

Detailed assessment of the New Zealand Office of the Auditor-General against International Standards

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Part 1: Introduction

- 1.1 The Performance Measurement Framework (PMF) provides Supreme Audit Institutions (SAIs) with a way to assess their performance against established international good practice for external public auditing. It was created by the INTOSAI Working Group on the Value and Benefits of SAIs.
- 1.2 Our goals in carrying out the assessment are to:
- provide good quality management information to enable the measurement of the New Zealand Office of the Auditor-General(the Office) performance against internationally recognised standards and expectations;
 - provide a means of reporting publicly about the Office's performance;
 - participate in the assessment to the same time frame as neighbouring SAIs in the South Pacific, demonstrating the Office's commitment to the Pacific Association of Supreme Audit Institutions' (PASAI) strategic plan, and supporting the development work of the Office's regional neighbouring SAIs; and
 - provide an objective and comprehensive overview of the Office's performance for the benefit of the incoming Auditor-General.
- 1.3 The Auditor-General made a request for the SAI PMF assessment to be conducted and the Combined Leadership Team, at a meeting in February 2016, made the decision to carry it out. This assessment uses version 3.2 of the SAI PMF.
- 1.4 A core team of senior staff, with operational audit experience and trained to use the PMF, carried out the assessment. Staff in both the Office of the Auditor General (OAG) and Audit New Zealand gathered evidence to support the assessment.
- 1.5 The assessment team made all the scoring decisions. They are also the authors of this report. The Auditor-General and the Combined Leadership Team were provided with preliminary findings on completion of the fieldwork and a draft of this report. The assessment team considered comments from the Auditor-General and Combined Leadership Team and actioned them where appropriate.
- 1.6 The assessment was conducted alongside neighbouring SAIs in the South Pacific region, who were participating in a SAI PMF 'Lite' project sponsored by the INTOSAI Development Initiative (IDI) and the Australian Department for Foreign Affairs and Trade (DFAT). The Office was not part of the SAI PMF 'Lite' project, but it did participate in a regional planning workshop in February 2016. In that workshop, the Office provided input into neighbouring SAIs' initial planning and development, and gained feedback on its own SAI PMF project planning.

- 1.7 The assessment covers the whole mandate of the Auditor-General, including financial, performance, and compliance audits. However, it does not include non-audit work, such as research and development projects, controller function, inquiries, and international work.¹ The assessment includes audit work done by both the Auditor-General's in-house provider, Audit New Zealand, and private sector firms contracted to do audits on the Auditor-General's behalf. However, only Audit New Zealand's processes were assessed.
- 1.8 About 87% of the Office's audit effort is devoted to the annual audits of public entities. About half of the financial audit work is outsourced. These are audits that are primarily financial audits, but also include aspects of performance and compliance audits. The Office has a sizeable performance audit function that results in about 12 performance audit reports each year. A small amount of compliance audit work is carried out, some as part of the annual audit and some as stand-alone engagements.

1 These other activities are outside the scope of the International Standards of Supreme Audit Institutions (ISSAIs), which the SAI PMF is based. The Controller function and the Office's inquiries work are described in more detail in Part 3.

Part 2: Methodology

Collecting evidence

- 2.1 We completed the assessment by reviewing documentation and interviewing staff at all functions of the Office. Wherever possible, interviews were confirmed with documentary evidence. We were allowed access to all requested documentation and interviews during our work.
- 2.2 We did not directly contact audit service providers, other than Audit New Zealand. We were able to get relevant evidence (for example, the quality control of outsourced audits) from the Office.
- 2.3 We received evidence on the performance of financial, performance, and compliance audits from the results of the Office's Quality Assurance (QA) reviews. This was supported by the additional reviews we carried out.
- 2.4 Annex 2 provides a comprehensive list of the sources used to support the assessment.

Selecting samples of audits for assessment

- 2.5 The SAI PMF methodology requires a sample of financial, performance, and compliance audits be tested against specified criteria in order to determine the dimension scores for implementing audits (SAI-10 ii, SAI-13 ii, and SAI-16 ii).
- 2.6 For financial audits, we mainly relied on the Office's QA programme, which is considered robust and reliable. It covers all appointed auditors from Audit New Zealand and other audit service providers over a three-year cycle, and assesses the quality of audits using the same criteria as the SAI PMF. Our sample was therefore limited to one file: the most recent financial statements of government (FSG) audit for the year ended 30 June 2015. This is the Office's highest profile annual audit, comprising the Government's consolidated financial performance and financial position.
- 2.7 When using the QA work, we assessed as "not met" any criteria relating to topics mentioned as common findings in the QA team's annual report to the Leadership Team for the 2014/15 year.
- 2.8 We did not rely on the Office's QA programme for performance audits, because there have been updates to the Performance Audit Manual since the most recent QA review. Instead, we reviewed two recent performance audits carried out by the performance audit group. They were selected at random from performance audits completed during 2015/16. Follow-up audits were excluded from the selection. One audit was assessed by a member of the

assessment team; the other by the Office's QA Director. We assessed as "not met" any PMF criteria that one or both audits failed to meet.

- 2.9 Section 17 of the Public Audit Act 2001 gives the Auditor-General the authority to perform other reasonable and appropriate audit services in addition to financial and performance audits. This provides a mandate for the completion of compliance audits. There is also an additional mandate within section 18 of the Public Audit Act 2001 allowing the Auditor-General to inquire into a public entity's use of its resources.
- 2.10 In New Zealand, there are elements of a compliance audit² in annual financial audits, performance audits, inquiries, and other assurance work covered in section 17 of the Public Audit Act 2001. For the purposes of this assessment, the framework we are using is limited to three types of audit and assurance work. These are:
- **Performance Based Research Funds (PBRF)** – the Tertiary Education Commission requires this annual return to be audited where a certain level of performance-based research funding is provided.
 - **Debenture Trust Deed reporting certificates** – where there is a requirement in the public sector entity's Trust Deed to perform an annual assurance engagement.
 - **Energy regulation audits** – there is a requirement in section 53ZD of the Commerce Act 1986 for the audit of the information disclosure determination and price-quality path reporting when this is periodically required by electricity distribution businesses.
- 2.11 For compliance audits, we heavily relied on the Office's QA programme. As part of its 2015/16 work, the QA team assessed a sample of debenture trust deed reviews and energy regulations audits. PBRF audits were not covered by the QA work, so we supported the QA team's findings by looking at a sample of one PBRF audit.
- 2.12 Audit samples that fulfil the criteria are assessed as being met.
- 2.13 It is important to note that these compliance audits are a very small part of the Office's audit work.
- 2.14 Inquiries, controller function, and work of a compliance nature (such as legislative compliance, sensitive expenditure, compliance with Cabinet circulars), where no separate engagement is established or audit report issued, have been left out of this assessment.

2 As defined by ISSAI 400 – Fundamental Principles of Compliance Auditing.

Scoring

- 2.15 The complete SAI PMF (v3.2) includes 26 performance indicators. Of these, one indicator is applicable only to SAIs using the Court of Audit model. Three indicators are optional and can be tailored to the specific needs of the SAI. We excluded from our assessment four indicators (SAI-18 to SAI-21). The remaining 22 indicators were included as part of the assessment.
- 2.16 Of the 22 indicators included in our assessment, only five dimensions were not scored. The reasons for not scoring those dimension are as follows:

Indicator	Dimension	Requirement	Reasons for no score
SAI-7	iii	Effective follow-up mechanisms are in place.	This dimension duplicates assessments already made for each audit type in SAI-11iii, SAI-14iii and SAI-17iii. We note that SAI-7iii has been removed from the latest version of the SAI PMF which supersedes v3.2.
SAI-11	ii	For all audit reports and/or opinions where the SAI has the right and obligation to publish, the report and/or opinion is made available to the public through appropriate means within 15 days after the SAI is permitted to publish.	The SAI does not have an obligation to publish annual audit opinions. Rather, the audit report is included in the entity's annual report, which the public entity must make available to the public in accordance with applicable legislation.
SAI-17	i and ii	Timely submission of compliance audit results. Timely publication of compliance audit results.	The SAI does not have a system for collating information about the timeliness of submission of compliance audit results so data is not available to rate this dimension. As noted for SAI-11 ii above the SAI does not have an obligation to publish audit opinions. Note that as the score for dimension iii of SAI-17 is zero due to no follow up of reporting occurring, the overall score for SAI-17 is not able to be rated.
SAI-25	iv	Communications with the judiciary, prosecuting and investigating agencies.	Although some interactions occur with prosecuting agencies, the Office does not have a significant role in working with or communicating with the judiciary, therefore three of the criteria are not applicable so the dimension has not been scored.

Quality control

- 2.17 One of the project leaders on our assessment team is a certified SAI PMF assessor and trainer who attended a training programme run by the IDI in April 2014. The rest of the assessment team were trained on how to use the assessment tool before the review.
- 2.18 We made assessments based on sufficient and appropriate evidence. All work was subject to review by another, more senior, assessment team member.
- 2.19 During the assessment, we asked an IDI advisor any questions we had about how to interpret the methodology and criteria in a New Zealand context.
- 2.20 Details of all assessments and supporting evidence were recorded in the Office's document management system. The assessment against each criteria records who carried out and reviewed the assessment.
- 2.21 The Deputy Auditor-General sponsored the assessment project. He was kept up-to-date with the review's progress and preliminary findings. In some cases, his input gave us access to additional evidence or allowed us to better understand the context. However, he was not directly involved in scoring or the assessment.
- 2.22 Deputy Director General of INTOSAI's Donor Secretariat, in IDI, provided a quality assurance review of the assessment report. This is detailed in the Quality Assurance Statement, which is attached as an appendix to the report.

Part 3: Country and SAI background information

Country context

- 3.1 New Zealand is a small country in the South Pacific, made up of two main islands and smaller populated and unpopulated islands.
- 3.2 As at 30 June 2016, New Zealand's estimated population is 4.71 million. Around 75% of New Zealand's population is in the North Island. Auckland is the largest city, with an estimated 34% of New Zealanders living there.³ New Zealand's population growth is slowing but is projected to reach 5.05 million by 2051,⁴ with Auckland's population expected to reach around 2.5 million by that time.⁵
- 3.3 In the 2013 census, people of European ethnicity made up 74% of the population and indigenous Māori made up 15% of the population. Other significant ethnic groups include Asian descent (12%) and Pacific peoples (7%).⁶ More than half of Māori (53%) identified with two or more ethnic groups, the largest being Pacific peoples (37%).
- 3.4 New Zealand's fiscal position is strong, helped by moderate economic growth and restrained government spending. Economic activity, as measured by gross domestic product (GDP), grew 0.9% in the June 2016 quarter. This was led largely by construction, which grew by 5%. Growth for the year ended 30 June 2016 was 2.8%.⁷
- 3.5 New Zealand is economically reliant on exports of agriculture (especially dairy), fishing, and forestry products. Therefore, the country is vulnerable to fluctuations in global commodity prices, adverse weather, and changes in major export markets, primarily in Australia and China.
- 3.6 Inflation, as measured by the Consumer Price Index (CPI), was 0.4% in the year to 30 June 2016. The main contributor to inflation was housing-related prices, which grew by 3.3% for the year. Annual inflation has remained under 2% since December 2011, and at 1% or under since September 2014.⁸
- 3.7 Unemployment is currently at 5.1%, with 131,000 people looking for work.⁹

3 See www.stats.govt.nz.

4 See www.stats.govt.nz.

5 See Auckland Council Draft Plan: www.aucklandcouncil.govt.nz.

6 See www.stats.govt.nz.

7 See www.stats.govt.nz.

8 See www.stats.govt.nz.

9 See www.stats.govt.nz.

- 3.8 In 2015, the average weekly earnings for people in paid employment was \$1031 each week. A large pay gap still exists between men (average \$1207 per week) and women (average \$829 per week). There are also income disparities between ethnicities, with Māori earning an average of \$889 per week.¹⁰
- 3.9 The percentage of adults with at least a secondary school education increased steadily from 61.2% in 1991 to 77% in 2015. The number of adults with a bachelor's degree or higher rose from 8.3% in 1991 to 29.8% in 2015.¹¹ From 2009-14, the percentage of students leaving secondary school with no qualification decreased from 19.2% to 13%.¹²

Country governance arrangements

- 3.10 New Zealand is a member of the Commonwealth and has a Westminster system of government. Parliament is made up of the House of Representatives and the Queen, represented by the Governor-General.
- 3.11 Unlike many countries, New Zealand has only one parliamentary house, having abolished its upper house in 1950. Select committees add an extra layer of parliamentary and public scrutiny, serving as a check on the legislative process.
- 3.12 Elections take place every three years. Since 1996, New Zealand elects its parliament through a mixed member proportional (MMP) system. The public chose MMP over another system, first-past-the-post, through a referendum in 1993. People have two votes under MMP: one for an electorate representative and one for a party. The party vote dictates how many members of Parliament (MPs) each political party can have. Most members of Parliament (71) are electorate MPs. The remainder (50) are list MPs selected by each party and are elected based on each party's share of the party vote.
- 3.13 With the exception of the first MMP election in 1996, each election has resulted in largely stable, full-term governments. Since 2008, New Zealand has had a centre-right minority government led by the New Zealand National Party. Before this, New Zealand had a Labour-led centre-left government (first as a coalition, then a minority government) for nine years. The next election is in 2017.
- 3.14 The executive branch of Ministers is made up of members of the legislative branch. Most Ministers serve in a Cabinet led by the Prime Minister. Members of the support parties have often, in the past several years, been given ministerial portfolios outside of Cabinet. This means they are free from collective Cabinet responsibility and are able to oppose the Government on issues outside their portfolio.

10 See nzdotstat.stats.govt.nz.

11 See www.stats.govt.nz.

12 See www.kidscan.org.nz.

- 3.15 The executive is supported by a politically-neutral public sector. Public officials are expected to provide free and frank policy advice.
- 3.16 There is a strict separation of power between the legislative/executive and the judiciary.

Media

- 3.17 The media in New Zealand includes television, radio, newspapers, news websites, magazines, social media such as Twitter, and blogs. New Zealand also has a Parliamentary Press Gallery. Three large media organisations, New Zealand Media and Entertainment, Fairfax New Zealand, and MediaWorks New Zealand, dominate the media landscape. The press in New Zealand is largely free to work independently without political interference or excessive censorship. This freedom is guaranteed by convention and statute, and supported by freedom of information legislation passed in 1982. In March 2012, Parliament passed the Search and Surveillance Act 2012, which forces journalists to answer police questions, identify sources, and hand over documents.
- 3.18 The Official Information Act 1982 is an important piece of legislation for journalists. The Act allows all official information – including cabinet papers and officials’ advice to Ministers – to be available on request unless there is good reason for withholding it. The OAG is not subject to the Official Information Act 1982, as the Act would interfere with the Office’s ability to adequately perform its tasks. However, the Office, working in the public interest, endeavours to be of assistance to journalists and the public where it can.

Relationship between the pillars

- 3.19 In 2013, New Zealand's national integrity systems (NIS) were assessed by Transparency International New Zealand (TINZ).¹³ This report concluded that New Zealand’s national integrity “remains fundamentally strong,” but that it was “beyond time to take the protection and promotion of integrity in New Zealand more seriously”.
- 3.20 The report rated New Zealand highly against a wide range of cross-country transparency and good governance measures. The strongest pillars in the NIS were the Office of the Auditor-General (OAG), the judiciary, the Electoral Commission, and the Office of the Ombudsman.
- 3.21 Key strengths of the pillars included:
- Support for a high-trust society, economy, and policy, and a general culture that does not tolerate overt corruption.
 - Wide support for democratic institutions, and elections that are free and fair.
 - Overall assurance of the political and civil rights of citizens.

13 See www.transparency.org.nz.

- Infrequent occurrence of significant social, ethnic, religious, and other conflicts. The Treaty of Waitangi protects the rights of the indigenous minority.
- The effectiveness of the judiciary as a check on the executive's action.
- The effectiveness of the OAG in supporting parliamentary oversight of the public finances.
- The effectiveness of the Office of the Ombudsman as a restraint on the exercise of administrative power and in enforcing citizens' rights of access to information under the Official Information Act 1982.
- When cases of corruption or unethical behaviour by those in power are exposed, the media, political parties, the Auditor-General, law enforcement agencies, and the judiciary usually pursue them vigorously.

3.22 The report identified some weaknesses and concerns in the interactions of various pillars:

- The relationship between political party finances and public funding. Concerns in the report include the transparency of political party financing and of donations to individual politicians, long-term decline in party membership and increased party reliance on public funding, and a lack of full transparency of public funding of the parliamentary wings of the parties. These concerns also influenced the refusal to extend the coverage of the Official Information Act 1982 to the administration of Parliament.
- Parliamentary oversight of the executive, including the use of urgency to pass controversial legislation and the lack of expertise and committees to hold the executive to account.
- Relationship between the political executive and public officials. The report expressed concern about the apparent erosion of the tradition that public servants provide the government of the day with free and frank advice, an apparent weakening over the last decade of the quality of policy advice that public servants provide, and perceived non-merit-based appointments to public boards.
- Interaction between central government and local government. Concerns include intervention by central government in the decision-making authority of local government and weaknesses in the design and implementation of regulations.

Country challenges

3.23 New Zealand faces a number of challenges that have the potential to affect its economic status, social outcomes, and public sector in the medium to long-term. These challenges (unless otherwise cited) were outlined in the Office's 2013 report, *Public sector financial sustainability*.¹⁴

14 Available at www.oag.govt.nz/2013.

- 3.24 **Demographic changes.** Like other developed nations, New Zealand's population is ageing. By 2051, half of the population is expected to be 46 years old or older, and one in four New Zealanders will be 65 years and over. At the national level, the main concerns of an ageing population are the sustainability of a taxpayer-funded superannuation and the increased cost of health services. At the regional and local levels, there are concerns about planning for housing and accommodation and providing aged-care, transport, and community services.¹⁵ Combined with the growth in health spending – faster than GDP growth – population change is putting greater pressure on the sustainability of public sector finances.
- 3.25 **Economic performance.** Although New Zealand's debt position is relatively positive compared to other countries, a persistent current-account deficit could cause payment problems in the event of a sudden outflow of capital. Partly because of the country's isolation, and despite some useful enablers such as good education and ease of doing business, private sector productivity improvements have remained modest in the past 50 years. New Zealand remains a service and resource-based economy and has not yet translated favourable commodity prices into investment in better-value additions through, for example, processing raw products.
- 3.26 **High and increasing private debt.** New Zealanders have spent more than they have earned in all but four of the last 55 years, as measured by the current-account deficit. Household debt is high and rising, comparable with some of the more stressed OECD countries. Overall, debt has been at 70-80% of GDP since 2000, and household debt to income ratio has risen from 100% to 140% between 2000 and 2012.
- 3.27 **Unsustainable social spending.** In its 2013 report *Affording Our Future: Statement on New Zealand's Long-term Fiscal Position*,¹⁶ the Treasury identified two main areas of government spending that are expected to grow significantly: healthcare and superannuation. From about 2030, the projection indicates that the Government will need to borrow an increasing amount to balance its budget, based on current policy settings. If nothing is done to address the growing deficit, then debt-financing costs in 2060 are projected to be 11.7% of GDP a year and net debt is projected to be 198.3% of GDP.
- 3.28 **Increasing inequality.** Evidence suggests that income inequality is associated with a wide range of undesirable outcomes and consequent public costs. In terms of market income, New Zealand has moved from being one of the most equal countries in the OECD, 30 years ago, to being one of the least equal today. There also appears to be an increasing range of at-risk groups, mainly youth (as shown by high youth suicide, teen fertility, and unemployment rates).

