested and have received full co-operation from your Office.

Types of Audit Appointments

In accordance with policies and practices adopted by your Office, there are four main types of audit appointments;

- (a) an appointment made of an auditor to an entity, usually for a term of three years, under the Audit Allocation Model (Allocation Model)
- (b) an appointment of an auditor for an entity, following a contestable process, if you consider that is appropriate in the given circumstances
- (c) a re-appointment of an auditor for a further term, usually 3 years, to audit that same entity
- (d) where an audit involves 150 or more budgeted hours, the individual auditor and senior personnel may not undertake the audit work for more than 6 years, thus a new auditor must be appointed, though that may be another person in the same firm.

Appointments

In the last financial year, the Auditor-General appointed auditors for 53 new entities. That number includes 18 schools or school related entities. Apart from schools, these new entities are mainly subsidiary entities created or acquired by existing entities, but a few were completely new. All of these appointments were made following the principles set out in the 'Allocation Model' on which I will comment later. I observed no evident dissatisfaction by any of those entities to either the appointment made, the terms of appointment, or the proposed audit fee. I conducted a random review of the files relating to several appointments. All were well documented, showed appropriate consideration of the principles of the Allocation Model, good process, and decision making using objective standards.

Re-appointments (other than for schools)

Excluding schools, existing auditors were re-appointed during the last financial year to audit 271 public entities and their subsidiaries for a further term. In addition, in 4 instances a change was made, with a different auditor being appointed in place of an existing one following a change of ownership or control of the public entity. Again, in the case of all 275 appointments covered by this paragraph, I observed no dissatisfaction from any of the entities, and an appropriate process appeared to be followed and in accordance with the principles set out in the Allocation Model.

Appointments of school auditors

The term of appointments for the auditors of all schools and school related entities came to an end once the audits of the financial year ended 31 December 2014 were completed. There are 2,444 schools and school related entities so it was a major exercise in the last year to review and complete appointments for this many entities. Audit New Zealand does not audit any schools and there are 36 different private sector audit service providers who do. Existing audit service providers were re-

appointed, generally for 3 year terms, in respect of 2,120 schools. A change of auditor was effected in respect of 306 schools which included 111 where the appointed audit partner joined a different audit firm, or their firms merged. In addition, new auditors were appointed for 18 new schools or school related entities as mentioned above.

The vast majority of these appointments were made in accordance with the Allocation Model. Selected tenders were conducted for 20 schools in the Waikato area and 79 schools in the South Island due to the withdrawal of a previous audit service provider for those schools.

All schools were consulted. Standard guidelines were provided to all providers to ensure consistency of proposed fees. As interim appointments were made, each appointed auditor, after first obtaining clearance from OAG, provided each school a standard audit proposal letter which included a fee proposal. These have all now been agreed and the appointment process including agreement of the audit fee, is thus complete for all 2,444 entities.

Audit Allocation Model

As can be seen from the appointments above, the vast majority have been made using the Allocation Model with only a few by the use of a contestable basis. The Allocation Model has been the principal method used for appointments since it was first adopted in 2003 and later refreshed in 2010. This is now a well-established and publicised set of principles which are set out in a document entitled; "Appointing public sector auditors and setting audit fees." It is available on the OAG website (ISBN-978-0-478-38310-2) and is provided to any entity and auditor when appropriate. It is consistently followed and referred to when issues arise, which almost always results in a better understanding.

I have considered the Allocation Model and whether it remains fit for purpose. The conduct of audits in the public sector is important. They often require specialist expertise, and a careful balance to ensure good quality and consistent auditing at reasonable cost; reasonable to both the entity and the auditor. In these circumstances, I have concluded that these objectives and the balancing required to retain a consistent level of quality is best achieved by use of the Allocation Model as opposed to a pure contestable process in the vast majority of cases. The guidelines and principles documented in the Allocation Model in my view remain appropriate to best achieve these outcomes. While a contestable process has been used in a small number of cases, and while I expect it will continue to be used in individual cases when appropriate, which I consider a reasonable approach, I expect this unlikely to occur very often.

