Controller and Auditor-General
Tumuaki o te Mana Arotake

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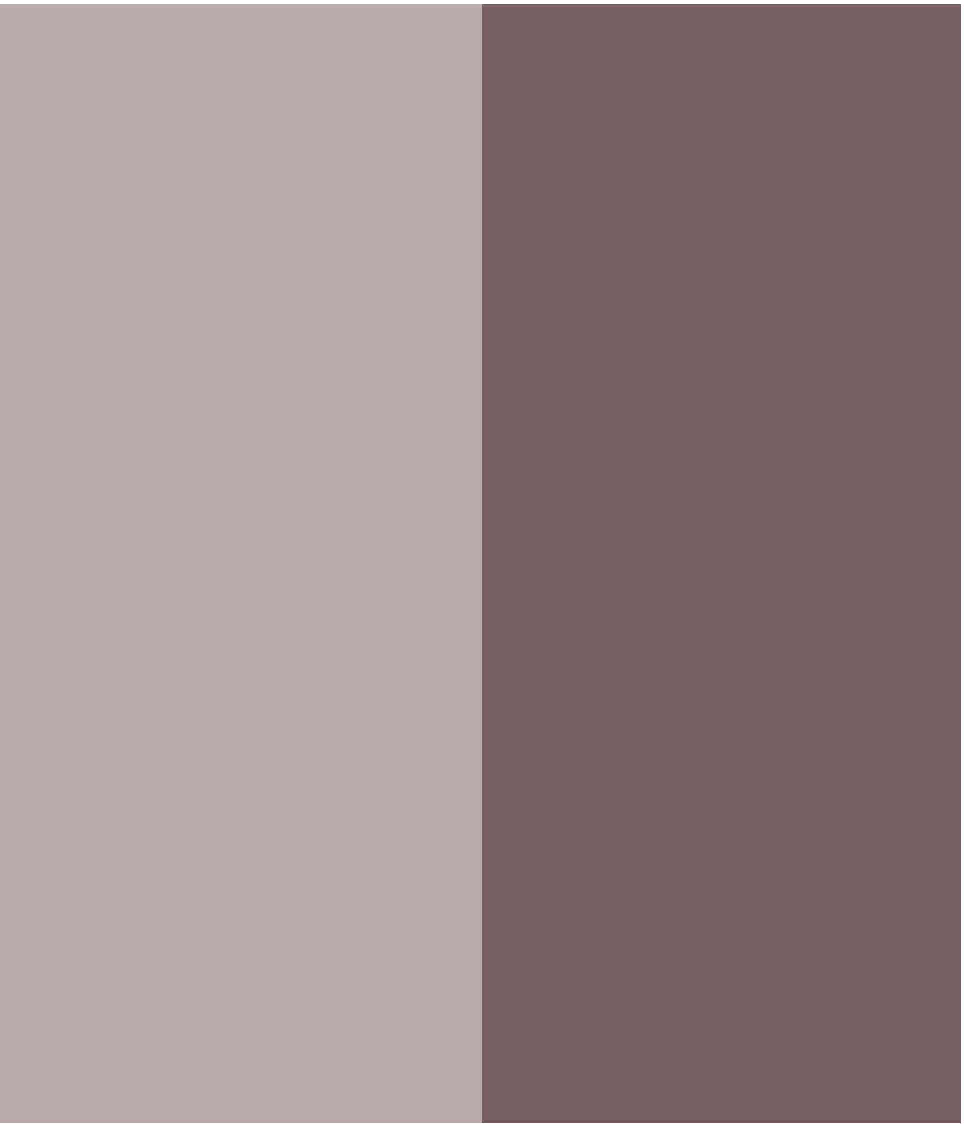
Annual report 2017/18



Annual report 2017/18

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

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About this report

This annual report informs our stakeholders – Parliament, public entities, and New Zealanders – about our performance for the year 1 July 2017 to 30 June 2018. It has been prepared in accordance with the requirements of the Public Finance Act 1989.

Auditor-General's overview

I am pleased to present my first annual report as the Controller and Auditor-General of New Zealand. It is an honour and a privilege to hold this position.

My seven-year term started on 2 July 2018. This report covers the Office's performance for the year ended 30 June 2018. For all of that year, the Office was led by Greg Schollum, the Deputy Controller and Auditor-General. I thank Greg for his enormous contribution during that time.

I am pleased that I have found an Office in good heart and with a justifiably strong reputation for the quality of its work, both within New Zealand and internationally. The Office has committed and knowledgeable staff who understand the importance of their independence, and who are well led by an experienced and professional leadership team.

Reflections on the year

The ultimate outcome that the Office seeks is that Parliament and New Zealanders have trust and confidence in the public sector. Everything the Office does is directed towards achieving this outcome.