15 See www.stats.govt.nz.

16 See www.treasury.govt.nz.

- 3.29 **Child poverty.** Child poverty is an issue in New Zealand. A commonly used income poverty threshold is a household equivalent disposable income of less than 60% of the median income, after adjusting for housing costs. Using the relative threshold measure (comparing incomes in a given year to the median income in the same year), 305,000 (29%) of dependent 0–17 year olds were living in income poverty in 2014. This is up from 260,000 (24%) in 2013.¹⁷
- 3.30 The OECD *Economic Survey of New Zealand 2015*¹⁸ expanded on these challenges and identified others below.
- 3.31 *Rapid population growth and a low responsiveness of supply have led to housing and urban infrastructure constraints. In particular, house prices have risen sharply in Auckland, the largest city, eroding affordability and raising financial-stability risks. Efforts to speed the housing supply response have been made, although community resistance to rezoning and densification may limit development. (Auckland Council has recently approved the Auckland Unitary Plan, which requires the building of 422,000 new houses by 2040.)*
- 3.32 *Reducing greenhouse gas emissions and water pollution. New Zealand faces difficult climate change challenges because of the high share of its greenhouse gas (GHG) emissions coming from agriculture, where there are few cost-effective abatement possibilities, and because three quarters of electricity already comes from renewable sources, meaning there are fewer potential gains in generation. Water quality in some regions has suffered from the steady expansion of intensive dairy farming. Both industry and government have responded, but it is not yet clear if these measures will prove sufficient.*
- 3.33 *Making economic growth more inclusive. Income inequality, reflecting in part unequal employment prospects, is above the OECD average. Recent welfare reforms facilitate the transition of beneficiaries into employment, but a greater focus is needed on improving the long-term outcomes of the most disadvantaged New Zealanders across the public sector. The government is taking steps to ease shortages of affordable and social housing but will need to go further to make significant headway in rolling back the large increase in the burden of housing costs on low-income households in recent decades.*

Overview of the public sector

Public sector structure

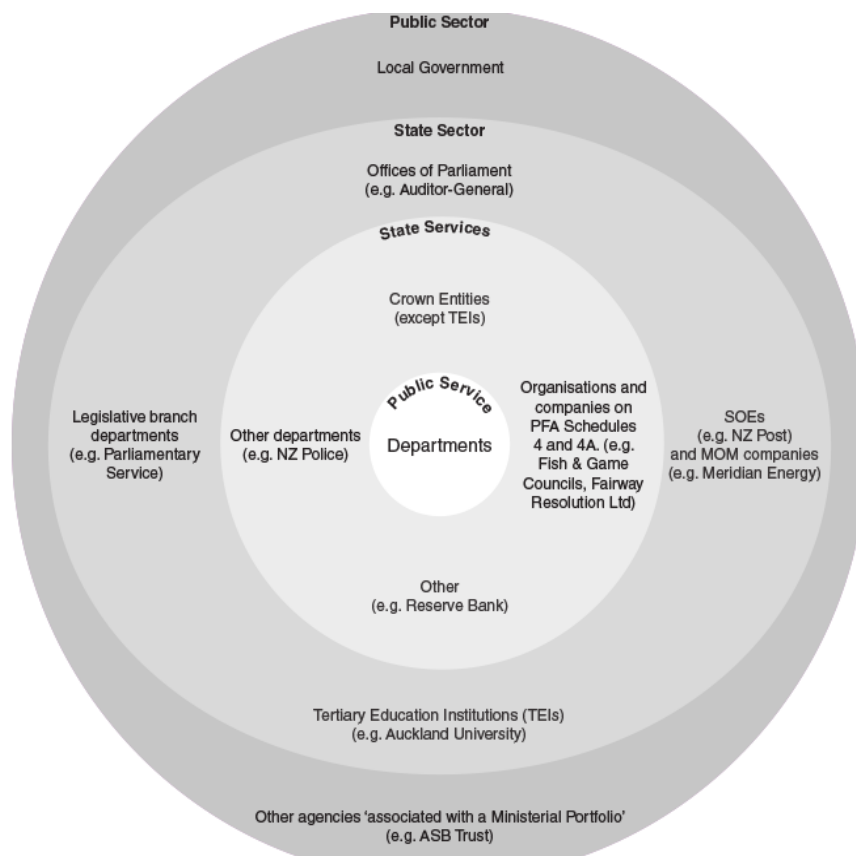
- 3.34 New Zealand's public sector consists of a number of different organisational forms. These vary in the extent to which they are at an arm's-length from Ministers, how they are governed, and the expectations that apply. For example, public service departments are

17 See www.nzchildren.co.nz.

18 See www.oecd.org.

close to Ministers (part of the legal Crown), and Crown entities are stand-alone corporate bodies that operate at arm's-length. State-owned enterprises (SOEs) are Crown-owned but required to operate as a commercial business and return a profit to the Crown. Mixed ownership model companies are similar except they are partly in private ownership (up to 49%). Most Crown entities are part of the State services, but tertiary education institutions are part of the wider State sector.

3.35 See the public sector map below,¹⁹ and the “Glossary of terms used in public sector map”²⁰ for more information about the different types of public entities.



Public sector budget

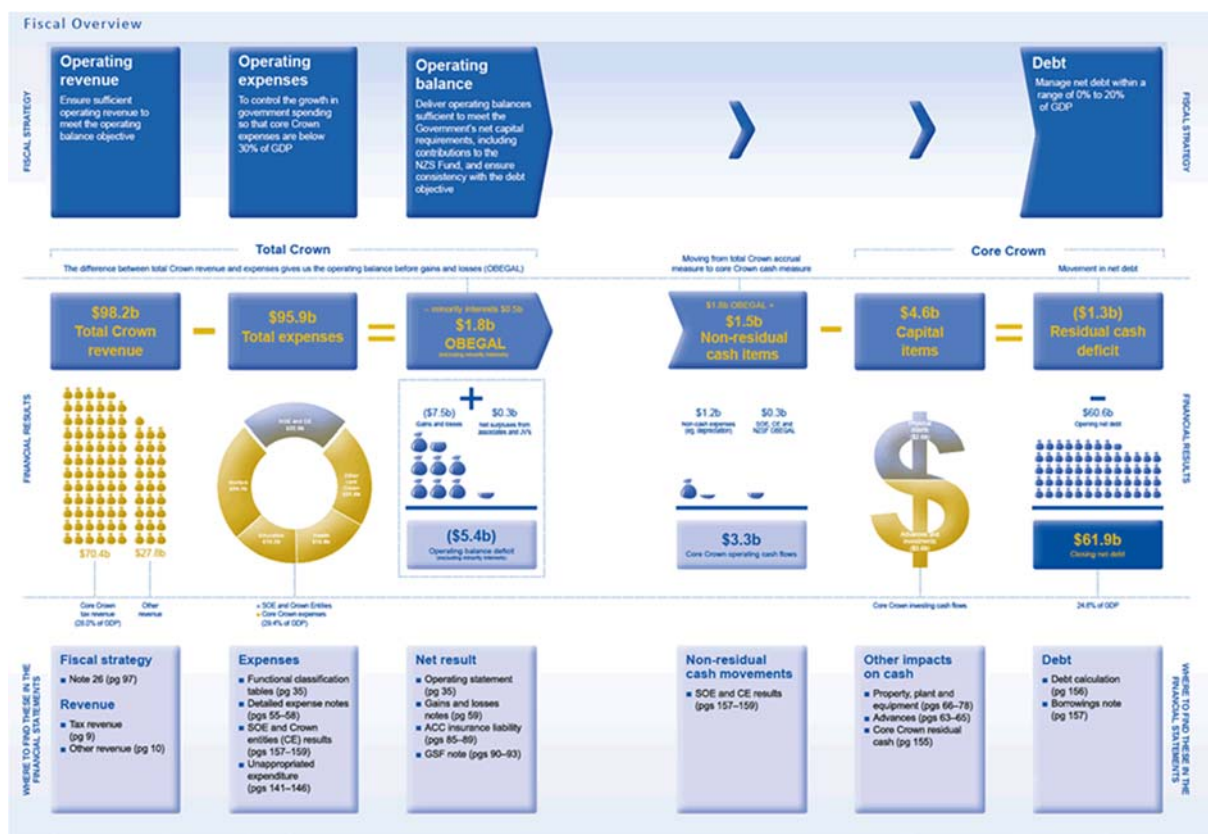
3.36 The Treasury sets out the total of each appropriation for 2015/16 (final budgeted and estimated actual) and for 2016/17 (departmental and non-departmental transaction budgets).²¹

3.37 The following diagram presents the important aspects of the 2016.17 budget.

19 See www.ssc.govt.nz.

20 See www.ssc.govt.nz.

21 See www.treasury.govt.nz.



Revenue and expenditure

3.38 The Core Crown revenue forecast for 2016/17 is \$78.5 billion. The Treasury's "Budget at a Glance 2016"²² sets out New Zealand's sources of revenue as follows:

- Individuals tax: \$32.5 billion.
- Goods and Services Tax (GST): \$19.1 billion.
- Corporate tax: \$11.6 billion.
- Other indirect tax (such as customs, excise and gaming duties): \$6.5 billion.
- Other revenue: \$3.3 billion.
- Interest, revenue, and dividends: \$3.3 billion.
- Other direct tax (such as resident interest and dividend withholding taxes): \$2.2 billion.

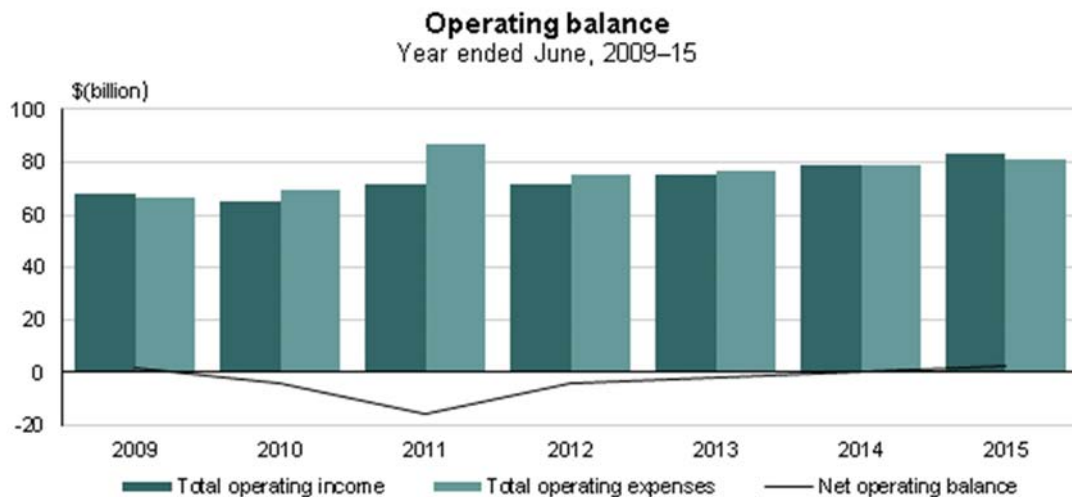
3.39 Core Crown expenses forecast for 2016/17 are \$77.4 billion. This is broken down as follows:

- Health: \$16.2 billion.
- Education: \$13.5 billion.
- New Zealand Superannuation: \$12.9 billion.
- Social security and welfare: \$12.3 billion.
- Core government services: \$4.9 billion.

22 See www.treasury.govt.nz.

- Law and order: \$3.8 billion.
- Finance costs: \$3.7 billion.
- Other: \$10.1 billion.

3.40 The below graph shows the Crown's operating balance between 2009 and 2015.



Source: Statistics New Zealand

Local government

3.41 Local authorities contribute a significant amount to New Zealand's economy. The Government Finance Statistics (Local Government) for the year ended June 2015 showed that compared with the previous year:

- There was a net operating surplus of \$1.0 billion for local government.
- Operating income increased 6.6% to \$9.7 billion, and expenses increased 6.2% to \$8.7 billion.
- The net acquisition of non-financial assets, including infrastructure, totalled \$1.8 billion.
- Net borrowing was \$0.8 billion, up from \$0.7 billion in 2014.²³
- Total assets increased \$5.5 billion, to \$125.9 billion, mostly due to upward revaluations.
- Total liabilities increased \$2.0 billion, to \$15.6 billion.
- Total net worth was \$110.3 billion, up from \$106.8 billion in 2014.

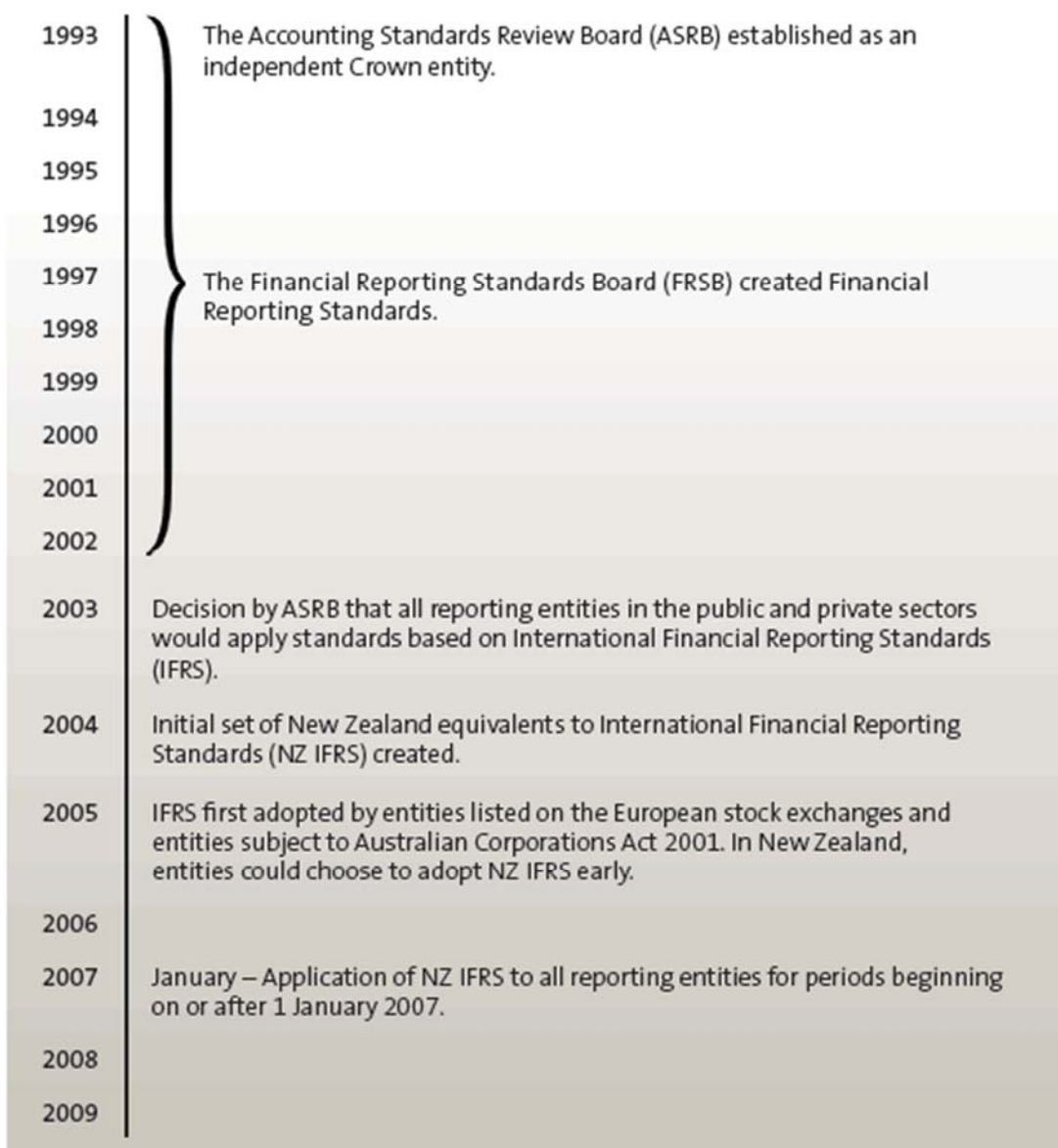
New Zealand's public financial management and governance

3.42 New Zealand's public management system is seen as world class, with strong accountability foundations.

²³ The gross debt of local authorities at 30 June 2015 was \$12.3 billion. Refer to <http://www.oag.govt.nz/2016/local-govt>, page 11.

- 3.43 Major public sector reforms in the 1980s and 1990s laid the foundations for New Zealand's financial management system today. The changes introduced requirements for service delivery entities to report on service performance, for the government to consolidate its activities and show these in one set of financial statements, and for the public sector to comply with generally accepted accounting practice (GAAP). GAAP is determined by an independent standard setting body, the External Reporting Board (XRB).
- 3.44 The State Sector Act 1988 sets out the operation of the public service, and the responsibilities of chief executives of government departments to their Minister for the performance of their departments' functions.
- 3.45 The Public Finance Act 1989 established a system for financial appropriations to be approved by Parliament and monitored by the Controller and Auditor-General. It also set out principles of responsible financial management, and gave detailed requirements for strategic planning and financial and service performance reporting.
- 3.46 In 1992, New Zealand was the first country to fully implement accrual accounting in its public sector.
- 3.47 These, and other changes, ensured that the government and public sector leaders had much more useful financial and performance information to make better medium and long-term policy decisions.
- 3.48 Accounting and reporting standards in New Zealand have evolved substantially in the past two decades. The International Financial Reporting Standards, designed for commercial companies listed on stock exchanges, were introduced in 2005 and proved to be unsuitable for much of the public sector. The below timeline looks at the development of accounting standards in New Zealand between 1993 and 2009.²⁴

24 See the Office's 2016 report, *Improving financial reporting in the public sector*, available at www.oag.govt.nz.



3.49 In 2011, the XRB was set up as an independent Crown entity to develop and issue accounting, auditing, and assurance standards in New Zealand. The XRB is largely responsible for the implementation of the new Accounting Standards Framework. The framework distinguishes between accounting standards for public benefit entities (PBE accounting standards) and standards for commercially focused entities.

3.50 The Accounting Standards Framework uses tiers so that financial reporting requirements reflect the different size and nature of reporting entities. This tiered structure is likely to help smaller entities achieve a better balance between the costs and benefits of general purpose financial reporting. The public sector now has the opportunity to remove unnecessary clutter from its reporting, focusing instead on users' information needs and what matters most to them.

3.51 The following timeline sets out the significant changes to accounting standards since 2009. A fuller history of New Zealand’s accounting standards is available in the Office’s 2016 report, *Improving financial reporting in the public sector*.