By making appointments in accordance with such a model, given the inherent discretion available, this requires a disciplined and consistent application of the principles of the model when decisions are made. From my review of appointments made during the last year, a careful and consistent process has been followed.

Audit fees

Section 42 of the Public Audit Act 2001 authorises the Auditor-General to set the fee for all audits, and those fees must be reasonable. In the event of a dispute, either party may refer any fee dispute to arbitration.

In practice, at the commencement of every individual audit appointment, the proposed fee is first referred to OAG by the auditor for review to ensure its reasonableness, and it is then provided to the entity for the auditor and entity to agree. The OAG will assist in that process, and has available a

comprehensive data basis of fees in the sector. It is the strong preference of the Auditor-General for the entity and the appointed auditor to then reach agreement, and that is almost always the case.

In the year under review I am aware of only one case where agreement on fees remains outstanding and this is the subject of ongoing discussion with the Auditor-General taking a patient and objective position.

In no case over the last year has the Auditor-General had to exercise her power to fix a fee and not since 2009 has there been a reference to arbitration.

I observed that the OAG has strong and consistent guidelines as to what level of fee is regarded as reasonable. Apart from limited permitted changes due to unexpected additional time requirements or change of scope, increases in hourly rates or overall increases are carefully and strictly monitored. A periodic review of overall movement in audit fees is conducted.

More frequently than on appointment, most issues which arise over fees are during or at the end of an audit. Some arise due to the constrained financial position of particularly small entities. Some arise due to misunderstandings about what is required and sometimes the quality of information provided by the entity, and rework by the auditor as a result, leads to tension. In all cases reviewed, the OAG has shown consistency, care, and patience in helping to resolve these issues.

I also considered the basis of the OAG overhead charge which is passed on to entities as part of the audit fee, and consider the approach reasonable.

Overall I am entirely satisfied that the approach of the Auditor-General has been consistent and reasonable in the process of setting and resolving issues over audit fees.

Issues arising after appointment

While I have observed virtually no disputes over the initial appointment of auditors or the first setting of the audit fee, there are some limited cases of subsequent dissatisfaction. This is most commonly raised by a few entities and only in a very limited number of cases by an auditor. They almost always involve the entity thinking they have to pay too much or that the performance or relationship between the entity and the auditor is not good. It is sometimes both.

The number involved is very small. I have reviewed several of the disputed cases. In all cases the Auditor-General has taken a consistent and objective position and has sought to assist the parties resolve the issue. Objective information has been provided to assist resolution and in a very small number of cases extra support or changed personnel have been introduced. Most are solved by agreement. In a few exceptional cases, the Auditor-General has changed the auditor for the following year.

Appointment of Audit New Zealand

As noted in last year's Reviewer report, the Auditor-General had a freeze on the allocation of any new or the change of any current allocations of audits to Audit New Zealand. That restriction has now ended. Since the restriction came to an end, 15 new appointments have been made to Audit New Zealand – most of them for new subsidiaries of entities which they are already appointed.

Other issues

There are no other material issues which arose in the previous year which in my view warrant comment in this report.

Conclusions

I have been provided full access to all relevant material and free access to the relevant files of the OAG. I have met with and obtained full explanations to all my queries by OAG personnel and have observed the relevant internal process of the OAG, including as to disclosure of interests. On the basis of that review and the explanations provided, I consider that the policies currently adopted for the allocation of audits and the setting of fees are appropriate and that;

- (a) the process and methods used to allocate audits has been conducted fairly, reasonably, and with suitable probity and objectivity;
- (b) the approach and process taken to fix and monitor the reasonableness of audit fees has been reasonable having regard to the interest of all parties and has been conducted with suitable probity and objectivity;
- (c) the subsequent issues that have arisen for both appointments and fees have been dealt with objectively, fairly, and patiently.