During the year, the Office published its strategic intentions for the next eight years, setting out how it will shape its work to 2025 to contribute even more to a high-performing and trusted public sector. It subsequently produced two internal supporting documents in March of this year. The first of these sets out the shifts in our work required to support the strategic intentions, and the second focuses on how we will develop our capability during the next four years.

The Office has a strong focus on continuously improving its work. This year was no exception. We produced our first "foundation" report, setting the scene for our work on the theme of *Water management*. The report set out the broad issues we expected would emerge from our work, and that we hoped would help New Zealanders to better understand how the public sector manages water.

Our work to strengthen the contribution our annual audits make towards achieving our strategic intentions has progressed well. We are considering more effective and efficient approaches that will enhance our processes and improve the value of our annual audits.

One of the Office's most valued assets is the quality of its relationships. Results from this year's stakeholder survey confirmed that Parliament greatly values our work in helping select committees hold the public sector to account and provide assurance that public money is spent as Parliament intended. The Office also invests in its relationships with other audit organisations. This year, our work in the Pacific – particularly in Samoa and the Cook Islands – has again helped to strengthen public sector accountability and promote good governance in our wider region.

Looking to the future

Our external environment is changing rapidly. Trust and confidence in governments around the world is eroding and, in this environment, there is no room for complacency in New Zealand.

The Office has a critical role to play in protecting and enhancing the trust that we, as citizens, have in our public sector. This is a small Office, whose resources are carefully targeted to have the maximum impact from the work we do. Our strategy to address the challenges of integrity and public accountability in the early 21st century will create new demands on us. In addition, the Office has increasing demand in its core work to audit public organisations, to review their performance, and to inquire into matters concerning their use of resources.

In this context, we are carefully considering the effectiveness and efficiency of the work we do, the level of resourcing that the Office has, and where a prudent level of further investment might be warranted.

Acknowledgements

I thank all staff and audit service providers for their work during 2017/18, particularly given the additional pressures this year of auditing the long-term plans and consultation documents for every regional, city, and district council.

This is an Office with many strengths and is one that I am proud to lead. I am committed to ensuring that we meet the challenges and opportunities ahead of us in a fast-changing environment, while continuing to support and enhance trust and confidence in New Zealand's highly regarded public sector.

JM Ryan

John Ryan
Controller and Auditor-General

28 September 2018

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About us

Who we are

The Office of the Auditor-General of New Zealand.

Our role

The Auditor-General is the auditor of every public entity in New Zealand that is required to publicly report (about 3600), many of which are funded by rates or taxes. They include, for example, government departments, district health boards, schools, licensing and community trusts, universities and polytechnics, local authorities, and State-owned enterprises.

The Auditor-General's work is carried out by nearly 400 staff in two business units – the Office of the Auditor-General and Audit New Zealand – supported by a shared team of corporate services staff. We also contract auditors from private sector accounting firms to carry out some audits on the Auditor-General's behalf. We call this whole organisation "the Office".

Our purpose

We give Parliament and New Zealanders an independent view about public sector performance and accountability.

Our vision

A high-performing and trusted public sector.

Our strategic intentions

The Auditor-General's strategic intentions to 2025, published in July 2017, set out our direction for the next eight years and describes our three strategic objectives:

- improving New Zealanders' trust and confidence in the public sector;
- strengthening the public sector; and
- leading by example.

Our strategic risks

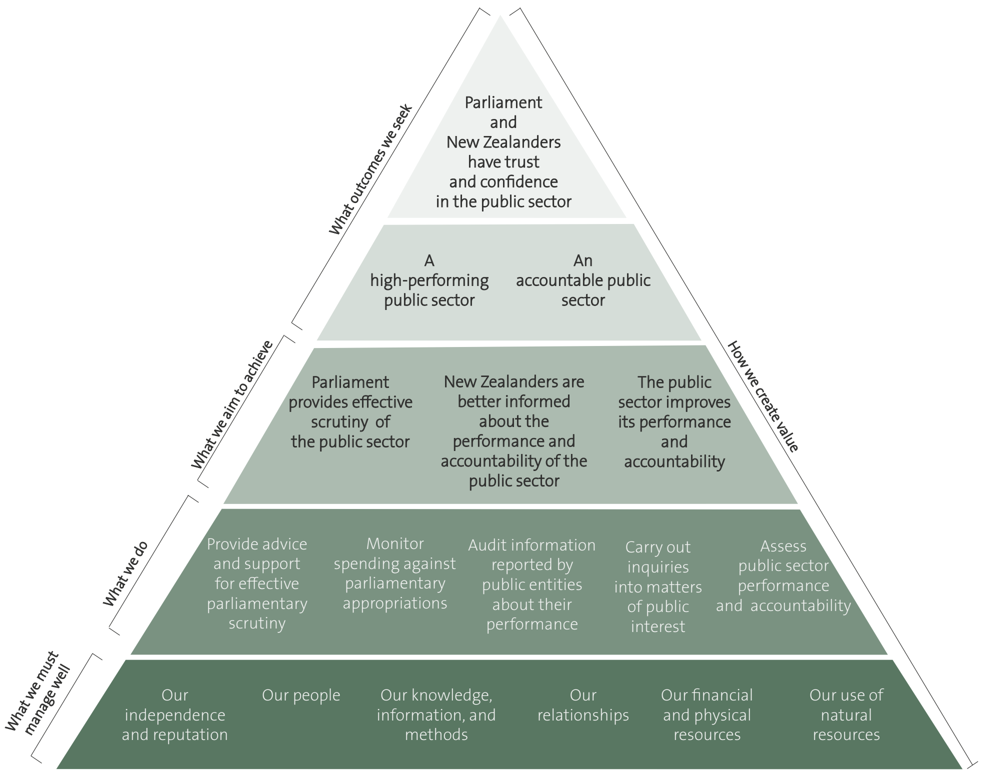
Our strategic risks are:

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

We manage these risks through the processes that support the work we do. Our Audit and Risk Committee gives further insight and advice to help us identify and manage risk. The Committee's report for the year ended 30 June 2018 is available on our website.

Our performance framework

Our performance framework summarises the outcomes we seek, the effects we aim to have, the services we provide, and the resources we must manage well. A review of our performance measures is currently in progress. We expect to report more about the revised performance measures in our next annual report.



Overview of our performance in 2017/18

We give Parliament and New Zealanders an independent view about public sector performance and accountability.

The outcomes that our work helps to achieve

Our performance measures show that:

- ✓ New Zealand's high ranking in the Worldwide Governance Indicators was maintained.
- ✓ New Zealanders' trust in public services was maintained.
- ✓ New Zealand's public sector was ranked as least corrupt in the world by Transparency International.
- ✓ Public sector behaviour was assessed as more responsible in its accountability for public resources.
- ✓ New Zealanders' ratings of service quality for public services was maintained.

However, our environment is changing fast, and there is no room for complacency.

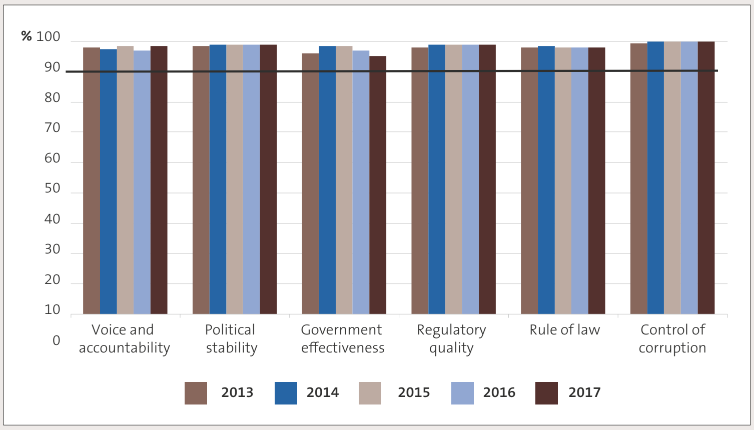
What we did				
Provided advice and support for effective parliamentary scrutiny	**Monitored spending against parliamentary appropriations**	**Audited information reported by public entities about their performance**	**Carried out inquiries into matters of public interest**	**Assessed public sector performance and accountability**
Measures indicating how well we did				
Parliament confirmed that our advice assisted them in their scrutiny of public sector performance. Parliament confirmed that our work was relevant and useful.	All procedures for our Controller function work were followed, and agreed time frames were met.	Our annual audit work influenced improvements and was mostly timely. The methods we use to allocate and tender audits and monitor audit fees were independently assessed as fair and reasonable. Our auditors' work met required standards. We have more work to do to better meet our clients' expectations.	Our inquiries work influenced improvements in the public sector. We have more work to do on the timeliness of our inquiries.	Our performance audits influenced improvements in the public sector. We have more work to do on the timeliness of our performance audits.
What it cost				
$3.07 million	$0.12 million	$83.76 million	$1.75 million	$4.33 million

2 Progress against our outcomes and strategic intentions

The outcomes we seek to influence are:

1. Parliament and New Zealanders have trust and confidence in the public sector;
2. An accountable public sector; and
3. A high-performing public sector.

Our measures show that the outcomes we seek to influence were mostly maintained or improved in 2017/18. However, our environment is changing fast and there is no room for complacency. We will continue our efforts to improve the performance of, and the public's trust in the public sector.

Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector	
Measure	**New Zealand's ranking at or above the 90th percentile of the Worldwide Governance Indicators is improved (or at least maintained).***
Result	Achieved when last assessed in 2017.
Comment	Results for the Worldwide Governance Indicators are usually published every September for the previous calendar year.
	New Zealand's ranking in the Worldwide Governance Indicators, 2013 to 2017 
Measure	**The State Services Commission's Kiwis Count Survey** shows improved (or at least maintained) rates of:** **• perception of trust in public services; and** **• trust based on the most recent experience with public services.**
Result	Achieved.