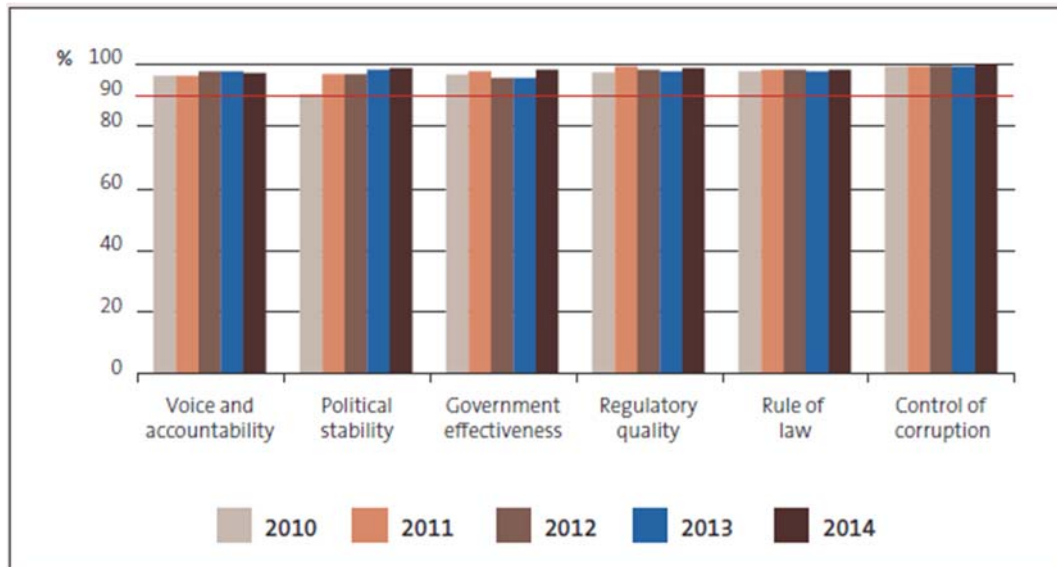


3.52 Audit reports are also evolving to help users better understand, and focus on, the important issues. A “key audit matters” section is included in some audit reports and the FSG at the discretion of the Auditor-General. Key audit matters highlight the most significant issues, and how they are addressed, in a succinct and easy to understand way.

3.53 New Zealand enjoys a positive reputation for the strength of its public management framework. New Zealand has been ranked in or above the 90th percentile for all of the World Bank’s Worldwide Governance Indicators since 2009 (when one of the six indicators, political stability, was in the 80th percentile).

3.54 The following graph shows New Zealand’s ranking in the Worldwide Governance Indicators between 2010 and 2014.²⁵

25 See info.worldbank.org/ and www.oag.govt.nz/.



3.55 There are some emerging risks to New Zealand’s reputation. From 2006 to 2013, New Zealand ranked either first or first equal on the Transparency International Corruption Perceptions Index. New Zealand’s ranking slipped to second in 2014, and then to fourth in 2015.²⁶

3.56 The International Budget Partnership’s Open Budget Survey (OBS) measures budget transparency, participation, and oversight. The OBS uses 109 indicators to assess “whether the central government makes eight key budget documents available to the public in a timely manner and whether the data contained in these documents are comprehensive and useful.”²⁷

3.57 New Zealand scored first in the world for transparency, with 88 out of 100. For budget oversight by the supreme audit institution, it scored 92. For public participation (defined as “the Government of New Zealand provides the public with adequate opportunities to engage in the budget process”), New Zealand scored just 65. For budget oversight by the legislature, it scored 45.

3.58 The OBS recommends taking these actions to improve budget participation:

- Establish formal regulations that oblige the executive to engage with the public during each stage of the budget cycle.
- Hold legislative hearings on the budgets of specific ministries, departments, and agencies at which testimony from the public is heard.
- Provide detailed feedback on how public assistance and participation have been used by the supreme audit institution.

²⁶ See www.transparency.org.

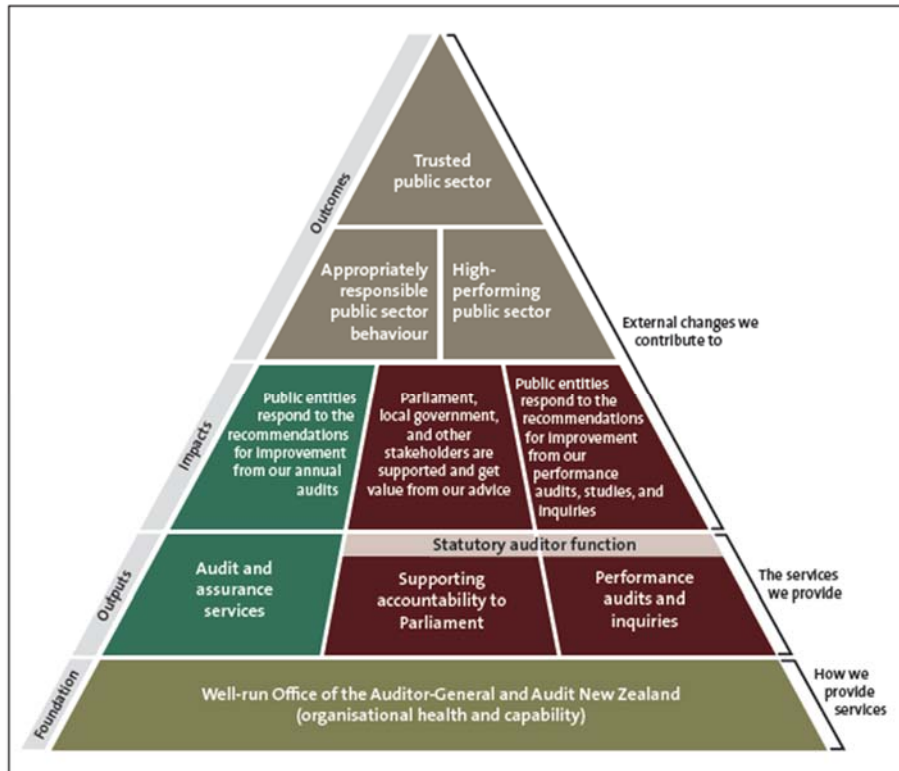
²⁷ See “Country Summary” at www.internationalbudget.org.

- 3.59 To improve parliamentary oversight, OBS recommends establishing “a specialised budget research office for the legislature.”
- 3.60 The Controller and Auditor-General and the Deputy Controller and Auditor-General are both officers of Parliament. Their mandate and responsibilities are set out in the Public Audit Act 2001. The OAG follows the Legislative model.
- 3.61 The Auditor-General reports to the Speaker of the House, not to a Minister or the executive. Budgets are set in the Officers of Parliament Committee, not the government of the day. The Office is free to appoint its own staff and set its own staff remuneration.
- 3.62 The Public Audit Act 2001 states the Auditor-General must act independently in exercising the functions, duties, and powers of the Office. The Auditor-General is accountable to Parliament for the management of public resources entrusted to them. The independence and mandate of the Auditor-General is discussed in Part 4, Domain A of this report.

New Zealand’s SAI’s framework, organisational structure, and resources

The Auditor-General’s vision

- 3.63 The Auditor-General’s vision is for the Office’s work to improve the performance of, and the public’s trust in, the public sector. Everything the Office does is directed at ensuring that New Zealand has a public sector that is trusted, demonstrates responsible behaviour, and performs well.
- 3.64 The Office’s outcomes framework summarises its aims, the effects it aims to have, and the services that it provides.



The Office's work

The Controller function

- 3.65 The Controller function provides independent assurance to Parliament that spending by government departments and Offices of Parliament is lawful, and is in the scope, amount, and period of the appropriation or other authority.
- 3.66 In keeping with the Auditor-General's Auditing Standards and a Memorandum of Understanding with the Treasury, the OAG and appointed auditors carry out standard procedures for the Controller function. They review monthly reports that the Treasury provides and inform them of any problems and advise the action to be taken.
- 3.67 The Auditor-General reports to Parliament each year on any significant matters related to the Controller function.

The auditor function

- 3.68 The Auditor-General has a mandate to perform several types of audits and other work.
- 3.69 **Financial audits:** By law, the Auditor-General audits all public entities in New Zealand that prepare separate general purpose financial reports; this is about 3700 public entities. They include government departments, Crown entities, schools, local authorities, and State-owned enterprises. The Auditor-General provides assurance to Parliament and the public that public sector organisations are operating, and accounting for their performance, in accordance with

Parliament's intentions. These financial audits make up about 87% of the Office's workload. The Office also completes a small number of compliance audits in conjunction with the annual financial audit. These audits assess compliance with various regulatory and external reporting obligations. This includes the audit of debenture trust deeds, energy regulation disclosures, and tertiary education sector performance-based research funds.

- 3.70 **Performance audits:** The Office's mandate allows it to audit the performance of all public entities. These reports identify good practices, raise any issues or concerns, and recommend improvements where necessary. The Office completes around 12 performance audits each year, as well as follow-ups to see if recommendations have been implemented. Often, Parliament's select committees will invite the Office to brief them on these reports. The Office reports its findings and helps the committee to hold the public entities to account for implementing its recommendations. The Office will usually follow up about 18 months after the report to see what progress has been made. The Office also presents these findings to Parliament.
- 3.71 Since 2012/13, the Office has applied a theme across its work, particularly in its performance audits. The annual themes have been:
- 2012/13: *Our future needs – is the public sector ready?*
 - 2013/14: *Service delivery.*
 - 2014/15: *Governance and accountability.*
 - 2015/16: *Investment and asset management.*
 - 2016/17: *Information.*
 - 2017/18: *Water* (proposed).
- 3.72 After consulting with Parliament on the proposed programme of work, the Office publishes in its Annual Plan the work the Auditor-General intends to carry out.
- 3.73 **Inquiries:** The Office can look into issues of concern. These can either be raised by anyone or the Office can initiate an inquiry. The Auditor-General has discretion over what the Office looks into – no one can force the Auditor-General to investigate a matter. Routine inquiries are small and mostly involve a review of relevant documents and talking to the organisation. They are expected to be completed within three months. The Office aims to complete significant inquiries within six months. Major inquiries, which are bigger in scope still, and have formal terms of reference. These are expected to be completed within 12 months. Major inquiries are published as reports and tabled in Parliament. In 2015/16, the Office completed work on 185 inquiries and other issues. Most were routine inquiries and five were significant.²⁸

28 See the Office's annual report for 2015/16, available at www.oag.govt.nz.

- 3.74 Factors that help the Office decide whether to inquire include:
- issues of financial impropriety;
 - problems with governance or management; or
 - other systemic concerns that may be important for the organisation, the sector, or the general public.²⁹
- 3.75 Other factors include the seriousness of the issue, whether the Office has the resources to consider it properly, and whether the matter can be addressed through other avenues. These avenues include the Office of the Ombudsman and the Parliamentary Commissioner for the Environment (which are both also officers of Parliament), State Services Commission, New Zealand Police, and the Serious Fraud Office.
- 3.76 **Other work:** This includes overseeing the Local Authorities (Members' Interests) Act 1968, where the Office considers applications from elected members to participate in matters where they have a pecuniary interest or enter into contracts with their local authority worth more than \$25,000 a year; the audit of local authorities' long-term plans; sector reports, where the Office identifies trends and behaviours from each sector; and publishing fraud data, including the types, methods and reasons, and how fraud was detected; and an annual reflections report, which draws together insights and findings from the work performed under the annual theme.

Relationship with Parliament

- 3.77 Parliament is the Office's primary stakeholder. The Office's obligations to Parliament under the Public Audit Act 2001 include:
- submitting its draft Annual Plan to Parliament and consulting with members of Parliament about proposed performance audits, although the Auditor-General still has the final say;
 - preparing and presenting to Parliament an annual report that includes audited financial statements;
 - submitting its annual budget to Parliament through the Speaker; and
 - presenting reports in Parliament before they are publicly released, although the gap between these steps is often no longer than a few minutes.
- 3.78 The Office's advice and support assists Parliament in its scrutiny of the performance and accountability of public entities. The Office uses information from its annual audits and performance audits to advise and inform Parliament and its other stakeholders. The Office's reporting and advice to Parliament identifies and addresses issues and risks in the public sector.

²⁹ See the inquiries section in "Our work", at www.oag.govt.nz.

- 3.79 The Office's advice and support includes:
- reports and advice to select committees for their annual reviews of public entities and their examination of votes within the Estimates of Appropriations; and
 - reports to Parliament on matters arising from its annual audits.
- 3.80 The Office also reports to Ministers on the results of the annual audits for public entities in their portfolio.

Limits to mandate

- 3.81 There are limits to the Auditor-General's mandate. The Office cannot comment on policy matters. Also, if a private organisation is receiving funding from a public entity, the Office needs to focus on how the public entity is managing the relationship and monitoring deliverables under the funding agreement. Apart from matters arising under the Local Authorities (Members' Interests) Act 1968, the Office's main power is to report; it cannot make anyone act on its recommendations or overturn decisions. The Office also cannot carry out performance audits or inquiries into the Reserve Bank of New Zealand.

The Office's international contribution

- 3.82 Each year, the Office makes a significant international contribution. It aims to strengthen public sector accountability and promote good governance by sharing its skills, information, and advice with other audit bodies throughout the world, particularly in the Pacific region.
- 3.83 The Office supports accountability, transparency, and good governance in the Pacific through its commitment to PASAI, which is the Pacific region working group of INTOSAI. The Auditor-General and the Office support the PASAI secretariat in their work. The Auditor-General is the Secretary-General of PASAI and has represented PASAI on the governing board of INTOSAI up to this year.³⁰ The Office has received funding from the Ministry of Foreign Affairs and Trade (MFAT) for the last five years to provide PASAI support, and has recently negotiated a further contract with MFAT to continue this support from 2016-19.
- 3.84 The Office often hosts international delegations in order to exchange information and build networks. Over the past couple of years, it has assisted representatives from the Parliaments, Treasuries, and/or Audit Offices of Tonga, Samoa, Vietnam, Japan, Thailand, Indonesia, and Malaysia. The Office has provided a comprehensive international secondment programme to assist the Audit Board of the Republic of Indonesia in its transition to accrual accounting. The Office also operates an arrangement between the Samoan and Cook Islands audit offices to assist their development.

30 This role has now passed to the Auditor-General of Samoa, following a vote of the PASAI Congress in August 2016. The Auditor-General of Samoa has been mentored by New Zealand in preparation for this handover.

The Office's structure

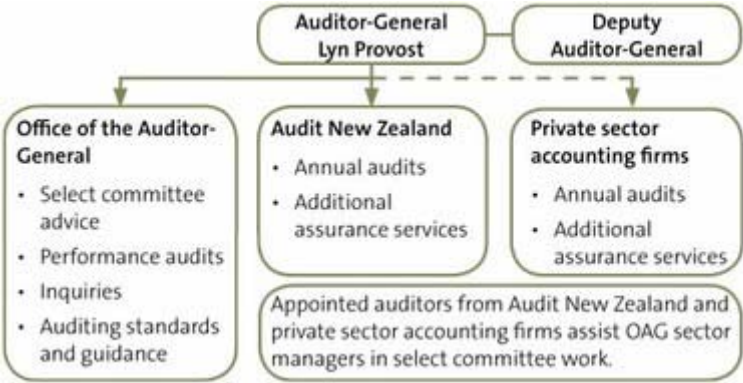
- 3.85 The work of the Controller and Auditor-General is carried out by the OAG, Audit New Zealand, a shared corporate services team, and private sector auditing firms.
- 3.86 The Office's work is carried out by about 370 full-time equivalent staff in two business units – the OAG and Audit New Zealand. They are supported by a shared team of corporate services staff, along with appointed auditors and their staff from about 50 other audit service providers.
- 3.87 The Annual Report 2015/16 explains the role of the two business units:
- The Office of the Auditor-General 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.³¹*
- 3.88 The Executive Director of Audit New Zealand reports to the Auditor-General.
- 3.89 There are six teams in the OAG:
- Accounting and Auditing Policy;
 - Legal;
 - Local Government;
 - Parliamentary;
 - Performance Audit; and
 - Research and Development.
- 3.90 Each team is led by an Assistant Auditor-General.
- 3.91 One Corporate Services Team, also led by an Assistant Auditor-General, supports both the OAG and Audit New Zealand.
- 3.92 The OAG's Leadership Team includes:
- the Auditor-General;
 - the Deputy Auditor-General; and
 - each of the Assistant Auditors-General.

31 Available at www.oag.govt.nz.

3.93 The OAG Leadership Team considers all OAG business and work programme matters. The Executive Director of Audit New Zealand ensures that, where relevant, information flows freely between the OAG and Audit New Zealand.

3.94 Appointed auditors from about 50 private sector accounting firms are contracted to carry out some annual audits on the Auditor-General's behalf. These firms are called audit service providers. When allocating audits to audit service providers, six principles are applied. The principles are designed to ensure that auditors are independent, audits are of a high quality, and audit fees are reasonable. Another important principle is that auditing firms have sufficient audits allocated to them to ensure critical mass and Audit New Zealand is maintained as a strong and viable audit service provider. The Office continually monitors the allocation of audits to ensure that these principles are followed.

3.95 The below diagram sets out the relationship between each business unit and other audit service providers:



3.96 The Auditor-General remains accountable for audit quality and ensuring that audits are performed effectively, efficiently, and in line with professional accounting and auditing standards. The Auditor-General's Auditing Standards establish the minimum standards to be applied to work carried out on their behalf. All auditors in New Zealand are required to adhere to the standards set by the XRB.

3.97 The following table sets out staff numbers and staff diversity between 2011 and 2016:

As at 30 June	2011	2012	2013	2014	2015	2016
Staff numbers (full-time equivalents)						
Office of the Auditor-General	64	73	68	71	72	74
Audit New Zealand	252	254	253	247	267	247
Corporate Services	46	48	48	50	52	46
Total	362	374	369	369	391	367
Functional distribution						
Audit/assurance	65%	64%	65%	64%	64%	63%
Technical and advisory	11%	11%	10%	11%	11%	14%
Corporate support	21%	22%	22%	22%	22%	20%
Senior management	3%	3%	3%	3%	3%	3%
Gender distribution – all staff						
Women	53%	53%	54%	55%	53%	54%
Men	47%	47%	46%	45%	47%	46%
Gender distribution – executive management						
Women	50%	42%	42%	42%	36%	42%
Men	50%	58%	58%	58%	64%	58%
Ethnicity distribution						
NZ European	49%	53%	49%	48%	44%	47%
NZ Māori	2%	3%	4%	3%	3%	3%
Pacific Islander	2%	3%	3%	2%	3%	2%
Asian	10%	12%	11%	13%	15%	16%
Other European	12%	14%	14%	13%	12%	15%
Other ethnic groups	7%	4%	10%	8%	7%	11%
Undeclared	18%	11%	9%	13%	16%	6%

Funding

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

1. **Audit and Assurance Services RDA** (revenue dependent appropriation), intended to provide for audit services to all public entities (except smaller public entities) and other audit-related assurance services.
2. **Audit and Assurance Services**, intended to provide for audits and assurance of small entities, such as cemetery trusts and reserve boards, funded by the Crown.
3. **Statutory Auditor Function MCA** (multi-category appropriation), to support Parliament in ensuring accountability for the use of public resources.
4. **Remuneration of Auditor-General and Deputy Auditor-General PLA** (permanent legislative authority).

5. **Controller and Auditor-General – Capital Expenditure PLA**, which is limited to the purchase of assets by, and for the use of, the Controller and Auditor-General.
- 3.99 The appropriation for Audit and Assurance Services enables the Office to carry out audits and related assurance services as authorised by law. This is largely funded by audit fees collected from public entities.
- 3.100 The multi-category appropriation Statutory Auditor Function is largely Crown-funded and includes:
- **Services to Parliament** – providing advice and reports to help select committees and other stakeholders;
 - **Controller function** – providing assurance to Parliament that public money has been spent lawfully and within the authority provided by Parliament; and
 - **Reports, studies, and inquiries** – reporting on the results of annual audits, performance audits, and other studies, and inquiring into a public entity's use of its resources.
- 3.101 The funding for each appropriation, expenditure, and full financial statements are published each year in the Office's annual report. The 2015/16 Annual Report was published in September 2016.³²
- 3.102 In 2014/15, the Office received additional funding from the Crown to establish a dedicated inquiries team to handle the growing demand (from members of Parliament and the public) for inquiries and to increase the Office's data analysis capability.