Yours sincerely,



John R Strahl

Appendix 3

Reports and other work published in 2015/16

| |
|--|
| Performance audits |
| <i>New Zealand Police: Enforcing drink-driving laws (progress report)</i> |
| <i>Ministry for Primary Industries: Preparing for and responding to biosecurity incursions – follow-up audit</i> |
| <i>Delivering scheduled services to patients (progress report)</i> |
| <i>Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit</i> |
| <i>Governance and accountability for three Christchurch rebuild projects</i> |
| <i>Principles for effectively co-governing natural resources</i> |
| <i>Public sector accountability through raising concerns</i> |
| <i>Department of Conservation: Prioritising and partnering to manage biodiversity (progress report)</i> |
| <i>Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch – follow-up audit</i> |
| <i>Immigration New Zealand: Supporting new migrants to settle and work (progress report)</i> |
| <i>Education for Māori: Using information to improve Māori educational success</i> |
| <i>Crown Fibre Holdings Limited: Managing the first phase of rolling out ultra-fast broadband</i> |
| <i>Home-based support services for older people: Follow-up audit</i> |
| <i>Collecting and using information about suicide</i> |
| <i>Reviewing aspects of the Auckland Manukau Eastern Transport Initiative</i> |
| Inquiries |
| <i>Inquiry into Health Benefits Limited (letter to Hon Annette King MP)</i> |
| <i>Queenstown Lakes District Council: Managing a conflict of interest in a proposed special housing area</i> |
| <i>Defence Force personnel involvement with a commercial entity – Miltech</i> |
| Other reports and studies |
| <i>Consulting the community about local authorities' 10-year plans</i> |
| <i>Matters arising from the 2015-25 local authority long-term plans</i> |
| <i>Central government: Results of the 2014/15 audits</i> |
| <i>Improving financial reporting in the public sector</i> |
| <i>Local government: Results of the 2014/15 audits</i> |
| <i>Energy sector: Results of the 2014/15 audits</i> |
| <i>Governance and accountability of council-controlled organisations</i> |
| <i>A review of public sector financial assets and how they are managed and governed</i> |
| <i>Reflections from our audits: Governance and accountability</i> |
| <i>District health boards' response to asset management requirements since 2009</i> |

| Other work published |
|--|
| <i>Response to queries about recovery from the Canterbury earthquakes</i> |
| <i>Service performance reporting: Results of the annual audits of TEIs for the year ended 31 December 2014 (letter)</i> |
| <i>Kaipara District Council: The Auditor-General's decision on requests to make a report under section 44 of the Local Government Act 2002</i> |
| Audit committee resources (website resources) |
| <i>"Joining the dots" – Insights from the 2014/15 annual audits</i> |
| <i>Response to query about Housing New Zealand's procurement processes (letter to Phil Twyford MP)</i> |
| <i>Application for an exemption or a declaration by Cr Hewitt (letter)</i> |
| <i>Request for inquiry into the regulation of the ancient swamp kauri industry (letter)</i> |
| <i>Response to queries about recovery from the Canterbury earthquakes (letter)</i> |
| <i>Annual Report 2014/15</i> |
| <i>Draft Annual Plan 2016/17</i> |
| <i>Annual Plan 2016/17</i> |

Appendix 4

Progress against our proposed work programme as described in the Appendix to our *Annual Plan 2015/16*