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

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

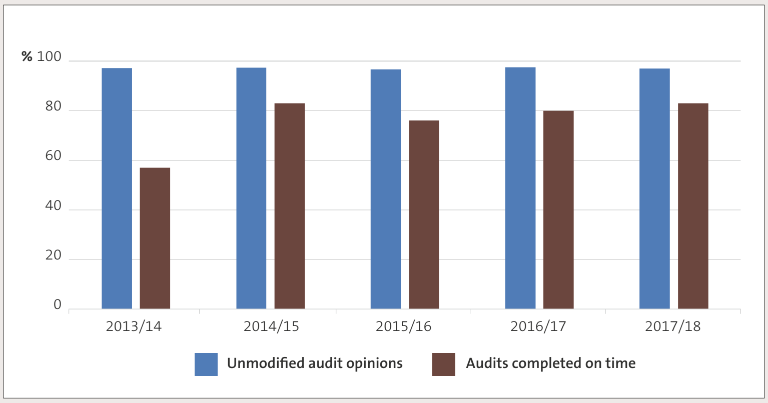
Comment	The Kiwis Count Survey measures New Zealanders' trust in public services in two ways – by trust in the public service brand (perception) and by experience. New Zealanders' trust in public services was maintained. New Zealanders' levels of trust in the public service brand (perception) was 47% in 2017 and 45% in 2016. Since 2012, perception of trust results have varied between 41% and 47% (2016: 45%, 2015: 44%, 2014: 45%, 2013: 44%, 2012: 41%). New Zealanders' levels of trust in public services based on experience was also maintained at 79%, the same as the 2016 result. Since 2012, trust based on experience results have varied between 75% and 81%.

Measure	**New Zealand's score on the Transparency International Corruption Perceptions Index* is improved (or at least maintained).**
Result	Achieved.
Comment	In 2017, New Zealand's public sector ranked first in the world in the Transparency International Corruption Perceptions Index with a score of 8.9 out of 10. While New Zealand's public sector was ranked as the least corrupt in the world, the 2017 score was a decline from the previous three years when the New Zealand score was consistently between 9.0 and 9.1.

* See the Transparency International website, https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table.

Outcome 2: An accountable public sector	
Measure	**Public sector behaviour is more responsible in the area of accountability for public resources.**
Result	Achieved, based on our assessment of results for our indicators.
Comment	Holding public entities accountable for their use of public resources is a fundamental part of our work. Indicators of responsible behaviour in relation to accountability for public resources include timely and reliable information, sound management, good governance, and integrity levels. Each year, we examine trends for these aspects of public sector behaviour to assess an overall outcome for this measure. These are discussed in detail below. Overall, we consider that the results for these indicators show that public sector behaviour in the area of accountability for public resources shows a similar level of responsibility to previous years. However, we observe that there is no room for complacency. **Timeliness and reliability** We use audits completed on time as a proxy for the timeliness of public entities in completing their financial and performance information within statutory time frames, and we use our issue of unmodified audit opinions as an indicator of the reliability of that information. This year, 83% of public entities' audit reports were signed within the statutory time frame, compared with 80% in 2016/17. We collect data about the timeliness of public release of annual reports only for local authorities. For 2016/17, 92% of local authority annual reports were publicly available on time (95% for 2015/16). The percentage of unmodified audit opinions remains relatively steady. This year, 97.0% of our audit opinions were unmodified, compared with 97.5% in 2016/17 and 96.7% in 2015/16.

Percentage of unmodified audit opinions and audits completed on time, 2013/14 to 2017/18



Sound management and good governance

Results for the central government sector (excluding schools) have maintained a strong position for management control environment, financial information systems and controls, and service performance information and associated systems and controls.

Ratings for central government entities, 2013/14 to 2016/17				
	2013/14	2014/15	2015/16	2016/17*
Management control environment				
Very good	59%	62%	63%	63%
Good	34%	32%	32%	33%
Needs improvement	7%	6%	5%	5%
Financial information systems and controls				
Very good	48%	53%	54%	52%
Good	43%	42%	42%	46%
Needs improvement	9%	5%	4%	3%
Service performance information and associated systems and controls				
Very good	9%	8%	16%	17%
Good	73%	79%	78%	79%
Needs improvement	18%	13%	6%	4%

* We take a standard rounding practice approach to our calculations. Due to rounding, the 2016/17 results for Management control environment and Financial information systems and controls total 101%.