32 All the Office's annual reports are available at www.oag.govt.nz.

Part 4: Assessment of the SAI's environment, capability, and performance

Assessment against the seven domains of SAI performance (evidence-based indicator scores)

Domain A: Independence and legal framework

- 4.1 Independence is essential for the effective operation of an SAI. The Lima Declaration³³ states that independence can only be achieved if the SAI is independent of the public entity and protected against outside influence. SAI-1 measures the independence of the SAI by assessing key aspects of independence identified by the Lima and Mexico³⁴ declarations. These declarations state financial independence, operational autonomy, and an independent head of the SAI as a minimum to obtain the required level of independence. This should be reflected in the legal framework, as well as in the practice of the SAI.
- 4.2 As the institution responsible for the audit of government financial resources, the SAI needs to be sufficiently empowered by a legal framework that clearly describes the public financial operations for which it has the responsibility to audit.

33 The Lima Declaration is reflected in ISSAI 1.

34 The Mexico Declaration is reflected in ISSAI 10.

Indicator	Domain	Dimensions	Score ³⁵	Overall score
A. Independence and Legal Framework				
SAI-1	Independence of the SAI	(i). Appropriate and effective constitutional framework (ii). Financial independence/autonomy (iii). Organisational independence/autonomy (iv). Independence of the Head of SAI and its Officials	(i) 1 (ii) 4 (iii) 4 (iv) 4	3
SAI-2	Mandate of the SAI	(i). Sufficiently broad mandate (ii). Access to information (iii). Right and obligation to report	(i) 4 (ii) 4 (iii) 2	3

³⁵ The Framework assigns a score to each dimension based on the results of assessing each of the criteria. The score range is 0 to 4 with 4 being the highest possible score. The overall indicator score is a function of the scores for each dimension within the indicator.

SAI 1: Independence of the SAI

Dimension 1: Appropriate and effective constitutional framework

- 4.3 The foundation for the SAI's existence needs to be recognised in the state's legal framework. The Lima declaration highlights that the SAI should be anchored in the country's supreme law to ensure its appropriate sustainability and authority.
- 4.4 Although New Zealand does not have a single constitutional document, it does have a collection of legislation, legal documents, common law derived from court decisions, and conventions. The Office is established by the Public Audit Act 2001. This Act sits in a comprehensive public finance framework, which includes the Public Finance Act 1989, the Crown Entities Act 2004, and others. As a result there is no constitutional protection for the Office because Parliament can repeal the relevant Acts by a simple majority vote.
- 4.5 The Public Audit Act 2001 provides a strong framework establishing the independence of the Office. However, the lack of constitutional protection prevents us from giving a maximum score in this dimension.
- 4.6 The High Court has the jurisdiction to enforce the standard set by section 9 of the Public Audit Act 2001: the duty to act independently through either judicial review or declaratory judgment. If the executive attempted to direct the Auditor-General, this would be in breach of section 9. The Auditor-General would be able to take legal action in the High Court to seek a declaratory judgment that the direction was unlawful.
- 4.7 Section 39 of the Public Audit Act 2001 specifies that obstructing, hindering, resisting, or misleading the Auditor-General is an offence and punishable by a fine.
- 4.8 The Office regularly considers whether there have been issues or events that would indicate a need to review the Public Audit Act 2001. This assessment is completed by an independent expert in conjunction with Australian SAIs. At this point in time no change to the Public Audit Act 2001 has been identified as necessary.
- 4.9 We determine there is no need for the Auditor-General to seek a change to these arrangements because the independence framework under the Public Audit Act 2001 is as strong as it can be in the absence of a constitutional document.

Dimension 2: Financial independence/autonomy

- 4.10 The Office benefits from the highest degree of financial independence and autonomy. The Auditor-General has the necessary resources and freedom to manage the Office's budgets without interference from the executive. This independence covers the entire budget process, from proposal to operations after the budget has been adopted by the legislature.

- 4.11 The salary of the Auditor-General and Deputy Auditor-General are appropriated through legislative authority and may not be reduced during the term of appointment. The operations of the Office are provided for by charging public entities a reasonable fee for financial audit work. The Crown has no power to influence or set these fees. There is an established criteria for setting audit fees, and the Public Audit Act 2001 allows for arbitration if there is disagreement between the public entity and the Auditor-General.
- 4.12 Parliament must approve annual appropriations for funding other duties and powers. The Responsible Minister is the Speaker of the House of Representatives. The process for including funding in the Officers of Parliament budget is different from other departments. As stated in section 26E of the Public Finance Act 1989, rather than being mediated by Crown Ministers, the Officers of Parliament Committee receive funding requests directly from the Office. They scrutinise these requests (with advice from the Treasury), and ask the Crown to include the funding in the Estimates and Appropriation Bill. By constitutional convention, the Crown complies with the Committee's request without question.
- 4.13 Vote Audit is included in the Estimates and Appropriation Bill and enacted in the Appropriation Act in the same way as other appropriations.
- 4.14 The Office's funding is under the Auditor-General's control in Vote Audit. It is in the form of a multi-category appropriation, meaning the Auditor-General can vary the allocation as they see fit. The Auditor-General reports to Parliament annually on the financial year-end, and is subject to an annual review hearing with the Officers of Parliament Committee to raise any concerns about the sufficiency of resources to enable the Office to fulfil its mandate.
- 4.15 The only limits on the Office's financial freedom are a restriction on the ability to borrow, to give a guarantee, or to establish a subsidiary without ministerial approval. These are not considered material limitations to the Office's financial independence.
- 4.16 There have been no instances where the Office has experienced interference from the executive regarding the setting, access, or allocation of its budget.

Dimension 3: Organisational independence/autonomy

- 4.17 The Office benefits from the highest degree of organisational independence and autonomy, enabling it to effectively implement its mandate.
- 4.18 The Public Audit Act 2001 states that the Auditor-General is an Officer of Parliament, appointed by the Governor-General on the recommendation of the House of Representatives. There are some reasonable limitations on the Auditor-General – they cannot be a member of Parliament or a local authority, nor can they hold any other office or occupation without the Speaker's approval. The Act requires the Auditor-General to act independently in the exercise of their functions, duties, and powers. It also states that the

Auditor-General is a corporation sole with perpetual succession and a seal of office, and can incur all the liabilities and obligations of a body corporate of full capacity.

- 4.19 The Auditor-General has complete autonomy to employ staff as necessary and on appropriate terms. The Public Audit Act 2001 binds the Auditor-General by the principle of being a good employer.
- 4.20 The Auditor-General is obliged by the Public Audit Act 2001 to produce a work plan each year. The Annual Plan fulfils this requirement. The Speaker, select committees, and individual members of Parliament can comment on the proposed plan, but they have no power to enforce changes.

Dimension 4: Independence of the head of SAI and its officials

- 4.21 The Public Audit Act 2001 establishes the independence of the Auditor-General as the head of the Office, and provides appropriate protection for all of its officials. The Auditor-General's term is limited to seven years, with no allowance for reappointment. The Deputy Auditor-General's term is limited to five years, with allowance for reappointment. These terms are considered long enough to allow the mandate of the Office to be carried out effectively.
- 4.22 The Public Audit Act 2001 provides the Auditor-General and the Deputy Auditor-General similar protections to those that apply to a High Court Judge, with removal from their positions only possible through a process that ensures independence from the executive. We are satisfied that this allows them to carry out their mandate without fear of retaliation.
- 4.23 The Auditor-General, Deputy Auditor-General, and all persons employed by them are protected from personal liability when performing a function, duty, or power under the Public Audit Act 2001 in good faith.

SAI 1 Conclusion

- 4.24 Although New Zealand does not have a single constitutional document that protects the Public Audit Act 2001 from being repealed, New Zealand benefits from a very strong framework that gives independence to the Auditor-General and allows for the autonomy of the Office.

SAI 2: Mandate of the SAI

Dimension 1: Sufficiently broad mandate

- 4.25 The Public Audit Act 2001 establishes the Auditor-General as the auditor of all public entities. The financial audit mandate covers financial statements, accounts, and other information that the public entity is required to have audited. The Public Audit Act 2001

enables performance audits, and any services other than financial audit,³⁶ to consider all aspects of public entities, except for the Reserve Bank of New Zealand. The Public Audit Act 2001 also enables the Auditor-General to inquire, either on request or on their own initiative, into any matter that concerns a public entity's use of its resources.

- 4.26 The Public Audit Act 2001 states that the Auditor-General has a duty to act independently, exercise all functions, duties and powers, and report on whatever they consider is relevant. The Act also states it is an offence to intentionally obstruct, hinder, or resist the Auditor-General exercising their powers. As a result, all audits are conducted free from interference. This includes the selection of audit issues, planning of the audit approach, and the approach to the conduct, reporting, and follow-up of all audits required by the Mexico Declaration (ISSAI 10:3).

Dimension 2: Access to information

- 4.27 The Public Audit Act 2001 requires the chief executive and the governing body of a public entity to ensure that the Auditor-General has access at all times to the relevant documents. The Public Audit Act 2001 also gives the Auditor-General power to get all the required information and access to a public entity's premises. It is an offence under the Public Audit Act 2001 to keep information from the Auditor-General. A warrant can be issued by a district court judge to gain access to the premises of any public entity if there are reasonable grounds to suspect that documents, information, or other evidence is held at those premises.

Dimension 3: Right and obligation to report

- 4.28 The Public Audit Act 2001 requires the Auditor-General to report annually to the House of Representatives on the performance and exercise of the Auditor-General's functions, duties, and powers. The Public Audit Act 2001 also enables the Auditor-General to report to a Minister, committee of the House of Representatives, a public entity, or any person, regarding the performance and exercise of the Auditor-General's functions duties and powers.
- 4.29 A lot of time and effort is put into natural justice processes, before the Auditor-General's reports are published. However, the decision on what, when, and how to report, following comment, rests with the Auditor-General.
- 4.30 It is important to note the Public Audit Act 2001 is not in a formal constitution. Therefore the Act can be repealed by a simple majority vote of the legislature, which is a risk to the mandate of the Auditor-General. As a fundamental criteria of this dimension is for the audit mandate to be a part of the constitution, the score cannot be higher than two. We do,

36 The Public Audit Act 2001 does not explicitly use the term compliance audit that is used in the ISSAIs, however this type of audit is provided for by section 17 of the Act.

however, believe the Public Audit Act 2001 provisions are as strong as they can be in the current constitutional context.

SAI 2 Conclusion

- 4.31 New Zealand does not have a single constitutional document that protects the Public Audit Act 2001 from being repealed. In all other respects the Office benefits from a very strong framework that allows an extensive mandate, with full access to information and no limitations on its ability to report.

Domain B: Internal governance and ethics

- 4.32 One of the aims of ISSAI 12 (The value and benefits of SAIs – making a difference to the lives of citizens) is that SAIs should lead by example and be model organisations. A SAI should advance transparency and accountability through good governance and ethical conduct. Domain B assesses the important elements of the SAI's internal operations and governance approach in order to obtain a full understanding of its strengths and weaknesses at the organisational level. The indicators measure the foundations the SAI has established for conducting its activities.

Indicator	Domain	Dimensions	Score	Overall score
B. Internal Governance and Ethics				
SAI-3	Strategic Planning Cycle	(i). Content of the Strategic Plan (ii). Content of the Annual Plan/Operational Plan (iii). Organisational Planning Process (iv). Monitoring and Performance Reporting	(i) 3 (ii) 3 (iii) 4 (iv) 3	3
SAI-4	Organisational Control Environment	(i). Internal control environment – Ethics, Integrity and Organisational Structure (ii). Systems of internal control (iii). Quality Control System (iv). Quality Assurance System	(i) 3 (ii) 2 (iii) 4 (iv) 2	3
SAI-5	Outsourced Audits	(i). Process for Selection of Contracted Auditor (ii). Quality Control of Outsourced Audits (iii). Quality Assurance of Outsourced Audits	(i) 4 (ii) 4 (iii) 4	4
SAI-6	Leadership and Internal Communication	(i). Leadership (ii). Internal Communication	(i) 4 (ii) 4	4
SAI-7	Overall Audit Planning and Follow-Up	(i). Overall Audit Planning Process (ii). Overall Audit Plan Content (iii). Existence of Effective Follow-up Mechanisms	(i) 4 (ii) 3 (iii) Not rated	3

SAI 3: Strategic planning cycle

Dimension 1: Content of the strategic plan

- 4.33 The Auditor-General's strategy 2013-17 (the Office's Strategy) was developed in 2012 after an assessment focusing on how the Office can positively influence the changing public sector environment, particularly with respect to accountability and the quality of services. The assessment was tested with external stakeholders. It was also used to perform a gap analysis to determine the strategic goals of the Office. The strategy was focused on outcomes desirable within three years.
- 4.34 The Office's Strategy includes a framework and a set of measures that assess services, internal capabilities, and the operating environment. The Office's Strategy also points to annual planning documents for more specific measures and targets. There is room for the Office's Strategy indicators to be refined to more effectively demonstrate the impact and outcomes of the Office.
- 4.35 The Office's Strategy does not include an implementation matrix, prioritisation information, or other corporate documentation to explain how its goals will be achieved. There is also no mention of risks in achieving the strategic goals and how to mitigate them. Although there is an overall annual and business unit planning process, there is no clear flow between the documents. This is because the Annual Plan is product-focused whereas the Office's Strategy presents high-level outcome and impact goals. A prioritisation tool would enable the links between these processes, and the resulting documents, to be clearer.

Dimension 2: Content of the annual plan/operational plan

- 4.36 The Annual Plan defines the Office's activities as the financial audits, performance audits, inquiries, and other work. The Annual Plan states that appointed auditors are responsible for annual audits and associated compliance audits, and the Assistant Auditor-General for the Performance Audit Group is responsible for the performance audit programme. The Auditor-General is responsible for all audits.
- 4.37 There are no specific timetables in the Annual Plan for the financial audits. However, they are expected to be completed within the statutory deadlines. Where there is no statutory deadline specified, five months after balance date is standard practice. These statutory deadlines drive the annual audit work. Due to the varying duration of planned performance audits, which can range from 6-18 months, there is no timetable for the completion of these audits. The plan clearly sets out the audits to be started during the year.
- 4.38 Each business unit's business plan addresses operational matters and how the work set out in the Annual Plan will be completed. However, it is not always clear how business plans link to the Annual Plan. The Annual Plan is linked to the budget estimates by Vote documents,

which set the budget and resourcing information for the year and form part of Parliament's annual budget documentation.

- 4.39 An effective Annual Plan is expected to include clear links to the Office's Strategy and an assessment of the risks connected to achieving its objectives. The current Annual Plan does not meet these criteria, as there is no addressing of risks and there is a lack of clarity beyond a broad conceptual link to Strategic Plan goals.

Dimension 3: Organisational planning process

- 4.40 Ownership of the planning process is critical to the Office's success. There is clear ownership of the Office's Strategy goals. A variety of staff and stakeholders were engaged in the strategy and development of the Annual Plan and annual work programme processes. This engagement, which involved a large selection of staff, featured successful cross-office workshops. Before Parliament is formally consulted on the Annual Plan and annual work programme, there are informal consultations with a broad range of stakeholders. These less formal consultations continue to develop each year and are evaluated to assess their value.
- 4.41 There is a document that outlines the timeline and responsibilities for the completion of planning processes. The annual planning and work programme processes (to plan the performance audit and other discretionary work programmes) are evaluated every year. As a result, the process, particularly the initial proposal, engagement and consultation, is being refined on an ongoing basis.
- 4.42 There were meetings with senior leadership team members to identify and agree the strategy monitoring and reporting processes. The Office's Strategy is subject to periodic monitoring and a traffic light system is used to simply communicate progress against the goals. The Annual Plan is subject to monthly assessment by the leadership team. Business plans are monitored more informally at a team level.
- 4.43 Overall the processes are strong and robust and there is an on-going effort made to further refine them each year.

Dimension 4: Monitoring and performance reporting

- 4.44 The Office reports annually to Parliament in its Annual Report. This includes reporting against the strategic objectives, service performance outputs, organisational health and capability, and financial performance. Reporting against the high-level outcomes set out in the Office's Strategy is supported by surveys completed by the State Services Commission and Transparency International. Reporting against performance measures includes annual and independent survey work assessing public entities' views of the audit work carried out. Currently there is no survey to evaluate the public's view of the audit work. This is an area that warrants further consideration.

- 4.45 ISSAI 12 requires the Auditor-General to make the standards and methodologies that they apply public. The Office publishes its auditing standards and makes them available on its website. All appointed auditors are required to complete audits based on these standards and to apply the New Zealand version of International Standards on Auditing (ISAs), which are publicly available on the XRB website. The appointed auditors' work, completed on behalf of the Auditor-General, is evaluated against these standards.
- 4.46 The Office publishes the results of any performance evaluation undertaken by peer review. The most recent independent peer review of the Office was completed and published in 2008. Quality assurance results of all of the Office's appointed auditors are disclosed in the annual report. The report states, "All appointed auditors have a quality assurance grade of at least 'satisfactory', based on our most recent quality assurance review."
- 4.47 The Office does not evaluate the impact of its audit activity on public entities' cost savings or operational efficiency improvements.

SAI 3 Conclusion

- 4.48 The Office is guided by a Strategic Plan that was developed through a robust and inclusive process. However, there is room to improve future versions of the Strategic Plan by ensuring that there are clear evaluation tools included to assess the outcome and impact goals. There is also a need to clearly prioritise and better link the Office's Strategy goals and objectives to the Annual Plan. There is also a need for a risk assessment tool and for clarity around approaches to mitigate identified risks in both strategic and annual planning.
- 4.49 The operational planning processes are strong and robust. The monitoring and reporting against the strategic and annual planning frameworks is sound overall. However, there is room to include an evaluation of public's view of audit effectiveness. The Office does not evaluate the savings achieved and/or efficiencies gained as a result of audit input into the activities of public entities.

SAI 4: Organisational control environment

Dimension 1: Internal control environment – ethics, integrity, and organisational structure

- 4.50 The Auditor-General developed a set of professional ethical standards that must be followed by all auditors of public entities. The standards are based on the XRB ethical standards, which are based on the standards established by the International Federation of Accountants (IFAC). The Auditor-General's ethical standards are accessible on the Office's website.
- 4.51 Whether employed by the Office or contracted to complete work for the Office, the standard applies to every auditor completing audits, or other work, for the Auditor-General. All staff are provided training on the professional ethical standards as part of the Office's professional

development programme. Employees are also obligated to comply with the standards as part of their employment contract.

- 4.52 The Office uses a comprehensive Employee Independence Declaration system in order to mitigate potential risks, support ethical behaviour, and address any breach in ethical values. Each staff member must formally review this either every six months or immediately on the change in nature of any independence matter.
- 4.53 The Office's organisational structure clearly sets out job descriptions for individual roles. This ensures that responsibility for work carried out is clearly defined and reporting lines are clear.
- 4.54 The Office does not use a formal tool to assess its vulnerability to integrity violations, as it is not considered necessary. The Office's ethical standards, which all staff must follow, address integrity of behaviour.

Dimension 2: System of internal control

- 4.55 This framework considers the systems of internal control that are central to many of the Office's operations. The focus of this dimension is on parts of the control system that are required to effectively manage the risk and control of SAI operations. The Office has reasonable processes for identifying, mitigating, and monitoring major operational risks. These current processes are under review, with the aim of improving the monitoring of operational risks. An appropriately formalised quarterly monitoring process is in place relating to the operations of Audit New Zealand. However, processes in the whole Office are not currently consistent. There is no annual declaration process for senior management to provide assurance they have carried out their risk management responsibilities. Although there are some monthly declarations completed by Audit New Zealand's appointed auditors for the purposes of meeting indemnity insurance reporting requirements, these processes do not address the intentions of the INTOSAI GOV 9100 – *Guidelines for internal control standards for the Public Sector*. As risk management is an important part of internal control framework good practice, the weaknesses in the Office's current processes have reduced its overall score for this dimension.
- 4.56 The Office documents internal control policies and procedures. These processes are applied in all of the Office's operations. The Auditor-General signs a statement of responsibility that is published in the Office Annual Report. The statement declares that the Auditor-General ensures that the Office has established and maintained systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting. Leadership team members support this with letters of representation to the Auditor-General. The Office has an internal audit programme that is carried out by an independent and appropriate external auditor. Recommendations from the audit contractors are monitored and the progress of implementation is reported to the Audit and Risk Committee.