| Work we planned for 2015/16 | Published title | Date |
|---|---|---------|
| Overview report on <i>Governance and accountability</i> theme | <i>Reflections from our audits: Governance and accountability</i> | 13/4/16 |
| Public asset management – strategy, practice and information | Started and expected to be published in 2016/17 | |
| Our audit of long-term plan consultation documents | <i>Consulting the community about local authorities' 10-year plans</i> | 11/8/16 |
| Matters arising from local authority long-term plans | <i>Matters arising from the 2015–25 local authority long-term plans</i> | 3/12/15 |
| Tertiary Education: Optimising investment in assets | Started and expected to be published in 2016/17 | |
| Are central government entities' medium term financial plans reasonable and supportable? | Started and expected to be published in 2016/17 | |
| Schools: How the management of school property affects the ability of schools to operate effectively | Started and expected to be published in 2016/17 | |
| Energy lines companies: Managing critical infrastructure | Started and expected to be published in 2016/17 | |
| Return on investment in modernising the courts | Started and expected to be published by the end of 2017 | |
| The effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch: follow up audit | <i>Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch: follow-up audit</i> | 12/5/16 |
| Major asset investment: Planning and delivering benefits – the contribution of the Gateway process | Started and expected to be published by the end of 2016 | |
| Assurance review of financial assets in the public sector | <i>A review of public sector financial assets and how they are managed and governed</i> | 9/3/16 |
| Effectiveness and efficiency of broadband roll-out – Crown Fibre Holdings Limited | <i>Crown Fibre Holdings Limited: Managing the first phase of rolling out ultra-fast broadband</i> | 14/6/16 |
| Auckland Council: Complaints management | Published in 2016/17 (25/8/16) | |
| Education for Māori: Information, educational progress and resources | <i>Education for Māori: Using information to improve Māori educational success</i> | 8/6/16 |

| | | |
|---|---|---------|
| Defence major projects review | Review of Defence Major Projects Report 2015 (published on Ministry of Defence website) | 9/6/16 |
| Report on new accounting standards | Improving financial reporting in the public sector | 1/3/16 |
| Delivering mental health services | Started and expected to be published in 2016/17 | |
| Continuing to improve how you report on your TEI's service performance (letter to TEIs) | Service performance reporting: Results of the annual audits of TEIs for the year ended 31 December 2014 (letter) | 17/9/15 |
| Energy sector: Results of the 2014/15 audits | Energy sector: Results of the 2014/15 audits | 28/6/16 |
| Health sector: Results of the 2014/15 Audits | Published in 2016/17 (9/8/16) | |
| Central government: Results of the 2014/15 audits | Central government: Results of the 2014/15 audits | 8/12/15 |
| Local government: Results of the 2014/15 audits | Local government: Results of the 2014/15 audits | 7/4/16 |
| Public entities' progress in implementing the Auditor-General's recommendations 2015 | Individual follow-up or progress reports published during the year as planned | Various |

Appendix 5

Progress with work carried forward from 2014/15

| Work we planned for 2014/15 | Published title | Date |
|---|---|----------|
| Public accountability system – How people can hold public entities to account | <i>Public sector accountability through raising concerns</i> | 10/3/16 |
| Effectiveness of governance models in the environment sector | <i>Principles for effectively co-governing natural resources</i> | 11/2/16 |
| Canterbury rebuild – Governance arrangements for community projects in Christchurch | <i>Governance and accountability for three Christchurch rebuild projects</i> | 8/12/15 |
| Canterbury rebuild – Follow-up of <i>Earthquake Commission: Managing the Canterbury Home Repair Programme</i> | <i>Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit</i> | 1/12/15 |
| Auckland transport – Governance and accountability of the Auckland Manukau Eastern Transport Initiative | <i>Reviewing aspects of the Auckland Manukau Eastern Transport Initiative</i> | 15/10/15 |
| Governance of council-controlled organisations | <i>Governance and accountability of council-controlled organisations</i> | 20/10/15 |
| Improving financial reporting in the public sector | <i>Improving financial reporting in the public sector</i> | 1/3/16 |
| Suicide prevention | <i>Collecting and using information about suicide</i> | 16/6/16 |

About our publications

All available on our website

The Auditor-General's reports are available in HTML and PDF format on our website – www.oag.govt.nz. We also group reports (for example, by sector, by topic, and by year) to make it easier for you to find content of interest to you.

Our staff are also blogging about our work – see blog.oag.govt.nz.

Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

Sustainable publishing

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

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