	Integrity We previously reported information from the three-yearly Integrity and Conduct Survey carried out by the State Services Commission (SSC). The SSC has not conducted the Integrity and Conduct Surveys since 2014/15 and is still working on a new approach to gathering information about integrity and conduct in the public sector. We have used an alternative indicator for assessing public sector integrity. The International Civil Service Effectiveness Index (the Index)* is a pilot project that assesses how a country's central government civil service is performing compared with others around the world. A collaborative project between the University of Oxford and the Institute for Government in the United Kingdom, the Index measures data across a range of organisational core functions and attributes. The integrity aspect of the Index measures the extent to which civil servants behave with integrity, make decisions impartially and fairly, and strive to serve both citizens and Ministers. The most recent results from 2017 show that the New Zealand public sector ranked first on integrity compared to the 30 other countries reviewed. Overall, the New Zealand public sector ranked second on the Index. While the Index is still a pilot project, the intention is to broaden its scope and expand country coverage. When the SSC produces information about integrity in the New Zealand public sector, we will consider whether to report relevant aspects of that information or continue with using the Index as an indicator of integrity in New Zealand's public sector.

* See the University of Oxford's website: https://www.bsg.ox.ac.uk/about/partnerships/international-civil-service-effectiveness-index.

Outcome 3: A high-performing public sector	
Measure	**The State Services Commission's Kiwis Count Survey shows improved (or at least maintained) rates of service quality for all public services.**
Result	Achieved.
Comment	The overall service quality score for 2017 is 76. New Zealanders' satisfaction with the quality of public services was maintained. (2016: 74, 2015: 75). Overall, service quality scores have fluctuated between 72 and 76 since 2012.

The Auditor-General's strategic intentions to 2025

The *Auditor-General's strategic intentions to 2025* describes our direction for the next eight years. This year, we prepared our Strategy, which will give effect to our strategic intentions during the next four years, and a supporting Organisation Development Plan to ensure that we are in the best possible position to deliver on our priorities.

While we have strong foundations in place, our external environment continues to change. Being able to respond to change is critical to achieving our strategic intentions. As a result, we have sharpened the focus of our Strategy to ensure that we are focused on work that will maximise our influence on positive change in the public sector. We have reprioritised our Organisation Development Plan to ensure that we have the capability, systems, and organisational culture we need to support our future work.

We intend to monitor progress against our Strategic Intentions and gauge the impact that we are aiming for. We will report on that when we have made further progress.

Reporting against appropriations

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In this Part, we report on the services that we were funded to deliver in 2017/18 and how well we delivered those services.

Reporting against appropriations

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

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

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

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

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Office for the year ended 30 June 2018.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations

for the year ended 30 June 2018

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

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

Annual and permanent appropriations for Vote Audit	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Output expenses					
Audit and assurance services RDA (revenue-dependent appropriation)**	83,614	76,433	83,162	83,202	80,481
Audit and Assurance Services	150	2,482	150	150	1,650
Total appropriations for output expenses	***83,764***	***78,915***	***83,312***	***83,352***	***82,131***
Other expenses					
Remuneration of *Auditor-General and Deputy Auditor-General PLA* (permanent legislative authority)***	739	1,052	1,052	838	1,052
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	6,080	6,406	6,576	6,576	6,576
Supporting Accountability to Parliament	3,195	3,118	3,265	3,278	3,278
Total Statutory Auditor Function	***9,275***	***9,524***	***9,841***	***9,854***	***9,854***
Total appropriations for operating expenditure	**93,778**	**89,491**	**94,205**	**94,044**	**93,037**
Capital expenditure					
*Controller and Auditor-General Capital Expenditure PLA*****	968	1,431	1,231	1,163	1,266
Total annual and permanent appropriations	**94,746**	**90,922**	**95,436**	**95,207**	**94,303**

* All Estimates information is unaudited.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2017/18, revenue under this appropriation was $83.614 million – See page 20, Financial performance for *Audit and Assurance Services RDA*.

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

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

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

for the year ended 30 June 2018

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority for the year ended 30 June 2018 (2017: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority

for the year ended 30 June 2018

The Office did not receive any capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2018 (2017: Nil).

Appropriation: *Audit and Assurance Services RDA*

Scope of the appropriation and what is intended to be achieved

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

Assessment of our performance, standards, and results

2017/18 results and previous performance for *Audit and Assurance Services RDA*			
Measure	**Performance standard**	**2017/18 result**	**2016/17 result**
Key recommendations our auditors include in management reports are accepted and acted on.	At least 70%	Achieved* 89%	Achieved 82%
Public entities' audited reports are signed within the statutory time frame.	At least 75%	Achieved 83%	Achieved 80%
Audit reports not signed within the statutory time frame are because of inaction on our part.	Less than 30%	Achieved 23%	Achieved 14%
Management reports are issued within six weeks of issuing the audit report.	100%	Not achieved 95%	Not achieved 96%
Long-term plan (LTP) audit opinions are signed by 30 June** (unless held up by the local authority).	100%	Not achieved 97%	Not assessed, as not an LTP year

Long-term plan (LTP) management reports are provided to local authorities.	100%	Achieved 100%	Not assessed, as not an LTP year
Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits, and monitor the reasonableness of audit fees.	Confirmation by annual independent review	Achieved Confirmed by independent review	Achieved Confirmed by independent review
Percentage of respondents from our satisfaction survey of public entities who are satisfied with their audit (including the expertise of audit staff and the public entity's relationship with those staff).	At least 85%	Not achieved*** 77%	Not achieved 76%
Appointed auditors who have a quality assurance grade of at least "satisfactory", based on our most recent quality assurance review.	100%	Not achieved 95%	Not achieved 97%

* For the years ended 30 June 2018 and 30 June 2017, we assessed a sample of 45 entities against this measure.