- 4.57 However, this programme has not consistently or comprehensively addressed all key aspects of internal controls during the last five years. The reporting of internal audit findings is compromised as the auditor reports to the Assistant Auditor-General – Corporate Services, who is responsible for appointing them and is part of the senior management team. As an independent and comprehensive internal audit program is a fundamental component of internal control framework good practice, the weaknesses in the Office’s current processes have reduced the overall score for this dimension.
- 4.58 The Office has a “whistle blower” policy that provides staff guidance on how to report suspected violations of policies and processes. Although INTOSAI GOV 9100 recommends a job rotation policy to manage possible conflicts of interest, we were unable to identify any areas of the Office’s operations that would benefit from this..

Dimension 3: Quality control system

- 4.59 The Office completes all of its work (financial audits, performance audits, and other work) within a comprehensive framework of standards that require all auditors to have quality control systems in place to ensure independence. The Office promotes quality and good practice through guidance to public entities, which is published on its website.
- 4.60 Overall responsibility for the quality of audit and other work lies with the Auditor-General. Functionally, this responsibility is delegated to the Assistant Auditor-General - Accounting and Auditing Policy to perform the role of Chief Quality Officer and to the Director of Quality Assurance to oversee and carry out the quality assurance programme.
- 4.61 A comprehensive system of a cyclical auditor quality assurance review is in place to mitigate the risks to audit and other work quality, as described in dimension 4.
- 4.62 The annual financial audit cycle for all public entities is well established in New Zealand law, leading to systems that ensure this work is appropriately resourced. These audits are all carried out under the Auditor-General’s standards to ensure that quality is maintained. The performance audit and other work programme is reviewed on an on-going basis to ensure that capable and competent staff are able to complete all work in appropriate time frames and meet quality standards.

Dimension 4: Quality assurance system

- 4.63 The Office has a strong quality assurance (QA) system. Responsibility for the QA programme lies with the Director of Quality Assurance, a senior employee with relevant expertise and independent of the completion of all audit work. An annual work programme for the QA team is approved by the Leadership Team. The results of the work are reported to both the Leadership Team and the Audit and Risk Committee. The appointed auditors,

whose work is subject to quality assurance, are provided with information about the plan and the approach.

- 4.64 Following the completion of QA reviews, findings are notified to the appointed auditor whose files are sampled and summarised annually in a report to the Leadership team. Summary findings are subsequently shared with all auditors.
- 4.65 Performance audits are also subject to QA review. This happens less frequently than the annual review and what is recognised as good practice by ISSAI 40 – *Quality Control for SAIs*. Internal QA is completed every three years and an external peer review is completed by the Australian National Audit Office every two years. Performance audit reports are reviewed by a panel of readers each year, but this review is not technical and does not extend beyond the performance audit report. The QA team also completes reviews of other Office products. At present this does not formally include a cyclical review of compliance audits, although some of these audits have been reviewed in 2016. As a result of issues with the frequency of QA reviewing of performance and compliance audits, the score for this dimension has been reduced.

SAI 4 Conclusion

- 4.66 The Office has robust professional and ethical standards, and the application of the standards is effectively monitored. There are some weaknesses in the system of operational internal control. The risk management systems are not as well developed or formalised as recommended. The processes and procedures for internal control have been well established. However, internal audit testing to ensure all systems are operating effectively is not as comprehensive as it could be. The lack of independent reporting by the internal auditor is also a weakness. The quality assurance system is comprehensive, however it is not applied annually to all non-annual audit work.

SAI 5: Outsourced audits

Dimension 1: Process for selection of contracted auditors

- 4.67 The Office has sound policies and procedures to help with the selection of contracted auditors. These policies and procedures provide the Office with reasonable assurance of the competence and capability, and legal and regulatory requirements, of contracted auditors to complete the financial audit. The arrangements between the Auditor-General and each contracted auditor and public entity are set out in the Audit Engagement Agreement. This agreement sets the specific standards to be met, the required ethical behaviours, confidentiality, and requirements to manage conflicts of interest. The Office provides resources, such as annual audit briefs and other material posted on its website, to support the contracted auditor's public sector knowledge. The Auditor-General's requirements for

quality control by contracted auditors are available on the Office's website and in the Audit Engagement Agreement.

- 4.68 The contracted auditor must sign the Audit Engagement Agreement as confirmation they are able to meet the required standards.

Dimension 2: Quality control of outsourced audits

- 4.69 The Office applies the same system of quality control to financial audits carried out by Audit New Zealand and financial audits carried out by other contracted auditors. This system has been assessed at SAI-4 (iii) and is found to be strong and meets all the relevant criteria. The Audit Engagement Agreement specifies that all audit work papers remain the property of the Auditor-General.
- 4.70 Contracted auditors have the authority to issue standard audit reports in the name of the Auditor-General, provided they follow the internal quality control procedures. Where an audit report is non-standard, and there is no precedent on how the issue should be addressed, the Auditor-General's Accounting and Auditing Policy team needs to lead a review process.³⁷

Dimension 3: Quality assurance of outsourced audits

- 4.71 The Auditor-General's quality assurance system is applied to all financial audits, whether carried out by Audit New Zealand as the Office's own business unit or as outsourced audits. This is further discussed in SAI 4 dimensions (iii) and (iv) above.
- 4.72 All audit firms doing work for the Auditor-General must also complete an annual declaration regarding their compliance with the Auditor-General's auditing and ethical standards, and the standards of the relevant professional bodies. The Auditor-General expects all Audit Service providers to have their own quality assurance processes in place. The audit firms must disclose to the Auditor-General the results of any practice review completed by the New Zealand Institute of Chartered Accountants (NZICA) or Quality Review by the Financial Markets Authority.

SAI 5 Conclusion

- 4.73 The Office outsources a significant proportion of its financial audits. A robust system is in place to manage the selection of contracted auditors and set the quality standards which those auditors must follow. The approach to managing all aspects of outsourced audits meets all the criteria set out in the ISSAIs.

³⁷ Except in the case of established precedents.

SAI 6: Leadership and internal communication

Dimension 1: Leadership

- 4.74 The Office has clear leadership groups that cover the varying aspects of the management and operations of the organisation. The roles, accountabilities, and services of each group are set out in the Auditor-General's leadership team charter. These groups meet regularly, and decisions from these meetings are communicated to staff in monthly staff meetings, briefings to teams by members of the leadership team, emails, and updates from the Auditor-General published on the intranet. However, there is room for the minutes of leadership team meetings to more clearly include what needs to be communicated to staff.
- 4.75 The Office values of independence, integrity, and professionalism are stated in the one page summary of its strategy. They are largely accepted as implicit values and emphasised in staff gatherings such as OAG communications meetings and the end of the financial year celebrations. Audit New Zealand has recently revised its core values and essential behaviours, which are consistent with the strategy values. Executive Leadership Team roadshows and supporting publications have promoted these revised values and essential behaviours.
- 4.76 The Office has a well-documented delegation system and also a formalised performance review process. The policies and procedures include actions to be taken to address poor performance. There are a variety of formal (such as performance review and remuneration frameworks) and informal (such as local office awards, wall of recognition, "praise and impact" acknowledgements to staff from weekly leadership team meetings, and recognition in the Audit New Zealand internal staff magazine *Straightforward*) incentive programmes to encourage better performance and reward behaviours that align with the Office's values. The informal recognition schemes are more developed and regularly used in Audit New Zealand than in the OAG.
- 4.77 The Office has not taken any recent initiatives to improve the "tone from the top" or strengthen organisational culture. These are not considered necessary, because the Office is in a "steady state" with strong leadership and a sound organisational culture. The overarching policies in the Auditor-General's Professional and Ethical Standards set the tone and expectations from which all actions are measured. These policies are supported by various initiatives emphasising the importance of audit quality, such as Audit New Zealand's Audit Quality Improvement Plan (AQIP), which formed the basis of an ongoing audit quality plan.

Dimension 2: Internal communication

- 4.78 The Office clearly communicates its mandate, vision, and values to staff through corporate documents such as the Office’s Strategy and the Annual Plan. These documents are published on the Office’s website.
- 4.79 The Offices uses a range of communication methods to keep staff informed of issues and decisions. These include monthly communications meetings, the Auditor-General’s “Keep up” weekly intranet update, and one-off meetings to inform staff on important or sensitive matters. Depending on the size and nature of the team, local offices and teams use different approaches to pass on leadership team messages and information. The Source (the Office’s document and records management system) and the intranet are the main online communication tools. The Auditor-General and Deputy Auditor-General do annual visits to each office and the Executive Leadership Team of Audit New Zealand complete several visits each year.
- 4.80 The annual staff engagement survey asks staff if they agree “at work my opinion seems to count”. In the 2016 survey, 66% of staff responded with “agree” or “strongly agree”.

SASI 6 Conclusion

- 4.81 The leadership team of the Office communicates clearly with staff on a regular basis. The communication effectively sets the tone and organisational culture, and provides appropriate incentives to focus on achieving high standards of ethics, professionalism, and quality work.

SAI 7: Overall audit planning and follow-up

Dimension 1: Overall audit planning process

- 4.82 All public sector entities are subject to a financial audit on an annual basis, so prioritisation decisions are not required in this area of work.³⁸ Decisions about the prioritisation of resources, therefore, centre on performance audits and other discretionary work. Care is taken during the selection process of a performance audit and other work topics so they:
- are within mandate;
 - address the highest risk areas for the public sector based on a thorough scanning and risk assessment process; and
 - take account of stakeholder feedback on the proposed programme.
- 4.83 After the completion of the annual planning process, responsibilities for monitoring and delivery of the work programme are assigned. For financial audits, this responsibility rests with the appointed auditors. For performance audits, responsibility rests with the Assistant

38 Although decisions about the timing of the audit within the statutory time frames and staff resources applied are needed.

Auditor-General - Performance Audit. The responsibility for other work is assigned to a relevant leader on a case-by-case basis.

Dimension 2: Overall audit plan content

- 4.84 The Office's Annual Plan presents the content of the annual work programme. This is a public document that provides a high-level description of the annual financial audit work, and a description of each part of the other planned work programme. Along with this public document is a work programme plan that considers audit timing and resource allocations, as well as more detailed plans for each piece of work.
- 4.85 There is no risk assessment process for delivery constraints of financial audits, but appointed auditors are obligated to communicate risks and issues to the Office in an "eyes and ears" capacity. Delivery constraints and timeliness issues are part of regular audit service provider meetings and Leadership Team meetings for performance audits.

Dimension 3: Existence of effective follow-up mechanisms

- 4.86 We have decided to not score this dimension. We have addressed the follow-up systems for financial audits (SAI-11), performance audits (SAI-14), and compliance audits (SAI 17) elsewhere in the framework. We also note that this dimension has been removed from the updated version of the SAI PMF that superseded v3.2, reflecting that this dimension is effectively a "double-up" of other measures.

SAI 7 Conclusion

- 4.87 The overall annual planning process is robust and thorough. Responsibility for monitoring delivery of the work programme is appropriately assigned. The completion of the work programme is reported in the Office's Annual Report, including performance against statutory time frames. The details of the work programme conform to best practice recommendations, although there is scope to address any delivery constraint risks in the corporate planning documents.

Domain C: Audit quality and reporting

- 4.88 There are a number of ways to carry out public sector auditing. The mandate of the SAI defines its responsibilities for conducting various types of audits. ISSAI 100 defines the fundamental principles of public sector auditing. These principles apply to all types of audits. ISSAIs 200, 300, and 400 address the specific standards and guidance applying to financial audit, performance audit, and compliance audit respectively. The focus and approach to each type of audit is set out in summary below.
- 4.89 Financial audits focus on whether an entity's financial information is presented in accordance with the financial reporting and regulatory framework. The auditor accomplishes this by

obtaining sufficient and appropriate audit evidence. This evidence will enable them to express a reasonable assurance-based opinion on whether the financial information is free from material misstatement whether due to fraud or error.

- 4.90 Performance audits focus on whether interventions, programmes, and institutions are performing in accordance with the principles of economy, efficiency, and effectiveness, and whether there is room for improvement. This is accomplished by examining performance against suitable criteria and analysing causes of deviations from criteria. The aim is to answer key audit questions and provide recommendations for improvement.
- 4.91 Compliance audits focus on whether a particular subject matter is in compliance with criteria identified by the applicable authorities. Compliance auditing assesses whether activities, financial transactions, and information are, in all material respects, in compliance with the authorities that govern the entity.
- 4.92 The focus of this domain is to assess the quality as well as outputs of the audit work that is the core business of the SAI.

Indicator	Domain	Dimensions	Score	Overall score
C. Audit Quality and Reporting				
SAI-8	Audit Coverage	(i). Financial Audit Coverage (ii). Performance Audit Coverage (iii). Compliance Audit Coverage	(i) 4 (ii) 4 (iii) 1	3
SAI-9	Financial Audit Standards and Quality Management	(i). Financial Audit Standards and policies (ii). Financial Audit Team Management and Skills (iii). Quality Control in Financial Audit	(i) 4 (ii) 4 (iii) 4	4
SAI-10	Financial Audit Process	(i). Planning Financial Audits (ii). Implementing Financial Audits (iii). Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	(i) 3 (ii) 3 (iii) 3	3
SAI-11	Financial Audit Results	(i). Timely Submission of Financial Audit Results (ii). Timely Publication of Financial Audit Results (iii). SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	(i) 4 (ii) Not applicable (iii) 2	3
SAI-12	Performance Audit Standards and Quality Management	(i). Performance Audit Standards and Policies (ii). Performance Audit Team Management and Skills (iii). Quality Control in Performance Audit	(i) 3 (ii) 4 (iii) 4	4
SAI-13	Performance Audit Process	(i). Planning Performance Audits (ii). Implementing Performance Audits (iii). Reporting on Performance Audits	(i) 2 (ii) 3 (iii) 2	2
SAI-14	Performance Audit Results	(i). Timely Submission of Performance Audit Reports (ii). Timely Publication of Performance Audit Reports	(i) 4 (ii) 4 (iii) 4	4

Indicator	Domain	Dimensions	Score	Overall score
		(iii). SAI Follow-up on Implementation of Performance Audit Observations and Recommendations		
SAI-15	Compliance Audit Standards and Quality Management	(i). Compliance Audit Standards and Policies (ii). Compliance Audit Team Management and Skills (iii). Quality Control in Compliance Audit	(i) 4 (ii) 1 (iii) 4	3
SAI-16	Compliance Audit Process	(i). Planning Compliance Audits (ii). Implementing Compliance Audits (iii). Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	(i) 2 (ii) 2 (iii) 3	2
SAI-17	Compliance Audit Results	(i). Timely Submission of Compliance Audit Results (ii). Timely Publication of Compliance Audit Results (iii). SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	(i) Not rated (ii) Not applicable (iii) 0	Not rated

SAI 8: Audit coverage

Dimension 1: Financial audit coverage

- 4.93 The Auditor-General is required to complete the annual financial audit of all public sector entities. The requirement to complete the audit is set out in section 15 of the Public Audit Act 2001. It states that these audits must include the financial statements, accounts, and other information that a public entity is required to have audited. This is further outlined in an array of legislation that specifically establishes and defines the audit requirements for different types of public entities.
- 4.94 The Office conducts the annual financial audits of all financial statements received for auditing. Where financial statements are not received on a timely basis, there is active follow-up. This follow-up is primarily the responsibility of the appointed auditor but they are supported by the relevant OAG staff.
- 4.95 In 2015, the Office presented to Parliament a one-off report detailing the timeliness of receiving financial statements for audit and the extent and reason for delays. Timeliness of reporting is in the annual results reports, covering the most significant entities in the local government and central government sectors.
- 4.96 Timeliness is also covered in the Office's Annual Report, which includes information and reasons on audit reports not signed within the statutory time frame. In the 2015/16 Annual Report, it was reported that 76% of audits were completed within the statutory time frame and that the five-year average was 70%. The Annual Report also presents statistics for why the statutory time frame was not met. In 2015/16, it found that only 11% of the audits not completed on time were attributed to auditor inactivity; in the remaining 89% of cases, the auditors were waiting for information to be provided by the public entity.

Dimension 2: Coverage, selection, and objective of performance Audit

- 4.97 The mandate for performance audits is set out in section 16 of the Public Audit Act 2001. The mandate covers efficiency and effectiveness, compliance with statutory obligations, and acts or omissions to determine whether waste has occurred, or whether there is a lack of probity or financial prudence by a public entity. All performance audit topics considered by the Office are tested against this mandate.
- 4.98 In the process of developing the annual work programme, the Office carries out an assessment of risks and issues (including an assessment of relative significance) in the public sector. These are captured through sector-based environmental scans and tested through a thorough and collaborative process involving a wide range of staff. After this process, the draft work programme is developed, giving consideration to auditability and impact of suggested topics. Stakeholders across the public sector are asked to comment on

the draft work programme. Feedback from the comment phase of the Draft Annual Plan is considered and, where appropriate, the draft work programme is changed or added to before being finalised and published in the Annual Plan presented to Parliament.

- 4.99 Performance audits carried out in the past five years have covered a wide range of entities and issues across the public sector.

Dimension 3: Coverage, selection, and objective of compliance audit

- 4.100 Compliance audits are a very small part of the total work of the Office. Therefore, there is no process in place to determine what compliance engagements are carried out on behalf of the Auditor-General, or to assess risk and materiality. The annual work programme does not refer to compliance audits and there is no separate collation or analysis of compliance-based audit work. However, where applicable, there is information on how to conduct compliance audits in the relevant sector brief issued by the OAG to appointed auditors.

SAI 8 Conclusion

- 4.101 The identification and coverage of financial and performance audits is highly structured and well planned, meeting all of the criteria to the highest level set out in the PMF. Compliance audits are a very small part of the audit work carried out by the Office. Some compliance audit work is done in conjunction with financial and performance audits. There is no process co-ordinating compliance audits carried out as separate engagements.

SAI 9: Financial audit standards and quality management

Dimension 1: Financial audit standards and policies

- 4.102 ISSAI 200 sets out the fundamental principles of financial auditing. It is critical that the SAI has policies and procedures in place to assist its auditors to interpret its more generic standards. In New Zealand, all auditors completing financial audits on behalf of the Auditor-General are required to apply New Zealand equivalents of International Standards on Auditing (NZ ISA) and, where applicable, the Auditor-General's Auditing Standards.
- 4.103 The NZ ISA addresses all the key elements of the financial audit process.
- 4.104 Additionally, Audit New Zealand has an Audit Manual and a Quality Control Manual that provides guidance on how to implement the auditing standards. These manuals address policies and procedures on how to determine materiality, audit documentation requirements, and the nature, extent, and timing of audit procedures.

Dimension 2: Financial audit team management and skills

- 4.105 ISSAI 200 also sets out the professional competencies and skills that the audit team must have to carry out an audit to a sufficiently high standard. Audit New Zealand has a system to

ensure that the engagement team has the appropriate competencies and capabilities. This system is contained in the Audit New Zealand Leadership Framework, which outlines the competencies required at each level, from Assistant Auditor 1 to Audit Director. Audit New Zealand's professional development training programme also links to this competency framework. The Audit New Zealand Performance Planning and Review Policy is used to monitor staff performance against the competencies in the Leadership Framework.

- 4.106 The Leadership Framework addresses all areas that are considered fundamental skills, knowledge, and expertise.
- 4.107 The Office supports all audit service providers to supplement their in-house training programmes. This is done by issuing annual sector briefs that provide information about sector-specific issues and risks for auditors, and specific training where appropriate.
- 4.108 Audit New Zealand also provides guidance in its Audit Manual on developing the audit strategy and audit plan, evaluating the internal control environment, and assessing the risk of material misstatements.

Dimension 3: Quality control in financial audit

- 4.109 The auditing standards require the reviewing of less-experienced team members' work. In the case of Audit New Zealand, its Quality Control Manual has specific review procedures to support the reviewing. The Office also has a technical team providing support to all appointed auditors. This is a supplementary resource to the technical support functions operated by each audit service provider. Audit New Zealand has an expert technical team as part of its Professional Practices Group (PPG). These technical services enable auditing and financial reporting standard requirements on complex and contentious matters to be met. They also help resolve any technical disagreements in the engagement team.
- 4.110 The Auditor-General's Statement on Quality Control (AG PES 3) sets out the requirements for engagement quality control review (EQCR), and when these additional review procedures must be carried out. Appointed auditors must follow these policies. This standard also sets out the requirements for clearance of audit reports, including clearance by the Auditor-General of non-standard audit reports. Audit New Zealand's Quality Control Manual has processes to be followed by the audit team before progressing a non-standard audit report through the Auditor-General's Opinion Review Committee process.

SAI 9 Conclusion

- 4.111 The Office, in the approach of the OAG to support appointed auditors and policies and procedures in place within Audit New Zealand, meets all of the ISSAI standards and best practice requirements in relation to financial audit standards and policies, audit team management and skills, and audit quality control systems.

SAI 10: Financial audit process

- 4.112 The OAG's QA programme assigns appointed auditors a grade ("excellent", "very good", "good", "satisfactory" and "re-review") after reviewing a sample of their work every three years. In 2015/16, 97% of appointed auditors were graded at least "satisfactory" (up from 95% in 2014/15). The 3% who were graded below satisfactory were school auditors working in small auditing firms. This shows that the standard of financial audits performed on behalf of the Office is high.
- 4.113 The most recent independent assessment of Audit New Zealand's audit practice was the New Zealand Institute of Chartered Accountants' Practice Review in 2012. The next review is currently in progress, along with a Financial Markets Authority's quality review. Because the most recent assessment was not in the last three years, all dimensions in SAI-10 can only be scored a maximum of three.

Dimension 1: Planning financial audits

- 4.114 In 2014/15, the OAG's QA programme found that financial audits are generally well planned and in accordance with good practice. There are, however, exceptions:
- Auditors' work on understanding the public entity is not always done in a focused and purposeful way. Evidence of understanding of the public entity and its environment was sometimes insufficient, both in quality and extent, and the link to audit planning unclear.
 - On many school audit files, appointed auditors tested the implementation of key controls by enquiry alone, rather than through observation and inspection.
 - Some weaknesses were identified in controls' testing. Some audit procedures claiming to test the operational effectiveness of controls were tests of detail. Sample sizes for control tests were often too small or did not cover the entire period. Where controls testing identified exceptions, auditors sometimes concluded that controls were reliable without explaining the basis of their judgment. They did not also assess whether there was an increased risk of fraud.
 - Some auditors did not adequately consider material accounting estimates and assess their risks of material misstatement at the planning stage of the audit, including evaluating the degree of estimation uncertainty associated with accounting estimates, and determining whether high estimation uncertainty gives rise to significant audit risks.
 - Some auditors did not sufficiently cover the risk of management override of controls and the risk of fraud in revenue recognition as part of their audit risk assessment and planning.
- 4.115 The planning of the 2014/15 FSG audit met all relevant ISSAI criteria.

Dimension 2: Implementing financial audits

- 4.116 The OAG's QA programme (2014/15) found that financial audits are generally well implemented and in accordance with good practice. There are, however, the following exceptions:
- The QA team noted weaknesses in how some analytical review procedures were designed and conducted.
 - Sampling was not always done in accordance with the Audit Service Provider's methodology and the requirements of ISA (NZ) 530. Sample sizes for testing journals, in particular, varied significantly and were often too small. The rationale for sample sizes and selecting items for testing was not always documented on the audit file. Where exceptions were found in sample testing, the appointed auditor's response to misstatements identified was often insufficient and poorly documented.
 - ISA (NZ) 540 requires auditors to carry out specific audit procedures when auditing material estimates. These requirements were not met on some audits, in particular:
 - retrospective review of the outcome of accounting estimates included in the prior period financial statements and, where applicable, their subsequent re-estimation for the purpose of the current period;
 - determining whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether any changes are appropriate in the circumstances;
 - assessing management's consideration of whether the accounting estimate is consistent with the operational plans of the entity;
 - where management's expert is used for estimates, assessing the expert's objectivity and competence; and
 - specified additional procedures where an estimate or fair valuation represents a significant audit risk.
- 4.117 The implementation of the 2014/15 FSG audit was found to be in line with good practice. We found it difficult to confirm that all planned audit responses to identified fraud risks had been performed, as the planning document was not cross-referenced to where the work was done. However, we were able to locate the relevant pieces of audit work in the audit file and confirmed that the identified fraud risks had been adequately addressed. Documentation could be improved in this area.

Dimension 3: Evaluating audit evidence, concluding and reporting in financial audits

- 4.118 The OAG's QA programme (2014/15) found that financial audits are generally well recorded in audit documentation, misstatements were evaluated in accordance with good practice,

conclusions were well supported, and the auditors properly reported their findings to management, those charged with governance, and the OAG.

SAI 10 Conclusion

- 4.119 Overall, the financial audit work of the Office substantially meets the criteria to score at the highest level within the PMF. However, as Audit New Zealand has not been subject to an independent quality review since 2012, the maximum score we can give is three. An NZICA practice review is currently in progress, along with a Financial Markets Authority's quality review. There are a number of areas where practice, in particular the schools sector and some appointed auditors, needs to improve. These areas are subject to ongoing monitoring by the Office's quality assurance programme and Audit New Zealand's internal quality assurance system, including its Audit Quality Improvement Programme.

SAI 11: Financial audit results

- 4.120 It is important that the auditor communicates the audit results with the public entity and other relevant stakeholders in a timely way, and follows-up on audit findings and recommendations so that the auditor's work can achieve its greatest value.

Dimension 1: Timely submission of financial audit results

- 4.121 The focus of this dimension is on reporting the auditor's opinion. The Office achieves the highest score against the criteria. The Annual Report of the Office reports on the timeliness of audit opinions. This measure includes the timely delivery of the draft financial statements and supporting information by the public entity, and timely completion of the audit by the appointed auditor.
- 4.122 In 2015/16, 76% of audit reports were signed within the statutory time frame compared to 83% in 2014/15. Schools transitioning to new accounting standards, and the ongoing delayed production of year-end payroll reports, contributed to the late completion of school audits and, consequently, to the decline in 2015/16. However, timeliness overall has improved since 2012/13.
- 4.123 Another measure of the auditor's timely delivery included in the Office's Annual Report is the percentage of audit reports not signed within the statutory time frame due to auditor inaction. The target for this area is less than 30% but performance was ahead of this target at 7% for the 2015/16 year.

Dimension 2: Timely publication of financial audit results

- 4.124 In some jurisdictions, the SAI has the mandate to publish its audit reports. In New Zealand, the Auditor-General does not have a mandate to make the audit report available to the public; instead responsibility for publication rests with the public entity. The pieces of

legislation governing the accountability arrangements of public entities set the publication timelines soon after providing the audit report to the public entity. Although the Office does not publish its audit reports, the Office's annual report provides information summarising audit results, as does other sector-based reporting.

Dimension 3: SAI Follow-up on implementation of financial audit observations and recommendations

- 4.125 ISSAI 10 and ISSAI 20 recommend that a SAI should have a process for following-up on the observations and recommendations made to audited entities. However, the New Zealand auditing standards do not specifically require auditors to follow-up and report on whether audited entities have addressed recommendations. As a result, this is not formally monitored by the Office's quality assurance processes, nor is it reported on publicly or to the legislature.
- 4.126 However, as standard procedure, appointed auditors monitor the entities' responses to their recommendations. In the case of Audit New Zealand, this practice is built into audit processes, and following-up on recommendations is part of the management report template. The public entity has the opportunity to comment on corrective action taken or explain why it has not been taken.
- 4.127 The Office reports in its Annual Report a performance measure that seeks to assess the acceptance of recommendations and action taken by public entities. In 2014/15, 73% of recommendations were accepted by public entities. This is based on a small sample of audits as this is not monitored throughout the Auditor-General's mandate on a systematic basis.
- 4.128 The Office does not formally monitor or report on the follow-up by entities of recommendations made to them by other agencies.

SAI 11 Conclusion

- 4.129 The timeliness of Financial Audit reporting is achieved to a high standard. This is due to a robust statutory framework for the delivery of financial statements for audit, as well as a strong performance by the Office. There is no process for the Auditor-General to monitor the response of audited entities to the auditors' recommendations. However, monitoring does occur at the public entity level.

SAI 12: Performance audit standards and quality management

Dimension 1: Performance audit standards and policies

- 4.130 ISSAI 300 sets out the fundamental principles of performance auditing. It is critical that the SAI has policies and procedures in place to assist its auditors to interpret the more generic

standards in the context of its environment. Our review found that the New Zealand Performance Audit Manual has all the key elements of the performance audit process set out in the relevant ISSAIs and establishes policies and procedures that meet all the requirements, with one exception.

- 4.131 The ISSAIs recommend that the auditor should consider the approach of the audit: being a result, problem, or system-oriented approach. The Office's Performance Audit Manual does not include a requirement to consider the type of audit approach at the design planning stage.

Dimension 2: Performance audit team management and skills

- 4.132 The Office has established a training and professional development system to ensure that performance auditors have the necessary knowledge, skills, and expertise required for conducting a performance audit. This includes an understanding in research design, social science methods, investigation and evaluation techniques, government organisations, programmes, and functions. Furthermore, performance auditors need to have strengths in analysis, writing and communication, and the ability and experience to exercise professional judgement.
- 4.133 The Office also ensures the training and professional development programme supports the performance auditor to develop their professional skills.
- 4.134 There are no requirements of the ISSAIs that are not in place.

Dimension 3: Quality control in performance audit

- 4.135 The Performance Audit Manual requires a quality control review throughout the performance audit process. These requirements are designed to build quality, promote learning, and improve personal development. It also ensures quality and assists with resolving difficult or contentious matters and differences of opinion. The quality control process also ensures all quality control review work is satisfactorily resolved before formal authorisation of the report is issued.

SAI 12 Conclusion

- 4.136 There are robust performance standards and policies in place, documented in the Performance Audit Manual. There is a system to ensure that all performance auditors are well trained and have the appropriate professional competencies and skills to perform their work. The quality control system over performance audits is robust. Refinements and improvements are made on an ongoing basis.

SAI 13: Performance audit process

Dimension 1: Planning performance audits

- 4.137 We found that the planning of performance audits met best practice requirements. However, in the areas below we identified inconsistent practice or lack of evidence of compliance with the aspects of planning considered critical in the ISSAIs:
- Materiality should be considered at all stages of the audit process, considering both financial materiality but also social and political significance.
 - The audit objective should be clearly defined and should relate to the principles of economy, efficiency, and effectiveness.
 - The auditor should identify the audit approach as being result, problem, or system-oriented or a combination of these, to facilitate a sound audit design approach.
 - The auditor should establish criteria that correspond to the audit question and are related to the principles of economy, efficiency, and effectiveness.
 - Audit criteria should be discussed with the audited entities, although the ultimate responsibility to select suitable criteria rests with the auditor.
 - Assessment of the risk of fraud.
 - Evaluation of whether, and in what areas, external expertise is required and, where needed, the necessary arrangements to facilitate sourcing the expertise.

Dimension 2: Implementing performance audits

- 4.138 Our review found that all the performance audits in our sample were in accordance with ISSAI requirements and best practice. However, we can only give the score for this dimension a maximum of three because no independent assessment of the performance audit function has been conducted in the last three years.

Dimension 3: Reporting in performance audits

- 4.139 We found that the reporting of performance audits aligned with best practice requirements. However, in the following areas we identified inconsistent practice or lack of documented evidence of compliance required by the ISSAIs:
- The audit reporting includes findings on the economy, efficiency, and effectiveness with which the audit objectives are met.
 - The audit reporting should include information about the audit criteria.
 - The audit reporting should state which standards have been applied in completing the audit.

SAI 13 Conclusion

- 4.140 There has not been an independent assessment of the Office's performance audit practice in the last three years. Other than this requirement, the implementation and conduct of performance audits meets all of the criteria. However, there are aspects of planning and reporting where the criteria are either not completed or are not adequately documented in the audit files. This inconsistency is primarily attributed to the Office's broad and flexible approach to performance auditing. This means that, in some cases, the Office's reporting provides an overview and observations on a subject matter area and, therefore, a number of the ISSAI audit criteria are not relevant to its audit approach.

SAI 14: Performance audit results

Dimension 1: Timely submission of performance audit reports

- 4.141 Based on ISSAI 20, the recommended time frame for submission of performance audit reports is within 30 days of completing the audit. In New Zealand, performance audit reports are tabled in Parliament and publicly released immediately on completion.

Dimension 2: Timely publication of performance audit reports

- 4.142 ISSAI 300 emphasises the importance of making performance audits widely accessible, including to the general public. In New Zealand, the reporting and publication of performance audit reports happens at the same time. Immediately following the report being tabled in Parliament, it is published on the Office's website and hard copies are distributed to relevant parties and made available on request.

Dimension 3: SAI Follow-up on implementation of performance audit observations and recommendations

- 4.143 Performance audits are subject to follow-up procedures. The specific nature of the follow-up is considered on a case-by-case basis. It can range from no formal follow-up to a self-assessment by the public entity or a full follow-up audit. This decision depends on how significant the issues and the findings were in the first audit. Where relevant, the follow-up report states the corrective actions taken by the public entity. Regardless of the extent of the follow-up audit, public entities have the opportunity to provide information on the corrective actions taken or explanations why they were not taken.
- 4.144 Follow-up reports are all tabled in Parliament, published on the Office's website, and made available to the public. They are usually standalone reports but are sometimes published in a consolidated follow-up report.

SAI 14 Conclusion

- 4.145 Performance Audit results are reported and published in a timely manner and made widely available. Follow-up reports are completed appropriately.

SAI 15: Compliance audit standards and quality management

Dimension 1: Compliance audit standards and policies

- 4.146 Auditors carrying out compliance audits on behalf of the Auditor-General must apply the relevant standards issued by the XRB as well as the Auditor-General's standards and general policies. The relevant XRB standards are ISAE (NZ) 3000 and SAE 3100. The relevant Auditor-General's standard is AG 5: *Performance audits, other services and other work*. The key criteria of ISSAI 400 are all covered in these standards and policies.
- 4.147 The Office has not established any additional policies and procedures related to the implementation of a compliance audit (to cover matters such as the application of professional judgement relating to materiality levels, and the requirements for audit documentation and the nature, timing, and extent of audit procedures), although documentation requirements set out in AG 5 apply to all other services carried out by appointed auditors.

Dimension 2: Compliance audit team management and skills

- 4.148 We found that the Office does not have a process to ensure that the necessary compliance audit training takes place regularly. As a result, the following key elements of the recommended training system are not in place:
- The understanding and practical experience of the type of audit being undertaken.
 - The understanding of the applicable standards and authorities.
 - The ability and experience to exercise professional judgement.
- 4.149 In practice, the necessary professional competencies and skills are passed to auditors while they are completing compliance audits. However, there is no official training for this work.
- 4.150 The OAG issues sector briefs annually to guide the performance of audit work. For sectors that require compliance audits (such as tertiary education, local government, and energy) the brief includes the mandate and the criteria for evaluating audit evidence, developing audit findings, and concluding. Standard audit reports for regularly completed compliance audits are provided. However, no specific guidance is provided on:
- determining the elements relevant to the level of assurance to be provided;
 - approaches to considering the relevant dimensions of audit risk;

- understanding the control environment and the relevant internal controls and assessing the risk that internal controls may not prevent or detect material instances of non-compliance;
- assessing fraud risk factors and exercising due care and caution when coming across instances of non-compliance, which may be indicative of fraud;
- determining the nature, timing, and extent of audit procedures to be performed;
- developing the audit strategy and audit plan; and
- gathering sufficient appropriate audit evidence to provide a basis for concluding and providing an opinion.

Dimension 3: Quality control in compliance audit

- 4.151 It is essential to ensure that each audit product is of high quality, therefore quality control should be part of the compliance audit process. The key criteria of ISSAI 400, relating to quality control, are covered by the standards and policies the Office requires its appointed auditors to follow (referred to in dimension 1 above). In most cases, they are also covered by the Audit New Zealand Quality Manual that guides the audit work carried out by Audit New Zealand.

SAI 15 Conclusion

- 4.152 Standards and policies and the quality control approach for compliance audits are appropriate, as they are based on international standards and the Auditor-General's Auditing Standards. However, there is no process to ensure that the compliance audit team collectively possess the competencies and skills necessary to do these audits. In practice, auditors receive the required competencies and skills by doing financial audits, but there is no corporately administered training for compliance audit work.

SAI 16: Compliance audit process

Dimension 1: Planning compliance audits

- 4.153 We found that the planning of compliance audits met best practice requirements. However, in the following areas we identified inconsistent practice or lack of recorded evidence of compliance:
- considering audit risk throughout the audit process;
 - considering materiality at all stages of the audit process;
 - identifying the subject matter and suitable audit criteria based on the applicable authorities as a basis for evaluating audit evidence;
 - understanding the public entity in light of the authorities governing it; and
 - assessing the risk of fraud.

Dimension 2: Implementing compliance audits

- 4.154 For the audits in our sample we found auditors had appropriately determined the nature, extent, and timing of audit procedures to be performed and all planned audit procedures were performed. If they were not performed, the change in plan was adequately explained and approved.
- 4.155 None of the audits we reviewed met the requirement to gather sufficient and appropriate audit evidence for the conclusion or opinion. In most audits sampled, there were shortcomings in the evidence on the audit files.
- 4.156 The requirements of the ISSAI to exercise professional care and caution when fraud is detected during the audit, and relating to the use of the work of external experts, were not relevant to any of the audits in our sample; therefore, these criteria were not rated.

Dimension 3: Evaluating audit evidence, concluding and reporting in Compliance Audits

- 4.157 We found that the reporting of compliance audits met best practice requirements.

SAI 16 Conclusion

- 4.158 We identified a mix of strengths and weaknesses in the planning of compliance audits, with no particular trend in the compliance audit types we sampled. However, there were consistent weaknesses in gathering and documenting audit evidence for all compliance audits. The evaluation, concluding, and reporting on compliance audits meets all the criteria of the relevant ISSAIs.

SAI 17: Compliance audit results

Dimension 1: Timely submission of compliance audit results

- 4.159 The Office has no system for collating information about the timeliness of compliance audit report submissions. As a result, the data to make a formal assessment on this dimension is not available. The Office is aware of this issue and is considering solutions. Therefore, this dimension has not been rated. However, we are aware that, generally, these audits and reviews are completed within the time frames set by the applicable regulations or requirements.

Dimension 2: Timely publication of compliance audit results

- 4.160 As with financial audits (SAI 11), the Auditor-General does not have a mandate to publish the audit report. Responsibility for publication rests with the public entity. The legislation governing the accountability arrangements of public sector entities sets timelines for publication soon after providing the audit report to the public entity. These requirements may

or may not also apply to compliance audit reports, depending on their nature. Therefore, this dimension has been assessed as not applicable.