** 30 June 2018 fell on a weekend. This year, the LTP audit opinion needed to be signed on the next business day, which was 2 July 2018.

*** We provide more explanation about our client survey results on pages 19-20.

As part of the review of our performance measures referred to on page 6, we are reassessing how we measure public entities' implementation of our recommendations. We expect to report on revised measures in our next annual report.

Explanation of our performance

We explain below the 2017/18 results for *Audit and Assurance Services RDA*.

Annual audits

Our job is to independently audit and report on how public entities are performing and reporting that performance, individually and collectively. We apply independent scrutiny and professional judgement to financial audits of all public entities[1] that are required, and some who choose, to prepare general purpose financial reports – from large government departments and district health boards to every state school and local authority. In 2017/18, our annual audits and other assurance services accounted for 88% of our total expenditure.

We use information about public entities gathered from our annual audits to help us advise Parliament and others, and to assist our other work. For Parliament and New Zealanders to have trust and confidence in the public sector, public entities must fairly report their performance and respond to audit recommendations to

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

improve their systems and controls. They must also prepare their reports within statutory time frames. Reliable and timely information is an important indicator of a high-performing and accountable public sector.

In 2017/18, 83% of public entities met their reporting obligations on time. This result was well above our 75% target. The 17% that did not meet their reporting obligations on time were mostly subsidiaries of public entities, or small public entities such as schools and cemetery trusts.

We also measure how well we meet statutory deadlines. Of the audit reports that are not signed within the statutory deadline, we aim for 30% or fewer to be due to matters that we are responsible for. This year, we met our target, with 23% of the audit reports not signed within the statutory time frame due to matters that were our responsibility, compared with 14% in 2016/17. Capacity issues for some auditors contributed to the 9% difference between results for this year and for 2016/17. We have decided to move some audits to different auditors to minimise the effect of these issues.

We have a statutory duty to issue audit reports on local authorities' consultation documents and on their long-term plans (LTPs). These are prepared every three years. This year, we issued audit reports on local authorities' consultation documents and on their LTPs for 2018-2028. Two local authorities did not have an audited LTP at 2 July 2018 due to matters for which they were responsible.

As part of the consultation document and LTP process, it is important that we report to local authorities about what they could do to improve. As part of our audits, we reported to the management of all local authorities about improvements.

Appointing auditors and monitoring audit fees

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

Each year, an independent reviewer examines the probity and objectivity of the methods and systems that we use to allocate and/or tender audits, and to monitor the reasonableness of audit fees. This year's independent review confirmed the probity and objectivity of those methods and systems. Appendix 2 contains the review report.

We regularly monitor audit fees to ensure that they are fair to public entities and provide a fair return to auditors for the work required to meet *The Auditor-General's Auditing Standards*. In 2017/18, fees were increased for the following reasons:

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

This year, fees for some groups of entities decreased because some of their subsidiaries were no longer required to prepare separate financial statements and have them audited.

Movements in audit fees from 2015/16 to 2017/18 are summarised in the table below. These are based on the audit fees that had been agreed at the time our analysis was prepared. The table shows how changes in the time spent on audits and the average hourly cost of carrying out audits have affected fees.

Following changes to the Education Act 1989 and the Companies Act 1993, some subsidiary entities are now required to report only as part of their group, rather than separately. This has resulted in some reduction in audit fees for "groups".

The figures in the table exclude additional audit fees negotiated with public entities as a result of unforeseen problems arising after audit fees were agreed. These are usually the exception, and each case is considered on its merits.

Changes in audit fees, 2015/16 to 2017/18

	2016/17 to 2017/18				2015/16 to 2016/17			
Sector	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities*	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities
	%	%	%		%	%	%	
Central government	1.0	1.1	(0.1)	356	1.5	0.4	1.1	364
Local government	2.7	0.6	2.1	401	5.1	6.5	(1.4)	387
Schools	1.5	0.0	1.5	2404	(0.4)	(1.6)	1.2	2413
Total	**1.6**	**0.8**	**0.8**	**3161**	**2.3**	**1.9**	**0.4**	**3164**

* The number of entities are all those entities where audit fees were agreed at the time our analysis was prepared. This number differs from the total number of public sector entities referred to on page 5.