Dimension 3: SAI Follow-up on implementation of compliance audit observations and recommendations

- 4.161 As with SAI 11, the New Zealand auditing standards do not specifically require auditors to follow-up and report on whether audited entities have addressed their recommendations. As a result, this is not formally monitored by the Office's quality assurance processes nor is it reported on publicly or to the legislature.
- 4.162 However, as a standard procedure, appointed auditors follow-up on the audited entities' responses to recommendations. In the case of Audit New Zealand, this practice is built into audit processes and follow-up is in the management report template. The public entity is provided the opportunity to comment on corrective action taken or explain why it has not been taken.
- 4.163 We note that in the Debenture Trust Deed and PBRF, compliance work management reports are not issued given the nature of the compliance being assessed. Management reporting for such engagements is not required by SAE 3100 and ISAE (NZ) 3000.
- 4.164 The results of compliance audits are not reported in the Office's Annual Report.

SAI 17 Conclusion

- 4.165 The timeliness of the completion of compliance audits is not tracked, so it is unable to be measured. There is no requirement in the New Zealand auditing standards to publish compliance audit reports. There is also no specific requirement for follow-up, although it does happen in practice. There is no formal external reporting on compliance audit work in the Office's Annual Report. This is reflective of the small part of the total audit work of the Office that is compliance audit.

Domain D: Financial management, assets, and support services

- 4.166 Principle 6 of ISSAI 20 requires a SAI to manage its operations economically, efficiently, effectively, and in accordance with laws and regulations. Each SAI should have appropriate organisational management and support structures so it can implement and apply good governance processes. Therefore, a SAI must apply good management practices, including appropriate internal controls over its financial management and operations.

Indicator	Domain	Dimensions	Score	Overall score
D. Financial Management, Assets and Support Services				
SAI-22	Financial Management, Assets and Support Services	(i). Financial Management (ii). Planning and Effective Use of Assets and Infrastructure (iii). Administrative Support Services	(i) 4 (ii) 3 (iii) 3	3

SAI 22: Financial management, assets, and support services

Dimension 1: Financial management

- 4.167 The internal control environment of a SAI should provide assurance that its resources are safeguarded against loss due to waste, abuse, mismanagement, errors, fraud, or other irregularities. It should also provide assurance that the SAI adheres to laws, regulations, and management directives, and develops and maintains reliable financial data.
- 4.168 The Office has a clearly defined organisational chart that sets out the staff roles in the Finance Department. This is supported by detailed job descriptions for each role and a delegations schedule. Although there is currently no delegations policy, the delegations schedule effectively performs this function. The intranet provides staff guidance on the financial systems, along with a full suite of financial policies.
- 4.169 The finance staff are able to meet the requirements of the various roles set out in the department's job descriptions. On-going training is provided to maintain the currency of their skills. There is a comprehensive financial management system used to capture and record financial transactions, including a linked (soon to be integrated) timesheet-based cost recording system. Performance information is captured in a number of systems and collated annually before reporting in the Office's annual report.
- 4.170 The budget preparation timetable sets out the responsibilities for the preparation of the budget and the required timeline. There has been no significant deviation from budgets in the last three years.
- 4.171 The Office publishes an Annual Report each year in accordance with the accounting standards and legislation. This report includes financial and non-financial reporting and is subject to external audit. The Annual Report and associated audit report are tabled in Parliament and published on the Office's website. The audit report has been, and remains, a standard audit report with an unmodified opinion. The auditor's management report included a number of recommendations, which have all been addressed and cleared promptly.

Dimension 2: Planning and effective use of assets and infrastructure

- 4.172 The Office's risks and responsibilities in relation to the ownership of significant infrastructure is limited as all of its premises are leased. The Office does not have an accommodation strategy; lease renewals are when re-evaluation of premise size and location needs to take place. Despite the comprehensive evaluation processes that have been carried out to consider safety, commuter impacts, and cost-benefit business cases, it is acknowledged that having an overarching strategy would improve the robustness and transparency of these processes.

- 4.173 The Office owns significant Information Technology (IT) infrastructure and assets. These assets are managed by an Information Systems Strategic Plan that sets out to meet the information service needs of the Office over the three years from 2014. This is supported by an Information Services Group Annual business plan. The achievement of the IS Strategic Plan is monitored by the Combined Leadership Team on a regular basis to ensure the service provided by IT assets continue to adequately meet the business needs.
- 4.174 When necessary, Parliament has been notified of infrastructure issues through the Office's annual reporting. For example, after the 2011 Canterbury earthquakes the Office reported deficiencies in the available temporary accommodation.
- 4.175 The Office has adequate and appropriate arrangements for the retention of records, both physical and digital. However, the offsite physical records storage contract has expired and has yet to be formally renewed.

Dimension 3: Administrative support services

- 4.176 The Office has qualified people assigned to handle the oversight and maintenance of IT and leased assets such as premises, vehicles, and printing and copying machines.
- 4.177 The Chief Information Officer (CIO) role and the Service Desk Manager role are clearly defined in the position descriptions and qualified people hold these roles. The responsibility for file management and archiving is also assigned to a qualified person.
- 4.178 INTOSAI GOV 9100 recommends that all administrative support functions should be reviewed every five years. Although a review of the IS/IT function was completed in 2012, resulting in the creation of the CIO role, other administrative services have not been subject to comprehensive review at the frequency recommended. However, reviews of specific functions have been completed as necessary.

SAI 22 Conclusion

- 4.179 The Office has robust financial management systems and reports on financial and non-financial results in a timely and transparent manner. There is an IS Strategic Plan in place to guide the management of the Office's significant IT infrastructure. The strategy is monitored regularly. However, there is no overarching strategy in place for the management of the Office's remaining physical infrastructure. The risk, however, is somewhat mitigated because the Office's premises are leased. Lease renewals prompt the evaluation of size and location needs. The Office records are adequately and appropriately stored. However, the contract for the physical records storage has not been actively managed.
- 4.180 The key administrative and support services roles are filled by qualified people. However, regular review of support functions does not happen with sufficient frequency.

Domain E: Human resources and training

- 4.181 The Lima Declaration (ISSAI 1) recognises that an effective SAI is dependent on its capacity to recruit, retain, and effectively deploy highly-skilled, hard-working, and motivated staff. ISSAI 40 acknowledges the importance of effective human resources management in achieving service excellence and quality. It also emphasises the need for human resource policies and procedures to adequately deal with qualifications and ethics.
- 4.182 This domain considers the Office's performance in the management and development of human resources. It looks at the Office's overall strategic approach, and the policies and practices used to implement this strategy.

Indicator	Domain	Dimensions	Score	Overall score
E. Human Resources and Training				
SAI-23	Human Resources Management	(i). Human Resources Function (ii). Human Resources Strategy (iii). Human Resources Recruitment (iv). Remuneration, Promotion and Staff Welfare	(i) 4 (ii) 0 (iii) 4 (iv) 4	3
SAI-24	Professional Development and Training	(i). Plans and Processes for Professional Development and Training (ii). Financial Audit Professional Development and Training (iii). Performance Audit Professional Development and Training (iv). Compliance Audit Professional Development and Training	(i) 3 (ii) 4 (iii) 4 (iv) 1	3

SAI 23: Human resource management

Dimension 1: Human resources function

- 4.183 A strong human resources management team is key to a successful human resources function. The Office's human resources team is responsible for the management of all human resources issues in the whole Office. The human resources team have all the skills, experience, and resources to do the roles required. The attributes are in the team roles' job descriptions.
- 4.184 The job descriptions set out all the responsibilities of the team and include recommendations by the INTOSAI Capacity Building Committee Human Resources Manual Guide:
- development and maintenance of human resources strategy and policies;
 - development and maintenance of a competency framework;
 - ability to provide guidance and consultancy on human resource related matters;
 - maintenance of performance evaluation appraisal system;
 - scheduling of professional development; and
 - maintenance of personnel files.

Dimension 2: Human resources strategy

- 4.185 It is important to have a human resources strategy to guide the approach to human resources management. The strategy should include recruitment, remuneration, performance appraisal, and professional development. It should also consider the number and type of staff required, and provide baselines and indicators for turnover, vacancies, sickness rates, and other relevant matters. The strategy should be given to all staff, monitored annually, and be reviewed and updated. Although the Office does not have an overall human resources strategy, there is one under development along with a workforce development plan. Audit New Zealand has completed some workforce planning.
- 4.186 The human resources annual business plan covers recruitment, remuneration, performance appraisals, and professional development. It sets some performance objectives and measures, but does not provide any baselines or targets. Turnover rates and vacancies are tracked through the Organisational Business Plan.

Dimension 3: Human resources recruitment

- 4.187 The Office carries out recruitment based on its recruitment policy, which outlines the procedures to be followed. These procedures are made clear and are publicly available. Recruitment is based on the Office's identified needs, which can be a result of vacancies or an analysis of movement projections and future needs. Job advertisements include a description of the skills and experience needed for the role.

- 4.188 The Office recruits on merit. However, advertising used for recruitment purposes promotes the diversity of the current staffing complement and the desire to maintain this diversity. The recruitment policy requires all interviews to be done by a panel of at least two people, including the recruiting manager. Additional resources are used in the Office as needed, particularly by Audit New Zealand during peak times. Contracts are entered into with audit service providers to use such staff. Additional staff are integrated with Audit New Zealand teams to ensure appropriate supervision and quality control standards are maintained. Feedback on performance is provided to the audit service providers.

Dimension 4: Remuneration, promotion, and staff welfare

- 4.189 The Office has a performance appraisal process for all staff every six months. The appraisal includes a review against the job description and annually established performance goals. In the case of Audit New Zealand, staff are assessed against the Leadership Framework and relevant aspects of the current year's Annual Plan goals. Remuneration is based on the Remuneration and Benefits Policy, which includes regularly updated market information. Promotions are in accordance with the Office policy and occur when a staff member has developed the higher level skills, or through a recruitment process where a staff member applies for a vacancy.
- 4.190 Staff welfare is primarily managed through the Health and Safety Policy, which is available on the intranet. The policy has recently been revised to align with new legislation and an extensive staff consultation process. An annual survey provides the opportunity for staff to express their views on workplace culture. There are also other surveys carried out periodically. There is evidence of action taken by management to respond to the survey results.

SAI 23 Conclusion

- 4.191 The Human Resources Function is appropriately resourced and maintains the recommended SAI human resource processes. There are sound policies in place to manage recruitment, remuneration, promotion, and staff welfare. A human resources strategy and workforce development plan is in development.

SAI 24: Professional development and training

Dimension 1: Plans and processes for professional development and training

- 4.192 ISSAI 40 requires each SAI to have in place policies and procedures to provide reasonable assurance it has the competence, capabilities, and commitment to ethical principles to carry out its work and it is able to issue appropriate audit reports. Professional development and training plans contributes to individual, team, and organisational excellence. Although the Office does not have a single document that sets out the professional development and

training plan, it does have an induction process for new staff, whether they are interns, graduates, or other new appointments.

- 4.193 Audit New Zealand's professional development approach is different from the OAG/CST's approach. At Audit New Zealand, the programme is a progression from junior to senior grades, with grade-specific training set out in the Professional Development programme and module training matrix. The programme covers technical, ethical, and soft skills training, and is targeted to the level of experience. Staff can also request additional training through their annual individual development plan.
- 4.194 Audit New Zealand also offer specialised training such as the Aspiring Managers programme. There are also local office and sector specific training programmes to reinforce national training programmes and address local issues.
- 4.195 The OAG and CST professional development programme is more strongly linked to individual needs. They are identified through the individual development plan and reflect the broader range of professions, skill sets, and levels of experience in this part of the Office. In some instances, when development opportunities cannot be extended to all staff an "expression-of-interest" process identifies the staff that would obtain the greatest value from the opportunity. Setting annual performance goals and individual development plans is compulsory and is linked to the performance appraisal system.
- 4.196 The Office's Strategy includes having capable staff. However, there is no explicit link between this goal and the professional development and training programmes. There is no Human Resources Strategy currently in place and there is no overall learning and development plan for the OAG. The professional development and training of non-professional staff lacks structure. There is room to improve post-training evaluation in order to see the impact of the professional development and training programmes.

Dimension 2: Financial audit professional development and training

- 4.197 Audit New Zealand has an effective and structured financial audit professional development and training programme. The programme is the responsibility of the General Manager - Professional Practices, and is based on the competency requirements set out in the Audit New Zealand leadership development framework. The training programme also covers internal standards and procedures, uses formal and on-the-job training approaches, and meets the requirements of the Chartered Accountants Australia and New Zealand academic and professional training programmes. It also continues professional development requirements.

Dimension 3: Performance audit professional development and training

- 4.198 The Office has an effective and structured performance audit professional development and training programme. Responsibility for the programme rests with the Assistant Auditor-General - Performance Audit. The competency requirements at each level are set out in the job descriptions and tailored, where needed, through the individual development plan process. The programme is particularly detailed at the Assistant Performance Auditor level. The performance audit development framework, which is part of the Performance Audit Learning and Development Plan, is being updated for the Assistant Performance Auditor level and is due for completion at the beginning of 2017. The Learning and Development Plan ensures that staff are trained to apply the methodology and meet the requirements of the relevant New Zealand and international auditing standards. The approach to learning and development includes an appropriate mix of training programmes and on-the-job learning.

Dimension 4: Compliance audit professional development and training

- 4.199 There is no effective professional development and training programme to address the specific skills and competencies required for a compliance audit in the Office. The Audit New Zealand leadership development framework addresses some of the relevant competencies, but there is no programme specifically tailored to compliance audit work to ensure that quality standards are maintained.

SAI 24 Conclusion

- 4.200 The overall professional development and training framework is robust although, due to the lack of an overall Human Resources Strategy, it is not well linked to the Office's staff capability goals in the Office Strategy. Responsibility for the financial and performance auditor programmes is assigned to qualified people. The programmes are well linked to the individual development plan assessment and performance appraisal processes.
- 4.201 There is a lack of structure around the training of non-professional staff and for auditors who are required to complete compliance audits. There is room to improve post-training evaluation and monitoring.

Domain F: Communication and stakeholder management

- 4.202 ISSAI 12 identifies that one of a SAI's main objectives is to demonstrate its relevance to its stakeholders. In order to achieve the goal of communicating the value and benefits of the SAI's work, it is important to identify the relevant stakeholders and establish and maintain good working relationships with them. Using appropriate language and format in communications and stakeholder management is critical to the SAI's effectiveness.

Indicator	Domain	Dimensions	Score	Overall score
F. Communication and Stakeholder Management				
SAI-25	Communication with the Legislature, Executive and Judiciary, Prosecuting and Investigating Agencies	(i). Communications Strategy (ii). Good Practices regarding Communication with the Legislature (iii). Good Practices regarding Communication with the Executive (iv). Good Practices regarding communication with the Judiciary, prosecuting and investigating agencies	(i) 3 (ii) 4 (iii) 4 (iv) Not rated	4
SAI-26	Communication with the Media, Citizens and Civil Society Organisations	(i). Good practices for communication with the Media (ii). Good practices regarding communication with Citizens and Civil Society Organisations	(i) 3 (ii) 4	3

SAI 25: Communication with the legislature, executive and judiciary, prosecuting, and investigating agencies

Dimension 1: Communications strategy

- 4.203 The Office has a Communications Strategy that was established in 2011 and intended to be reviewed in 2014. The review of this Communications Strategy is ongoing and, although not fully completed, has resulted in a number of changes to the overall communications approach. The Communications Strategy is aligned to the Office's Strategy goals. In addition to the overall Communications Strategy, the Reports and Communications Team Business Plan captures the goals of the strategy and the current year's focus areas. These are complemented by the Office product communications plans, which are developed and tailored to the specific needs and goals of each report and significant public event. These set out the specific stakeholders, the key messages of the product, and the best approach to communicating with the relevant stakeholders.
- 4.204 The Communications Strategy has not yet been communicated across the Office, because the review is incomplete. The proposed approach for monitoring the strategy is quarterly reporting to the Combined Leadership Team. External views on the quality of the Office's communications are obtained as part of the annual stakeholder and client surveys. In 2014, some research was carried out to gain an understanding of the views and knowledge of the public about the Office and its functions.

Dimension 2: Good practices regarding communication with the legislature

- 4.205 Section 20 of the Public Audit Act 2001 requires the Auditor-General to report their work to the House of Representatives at least once a year. The annual results reports on Central Government and Local Government audits, supplemented by additional, and more detailed, sector reporting on a cyclical and issues-focused basis. These reports are at a high level and reflect the themes and trends of annual audit work, specific investigations, performance audits, and interactions of Office staff with audited entities and stakeholders.
- 4.206 The Office also provides briefings to select committees on the central government entities they select for annual review. Letters are sent to responsible Ministers and summarise the results of selected central government entities audited. Where an entity is not selected for annual review, the ministerial letter is provided to the relevant Committee. When requested by select committees, the Office assists with investigations and consideration of changes to laws.
- 4.207 An agreed code of practice governs the communications and interactions of the Office with Parliament. There are quality control processes that are also followed. For the staff

responsible for communications with Parliament, the responsibilities and performance expectations are included in their job descriptions.

- 4.208 In order to ensure that Parliamentarians understand the role of the Auditor-General, a briefing session is provided after the formation of each new Parliament. The Office publishes a document called *The Members of Parliament Guide to the Auditor-General*. The role and mandate of the Office is also regularly explained in other reports and on the website.
- 4.209 The Office sets various performance goals to ensure communications with Parliament happen in a timely manner and are aligned to the reporting timelines of the House and select committees. All annual review briefings are provided to the select committee a minimum of 48 hours before the briefing session in order to be scrutinised by the committee. This performance target is publicly reported in the Office's Annual Report and has been consistently achieved at 100%.
- 4.210 A regular stakeholder survey measures satisfaction with the communications of the Office with Parliament. The survey includes interviews with select committee chairs and several senior public managers. In 2016, the following summary was provided in the report of the external survey company:

... The committee chairs were uniformly positive about the role of the Office of the Auditor-General in helping Parliament hold public sector agencies to account. They were complimentary about the quality and usefulness of the OAG's reports and services, the capability and level of understanding of its staff and the professionalism and effectiveness with which OAG staff engage with committee chairs and members.

Dimension 3: Good practices regarding communications with the executive

- 4.211 It is important that the Office raises awareness among the executive and audited entities of the importance of good governance in the public sector. Much of this communication occurs directly with the public entity and this is addressed in Domain C. However, reporting more broadly to the executive needs to happen to ensure that there are strong mechanisms to encourage an appropriate response and follow-up of audit findings. The integrity and independence of audit work from the management of the public entity is critical. In New Zealand, this is governed by the Public Finance Act 1989 and covered by the New Zealand auditing standards and the Auditor-General's Auditing Standards. These set clear requirements on auditors to maintain independence from the management of audited entities.
- 4.212 To assist audited entities in understanding the audit process, Audit New Zealand publishes information on its website. This supports the public entity's Audit Engagement letter, which sets out information about the overall audit process and the annual Audit Arrangements Letter setting out the specific areas of audit focus for that year.

- 4.213 Providing audit findings is managed through the ministerial letter and select committee annual review and briefing process for selected central government agencies. It provides information to the select committees on public entities at a detailed level. Additionally, the central government and local government annual results reports gives a wide range of sector information drawn from the annual audit work to Parliament. These reports are given to the relevant select committees for further scrutiny. The OAG staff appear before the select committees and provide briefings and respond to questions on these reports.
- 4.214 The Office seeks feedback in annual surveys of public entities and select committee chairs. The surveys cover a range of focus areas, including the quality of reporting about audit issues.