Maintaining auditors' independence

Maintaining our independence is fundamental to our work. The Auditor-General's staff (including Audit New Zealand) and appointed auditors and their staff from private sector accounting firms must meet the high standards of independence required under *The Auditor-General's Auditing Standards*. The Office has processes to monitor compliance with the Auditor-General's independence requirements. We recognise our independence and reputation as a critical resource that we must manage well. We provide a description of this resource in Part 4. The description provides more information about our independence standards and processes.

Publishing *The Auditor-General's Auditing Standards*

The Public Audit Act 2001 requires the Auditor-General to publish their auditing standards in a report to the House of Representatives at least once every three years. The Act also requires that each annual report include a description of any significant changes to those standards. *The Auditor-General's Auditing Standards 2017* were published in March 2017 and are available on our website. There have been no changes to the standards since then.

Carrying out quality assurance reviews

We carry out quality assurance reviews of all appointed auditors to ensure that they have complied with *The Auditor-General's Auditing Standards*. During a three-year period, we review the quality of the work of all our appointed auditors. As a result, every appointed auditor is reviewed at least once every three years. We expect all our auditors to achieve at least a "satisfactory" grade. This year, 95% of our auditors met this target. The majority of those who did not achieve a "satisfactory" grade were auditors of schools from small private sector accounting firms. We carry out a follow-up review of auditors who do not achieve a "satisfactory" grade in the year after their review and, where necessary, we make changes to auditors' portfolios.

Public entities' satisfaction with our auditing services

Each year, we survey public entities to assess their satisfaction with the services our auditors provide. We expect at least 85% of the entities we survey to be satisfied with their audit and the expertise of our auditors. We consider this a challenging target, given the inherent healthy tension in the relationship between the auditor and public entities.

This year, we did not achieve our target. Of the entities we surveyed, 77% confirmed that they were satisfied with the services our auditors provide (76% in 2016/17). We changed our survey method from telephone to online in 2016/17. To improve the usefulness of our survey results, we intend to change our rating from a 10-point scale to a 5-point scale, effective from 2018/19.

We will use our survey results to examine where we can best focus our efforts on improving our auditing services. We will follow up with those entities that indicated they were not satisfied with their audit service to ensure that we understand where we need to make improvements to those services.

Financial performance for *Audit and Assurance Services (RDA)*

	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Income from third parties	84,496	76,433	83,162	83,202	80,481
Expenditure	(83,614)	(76,433)	(81,060)	(82,418)	(80,481)
Surplus**	**882**	**-**	**2,102**	**784**	**-**

* All Estimates information is unaudited.

** Note 15 in the notes to the financial statements provides more information about transfer of surpluses and deficits to and from the Office's memorandum account.

Audit and Assurance Services RDA revenue was $1.2 million higher than the supplementary estimates, due to higher estimated value of work to date on audits that were under way at 30 June 2018, and additional audit work completed. Costs were $1.2 million higher than the supplementary estimates, mainly due to higher personnel costs.

Estimates expenditure shown in the table above is the forecast costs of the output class, although expenditure appropriations are capped at the revenue total for the year. Surpluses are held in a memorandum account for use in future years where a deficit arises. In years where there is a deficit, the remainder of the costs relating to these outputs are reported in the Audit and Assurance Services appropriation, below.

Appropriation: *Audit and Assurance Services*

Scope of the appropriation and what is intended to be achieved

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

Our performance

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

Financial performance for *Audit and Assurance Services*					
	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Income	150	150	150	150	150
Expenditure	(150)	(2,482)	(150)	(150)	(1,650)
(Deficit)**	**-**	**(2,332)**	**-**	**-**	**(1,500)**

* All Estimates information is unaudited.

** Note 15 in the notes to the financial statements provides more information about transfer of surpluses and deficits to and from the Office's memorandum account.

The deficits in this output class for 2016/17 and forecast for 2018/19 represent the use of prior-year surpluses from the *Audit and Assurance RDA*. These costs are funded from the Office's memorandum account, enabling management of audit costs and revenue over multiple years.

The $1.5 million deficit forecast for 2018/19 includes a buffer over and above the $0.828 million forecast deficit shown in the Statement of comprehensive revenue and expense in Part 5.

Appropriation: *Statutory Auditor Function MCA*

Scope of the appropriation and what is intended to be achieved

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

Performance Audits and Inquiries

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

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

Supporting Accountability to Parliament

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

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

Assessment of our performance, standards, and results

2017/18 results and previous performance for *Statutory Auditor Function MCA*			
Statutory Auditor Function			
Measure	**Performance standard**	**2017/18 result**	**2016/17 result**
Quality standards are consistently met: stakeholders surveyed who confirm the relevance of our work to users, and reports independently reviewed that are assessed as being of high quality.	At least 85% for stakeholders and 100% for reports	Achieved 91% for stakeholders 100% for reports	Achieved 92% for stakeholders* 100% for reports
Process standards are consistently met: external review and internal quality assurance review confirm our performance audit process standards are consistently complied with, and our policies and procedures for statutory auditor functions meet relevant standards.	Confirmation by external and internal review	Achieved Confirmed by external review when last assessed** Confirmed by internal review when last assessed***	Achieved Confirmed by external review Confirmed by internal review

* Our stakeholder surveys are carried out every two years. This result is from our 2016 stakeholder survey.