Dimension 4: Good practices regarding communication with the judiciary, prosecuting and investigating agencies

- 4.215 It is important that SAIs communicate relevant audit findings effectively with other agencies to ensure further investigation if necessary. In New Zealand, the focus of the Office is in monitoring fraud in public entities and evaluating if other agencies should be informed. The favoured approach is to encourage the public entity subject to the fraud to notify the prosecuting agencies directly. However, if the public entity does not inform appropriate authorities, the OAG decides whether the incident is significant enough to report the fraud itself. This process is described on the OAG website, and the requirement to report all fraud is contained in the Audit Engagement Agreement. There has been one recent instance where the OAG reported a fraud to a prosecuting agency.
- 4.216 The OAG maintains relationships with other agencies, such as the Serious Fraud Office, and communicates with them on a periodic to maintain a general awareness of issues, work programmes, and focus areas, and also co-operate as needed.
- 4.217 Because most of the criteria in this dimension are focused on an SAI based on the court model, no rating has been attributed to this dimension.

SAI 25 Conclusion

- 4.218 The Office has a sound communications approach managed by a good practice Communications Strategy, business plans of the responsible teams, and project plans at the product level. The monitoring of the revised communications strategy is still to be finalised and implemented. Communications processes for interacting with the legislature and the executive are well-developed and enable effective two-way communication. Communications with other agencies happen where needed in established parameters.

SAI 26: Communication with the media, citizens, and civil society organisations

Dimension 1: Good practices regarding communication with the media

- 4.219 The media is an important channel for communication with the public, therefore it must be used appropriately to circulate the results of audits. The Office does not use press conferences and media releases as standard procedure, although both have been used in exceptional circumstances. The Office liaises effectively with media before, during, and after the publication of audit results to ensure it is covering the Office's work from an informed viewpoint. Sufficient and appropriate publicity of the Office's work, including the results of audits, can reach target audiences through methods other than press conferences and media releases. The Office has a subscription system that notifies subscribers when a report is completed. Anyone can subscribe.
- 4.220 Every report that is published has a separate, short, and accessible summary. The summary is used as an alternative to press releases. The Office's approach to the media is set out in the Media Policy. Generally, the same approach is applied for each publication, however it is also tailored to address the particular risks and issues of each publication. Likewise, a group of senior staff are trained and approved to be a media spokesperson for the Office. The Office assigns a staff member for each publication based on their risk and topic expertise. The Reports and Communications team works with the spokesperson to ensure they are well prepared before any direct contact with the media.
- 4.221 An approved draft policy is currently being consulted on with staff. It is designed to provide guidance to all staff on how to manage interactions with the media and their personal use of social media.
- 4.222 The Office has a contract with an external provider to identify all media coverage related to its work. This is provided daily to relevant staff in the Office.

Dimension 2: Good practices regarding communication with citizens and civil society organisations

- 4.223 Society has an increasing awareness of the importance of holding governments to account. The Office has a role to stimulate this behaviour and therefore it needs to develop a relationship with the public and provide them appropriate and accessible information.
- 4.224 The Office has a high-quality website that complies with New Zealand's e-government guidelines. The website includes information about the Office's mandate. It also contains reports and summaries to increase accessibility to the public. The Auditor-General and the Deputy Auditor-General complete various speaking engagements with civil society groups. These events are used to raise the profile of the Office and to increase the public's knowledge about current reports, and topics such as good governance and public financial

management. “Staff as Ambassadors” is a recent initiative which is intended to encourage and equip staff to promote the work of the Office in the community. The Office acknowledges that there remain challenges to access, generating interest and effectively informing citizens about its work, and managing the audit expectation gap about the role of the Office.

- 4.225 The Office has a presence across a range of social media platforms, including a number of websites (OAG, Audit New Zealand, schools audit education site, and the Audit Blog), Facebook, Twitter, LinkedIn, Instagram and YouTube. These media platforms are used to contact journalists and promote the Office, its mandate and products and, increase the audience for its work.
- 4.226 A recent initiative has been the establishment of a citizen panel. This panel was used to inform the development of the 2016-17 work programme theme of information. The focus of work with the group was to identify gaps in information currently provided to the public and accessibility issues in the public sector. The Office intends to use the panel to inform work programme development and other projects in the future. The Office has also contacted other citizen groups, primarily through the use of surveys, to gain information for specific reports.

SAI 26 Conclusion

- 4.227 The Office has effective policies and practices in place for working with the media. Staff are appropriately equipped to be media spokespeople for the Office. Good mechanisms are in place to provide information to the media about the work of the Office and also to inform staff of media coverage. The Office endeavours to make information readily available to the public and uses multiple media platforms to achieve this. This is a challenging area but there are developing initiatives, such as increased use of the citizen panel, to enable the views of the community to be more easily heard by the Office.

Annex 1: Performance indicator summary

This annex provides a summary table of the SAI performance indicators. The table also records the criteria within each dimension that have been met and not met. For each indicator, the table specifies the scoring assigned along with a brief explanation for the scoring.

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation
A. Independence and Legal Framework				
SAI-1	Independence of the SAI	Overall score: 3		
		As a written constitution is not in place Dimension 1 cannot score higher than one. The independence arrangements established through the Public Audit Act 2001 are considered to be as strong as possible with this constitutional context and no changes to the current arrangement have been identified as necessary.		
		(i). Appropriate and effective constitutional framework	(i) Criteria c, e, g are met, criteria a, b, and d are not met. Criterion f is not applicable.	(i) 1
		(ii). Financial independence / autonomy	(ii) Criteria a to g are met.	(ii) 4
		(iii). Organizational independence / autonomy	(iii) Criteria a to g are met.	(iii) 4
		(iv).		
		(v). Independence of the Head of SAI and its Officials	(iv) Criteria a to f are met.	(iv) 4
SAI-2	Mandate of the SAI	Overall score: 3		
		This score is impacted by the requirement for a written constitution in order to score full marks in dimension 3. Other than this matter, the scope of the mandate and ability to carry it out are very broad and strong.		
		(i). Sufficiently broad mandate	(i) Criterion a, and c to i are met, criterion b is not applicable.	(i) 4
		(ii). Access to information	(ii) Criteria a to d are met.	(ii) 4
		(iii). Right and obligation to report	(iii) Criteria b to g are met criterion a is not met.	(iii) 2

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation
B. Internal Governance and Ethics				
SAI-3	Strategic Planning Cycle	Overall score: 3		
		There is a robust strategic planning cycle. It can be improved by establishing clearer links between goals and outcomes and annual planning outputs, providing clarity on how annual work is prioritised to meet longer term goals and outcomes and how risks to achieving the goals and outcomes are mitigated.		
		(i). Content of the Strategic Plan	(i) Criteria a to c, e and f are met, criterion d is not met and criterion g is not applicable.	(i) 3
		(ii). Content of the Annual Plan/Operational Plan	(ii) Criteria a and b, d, f and g are met, criteria c and e are not met.	(ii) 3
		(iii). Organizational Planning Process (iv). Monitoring and Performance Reporting	(iii) All criteria are met (iv) Criteria a to d, and f and g are met, criterion e is not met.	(iii) 4 (iv) 3
SAI-4	Organizational Control Environment	Overall score: 3		
		Although much of the organisational control environment is robust, there is a need for improvement in risk management, internal audit confirmation of internal controls and a broadening of the quality assurance system to include all Office products.		
		(i). Internal Control Environment – Ethics, Integrity and Organizational Structure	(i) Criteria a to j are met, criteria k and l are not met.	(i) 3
		(ii). System of internal control	(ii) Criteria a, b, d, f, h and i are met, criteria c, e, and g are not met and criterion j is not applicable.	(ii) 2
		(iii). Quality Control System (iv). Quality Assurance System	(iii) Criteria a to e are met (iv) Criteria a to h are met, criteria i and j are not met.	(iii) 4 (iv) 2
SAI-5	Outsourced Audits	Overall score: 4		
		All of the criteria of the framework are met.		
		(i). Process for Selection of Contracted Auditor	(i) Criteria a to g are met	(i) 4
		(ii). Quality Control of Outsourced Audits	(ii) Criteria a to e are met	(ii) 4
(iii). Quality Assurance of Outsourced Audits	(iii) Criteria a to g are met	(iii) 4		

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation
SAI-6	Leadership and Internal Communication	Overall score: 4		
		All of the criteria of the framework are met.		
		(i). Leadership	(i) Criteria a to h are met	(i) 4
		(ii). Internal Communication	(ii) Criteria a to f are met	(ii) 4
SAI-7	Overall Audit Planning and Follow-Up	Overall score: 3		
		The overall planning process is robust. The Annual Plan includes all of the recommended content items apart from an explicit consideration at the overall level of any risks to delivery of the financial audit programme.		
		(i). Overall Audit Planning Process	(i) Criteria a to g are met	(i) 4
		(ii). Overall Audit Plan Content	(ii) Criteria a to d are met and criterion e is not met	(ii) 3
		(iii). Existence of Effective Follow-up Mechanisms	(iii) Not rated	(iii) Not rated
C. Audit Quality and Reporting				
SAI-8	Audit Coverage	Overall score: 3		
		Financial and performance audits are addressed by the Office to the highest level and coverage is to a high standard. Compliance audits are not approached on a systematic basis.		
		(i). Financial Audit Coverage	(i) 100% met	(i) 4
		(ii). Performance Audit Coverage	(ii) Criteria a to h are met	(ii) 4
		(iii). Compliance Audit Coverage	(iii) Assessed as a score of 1 as there is no systematic assessment of risk and materiality	(iii) 1
SAI-9	Financial Audit Standards and Quality Management	Overall score: 4		
		All requirement of financial audit and quality control standards are met.		
		(i). Financial Audit Standards and policies	(i) Criteria a to v are met	(i) 4
		(ii). Financial Audit Team Management and Skills	(ii) Criteria a to k are met	(ii) 4
		(iii). Quality Control in Financial Audit	(iii) Criteria a to e are met	(iii) 4

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation	
SAI-10	Financial Audit Process	Overall score: 3			
		Although sufficient criteria are met to obtain the highest overall score in each area, as an independent external review has not been completed since 2012 the maximum possible score is reduced.			
		(i). Planning Financial Audits	(i) Criterion a not applicable, criteria b to h and k are met, criteria i and j not met	(i) 3	
		(ii). Implementing Financial Audits	(ii) Criteria a, c, d(ii), f and g are not met, criteria b and d(i) and d(iv) and e are met, criterion d(iii) is not applicable	(ii) 3	
		(iii). Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	(iii) Criteria a to i are met and criteria j and k are not applicable	(iii) 3	
SAI-11	Financial Audit Results	Overall score: 3			
		Financial audits are completed and reported in a timely manner. The Office has no mandate to make audit reports publicly available. Reporting recommendations are followed up at the entity level based on best practice but findings are not systematically monitored and reported on publicly.			
		(i). Timely Submission of Financial Audit Results	(i) Score 4 as more than 80% achieved	(i) 4	
		(ii). Timely Publication of Financial Audit Results	(ii) Criteria is not applicable	(ii) Not applicable	
		(iii). SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	(iii) Criteria a and c are not met and criteria b and d are met	(iii) 2	
SAI-12	Performance Audit Standards and Quality Management	Overall score: 4			
		There is only one aspect of audit planning that ISSAIs recommend that is not contained in the Performance Audit Manual.			
		(i). Performance Audit Standards and Policies	(i) Criteria a, b and d to u are met, criterion c is not met	(i) 3	
		(ii). Performance Audit Team Management and Skills	(ii) Criteria a to m are met	(ii) 4	
		(iii). Quality Control in Performance Audit	(iii) Criteria a to f are met.	(iii) 4	

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation	
SAI-13	Performance Audit Process	Overall score: 2			
		In order to score at the highest in this SAI an independent review of the performance audit practice is required and this has not occurred. In addition there are aspects of the planning reporting that are not completed or not explicitly evidenced.			
		(i). Planning Performance Audits	(i) Criteria a, c, e, i, k and m are met, criteria b, d, f to h, j and l are not met	(i) 2	
		(ii). Implementing Performance Audits (iii). Reporting on Performance Audits	(ii) Criteria a to k are met (iii) Criteria b to f, h, i, l and m are met, criteria a, g and j are not met and criterion k is not applicable.	(ii) 3 (iii) 2	
SAI-14	Performance Audit Results	Overall score 4			
		All criteria are met at the highest level.			
		(i). Timely Submission of Performance Audit Reports	(i) Score 4 as all reports are tabled within 30 days	(i) 4	
		(ii). Timely Publication of Performance Audit Reports	(ii) Score 4 as all reports are publicly available within 15 days of tabling	(ii) 4	
(iii). SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	(iii) Criteria a to f are met.	(iii) 4			

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation	
SAI-15	Compliance Audit Standards and Quality Management	Overall score: 3			
		Sufficient standards and policies and quality control procedures are in place that are applied to compliance audit to fully meet the criteria. However, as there is no systematic approach to training staff for these audits the score for the team management and skills dimension is substantially reduced.			
		(i). Compliance Audit Standards and Policies	(i) Criteria a to o and q are met, criteria p and r are not met	(i) 4	
		(ii). Compliance Audit Team Management and Skills	(ii) Criteria c, g, h and p are met, criteria a, b, d, e, i to o are not met and criterion f is not applicable	(ii) 1	
		(iii). Quality Control in Compliance Audit	(iii) Criteria f to k are met. NB: There are no criteria a to e.	(iii) 4	
SAI-16	Compliance Audit Process	Overall score: 2			
		There are weaknesses in planning and implementing compliance audits, however all the criteria for evaluating evidence, concluding and reporting are met. However, the overarching requirements for an independent review of the Compliance Audit practice has not been met.			
		(i). Planning Compliance Audits	(i) Criteria a, d, f, h, j and k were met, criteria b, c, e, g and i were not met	(i) 2	
		(ii). Implementing Compliance Audits	(ii) Criteria a and e were met, criterion d was not met and criteria b and c were not applicable to the sample selected so not rated.	(ii) 2	
		(iii). Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	(iii) Criteria a to j were met	(iii) 3	

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation
SAI-17	Compliance Audit Results	Overall score: Not rated There is no system in place to measure timeliness of completion of compliance audits nor follow-up of observations or recommendations. There is no requirement to publish compliance audit results.		
		(i). Timely Submission of Compliance Audit Results	(i) Not rated	(i) Not rated
		(ii). Timely Publication of Compliance Audit Results	(ii) Not applicable	(ii) Not applicable
		(iii). SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	(iii) Criteria a to d are not met	(iii) 0
SAI-18	Control and Judgement of Rendered Accounts (for Court Model SAIs)	Not applicable	Not applicable	Not applicable
SAI-19 (optional)	Public Sector Audit Standards and Quality Management	(i). Public Sector Audit Standards and Policies (ii). Public Sector Audit Team Management and Skills (iii). Quality Control in Public Sector Audit	Not assessed	Not assessed
SAI-20 (optional)	Public Sector Audit Process	(i). Planning Public Sector Audits (ii). Implementing Public Sector Audits (iii). Reporting on Public Sector Audits	Not assessed	Not assessed
SAI-21 (optional)	Public Sector Audit Results	(i). Timely Submission of Public Sector Audit Results (ii). Timely Publication of Public Sector Audit Results (iii). SAI Follow-up on Implementation of Public Sector Audit Observations and Recommendations	Not assessed	Not assessed

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation
D. Financial Management, Assets and Support Services				
SAI-22	Financial Management, Assets and Support Services	Overall score: 3		
		Overall financial and internal control system are robust. There is a lack of an overarching physical infrastructure strategy, although as physical infrastructure is leased lease renewals provide a framework for reassessing needs. While administrative service roles are appropriately filled there is not a systematic periodic review programme in place to evaluate these services.		
		(i). Financial Management	(i) Criteria a to k met	(i) 4
		(ii). Planning and Effective Use of Assets and Infrastructure	(ii) Criterion a not met, criteria b to e met	(ii) 3
		(iii). Administrative Support Services	(iii) Criteria a to c met, criterion d not met	(iii) 3
E. Human Resources and Training				
SAI-23	Human Resource Management	Overall score: 3		
		All of the recommended human resources related functions, policies and processes are in place. However, this is currently a lack of an overall Human Resources strategy.		
		(i). Human Resources Function	(i) Criteria a to g are met	(i) 4
		(ii). Human Resources Strategy	(ii) Criteria a to g are not met	(ii) 0
		(iii). Human Resources Recruitment	(iii) Criteria a to g are met	(iii) 4
		(iv). Remuneration, Promotion and Staff Welfare	(iv) Criteria a to h are met	(iv) 4
SAI-24	Professional Development and Training	Overall score: 3		
		There is no overall human resources strategy and there is less structure to training for OAG and non-professional staff than financial audit staff. Professional development and training of financial and performance auditors is largely robust. However, there is insufficient training in the specific skills needed to ensure quality standards are consistently maintained in compliance audits.		
		(i). Plans and Processes for Professional Development and Training	(i) Criteria a, c and d are met, criteria b, f and g are not met	(i) 2
		(ii). Financial Audit Professional Development and Training	(ii) Criteria a to d are met	(ii) 4
		(iii). Performance Audit Professional Development and Training	(iii) Criteria a to d are met	(iii) 4
		(iv). Compliance Audit Professional Development and Training	(iv) Criterion a is met and criteria b to d are not met	(iv) 1

Indicator	Domain	Dimensions	Criteria Results Summary	Score and Explanation	
F. Communication and Stakeholder Management					
SAI-25	Communication with the Legislature, Executive and Judiciary	Overall score: 4			
		There are robust policies and processes in place communicate audit findings with the Legislature, the Executive and other parties. The overall Communications Strategy is robust. However, effective monitoring of the current strategy is still being established.			
		(i). Communications Strategy	(i) Criteria a to e and g are met, criterion f is not met	(i) 3	
		(ii). Good Practices Regarding Communication with the Legislature	(ii) Criteria a to h are met	(ii) 4	
		(iii). Good practices Regarding communication with the Executive	(iii) Criteria a to d are met	(iii) 4	
(iv). Good practices Regarding communication with the Judiciary, prosecuting and investigating agencies	(iv) Criteria a and b are met, criterion c is not rated and criteria d and e are not applicable.	(iv) NA			
SAI-26	Communication with the Media, Citizens and Civil Society Organizations	Overall score: 4			
		The framework expects that a SAI should conduct press conferences and press releases. The Office does not do this as standard practice and is of the view that communication goals are achieved by other means. Opportunities to work with citizens and civil society groups are in place, initiatives to hear and understand their opinions are developing.			
		(i). Good Practices Regarding Communication with the Media	(i) Criterion criteria a to f are met	(i) 4	
(ii). Good Practices Regarding Communication with Citizens and Civil Society Organisations	(ii) Criteria a to h are met	(ii) 4			

Annex 2: Sources of information and evidence to support indicator scoring

The following is a list of the primary sources of evidence for the assessments detailed in Part 4 of this report. Refer to the detailed worksheets for the full scope of underlying evidence. Primary evidence sources are:

- Public Audit Act 2001
- Auditor-General's Strategy 2013-2017
- OAG Stakeholder survey 2015 and 2016
- Client satisfaction survey 2015 and 2016
- Gallup staff survey results
- OAG Annual Plan and Annual Report
- Audit Engagement Agreement template
- Auditor-General's Auditing Standards
- New Zealand Auditing Standards
- Audit Zealand's Audit Manual
- Audit New Zealand's Quality Control Manual
- Audit New Zealand Professional Development Programme
- Office policies
- OAG website and intranet.