** External peer review of our performance audit function is carried out by the Australian National Audit Office every two years. The last review was in 2017 and the next review will be in 2019.

*** The last internal review of the Office's performance against international standards was in 2016. The review found that, overall, our policies and procedures met the required standards. The results were published on our website https://www.oag.govt.nz/2016/sai-pmf.

Performance Audits and Inquiries			
Measure	**Performance standard**	**2017/18 result**	**2016/17 result**
Entities accept the key recommendations made in our reports, and the recommendations influence improvement.	As assessed in follow-up reports	Achieved for performance audits Achieved for inquiries	Achieved for performance audits Achieved for inquiries
Findings on inquiries are reported to the relevant parties within three months for routine inquiries, within six months for significant inquiries, and within 12 months for major inquiries.	At least 80%	Achieved for routine inquiries 80% No significant inquiries carried out Not achieved for major inquiries 0%**	Not achieved for routine inquiries 76% Not achieved for significant inquiries 50%* Not achieved for major inquiries 0%***
Local Authorities (Members' Interests) Act 1968 matters that are completed within 30 working days.	At least 80%	Achieved 91%	Achieved 88%

- We completed work on one major inquiry. It was part of our 2016/17 work programme and was not completed within the 12-month time frame.

** We worked on two significant inquiries. One was completed within our six-month time frame.

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

Supporting Accountability to Parliament			
Measure	**Performance standard**	**2017/18 result**	**2016/17 result**
Stakeholders we survey who confirm that our advice assists them.	At least 85%	Not achieved 77%	Not achieved when last assessed* 83%
Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme).	Stakeholders are satisfied	Achieved Stakeholders satisfied	Achieved Stakeholders satisfied
Projects in the programme of work under this output class that are delivered within their planned time frames.	At least 75%	Not achieved** 20%	Not achieved*** 39%
Briefings given to select committees at least two days before an examination, unless otherwise agreed.	100%	Achieved 100%	Not achieved**** 98.5%

Controller function: monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	All procedures are followed and agreed time frames met	Achieved All procedures followed and agreed time frames met	Achieved All procedures followed and agreed time frames met

* Our stakeholder surveys are carried out every two years. This result is from our 2016 stakeholder survey.

** 20% of projects (4 out of 20) were delivered within their planned time frames. We comment on the timeliness of completing the projects in our work programme on page 26.

*** 39% of projects (7 out of 18) were delivered within their planned time frames.

**** Of the 141 briefings prepared, 2 were late. These briefings were due the day after the Kaikōura earthquake on 14 November 2016 when we were not able to access our office premises.

Explanation of our performance

We explain below the 2017/18 results for *Statutory Auditor Function MCA*.

Statutory Auditor Function

Overall, we are satisfied that in 2017/18 we met our quality and process-related targets for our work to support Parliament in ensuring accountability for the use of public resources. For example, an independent assessment of two of our reports concluded that they were of high quality. The reviewers considered that the reports were well written and the recommendations were likely to lead to improvements. They made useful suggestions about how we could improve our reports and recommendations that we are considering.

91% of respondents in our stakeholder survey confirmed the relevance and usefulness of our work. The Australian National Audit Office's most recent review[2] of our compliance with our performance audit standards and methodology found that the two performance audit reports reviewed were supported by sufficient and appropriate audit evidence, and in the most part met the Auditor-General's Auditing Standard 5 and applicable Performance Audit Manual policies.

Performance Audits and Inquiries

Our core business is carrying out annual audits. Alongside annual audits, the Public Audit Act 2001 allows the Auditor-General to carry out performance audits, to inquire into how a public entity uses resources, and to study other matters affecting the public sector.

Each year, we publish reports on the results of our annual audits by sector, performance audits, and major inquiries. Through this reporting to Parliament

2 The review is carried out every two years. The last review was in 2017 and the next review will be in 2019.

and other stakeholders, we consider matters in greater depth than is possible within the statutory scope of an annual audit and examine ways that public entities can perform better.

Performance audits

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

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

In 2017/18, we completed reports on a range of matters. Appendix 3 lists these reports, which are all available on our website.

Our reports often highlight complexities to be managed and factors that support good decision-making. Where appropriate, we make recommendations for improvement. Each year, we assess the progress public entities make in acting on the recommendations from some of our previous performance audits, and discuss this in articles we publish on our website. We will continue to monitor the implementation of our recommendations.

Our work programme

Our work programme is made up of a diverse range of work. Each year, we use our knowledge of the public sector to help determine a theme that we can apply across much of our work. *Water management* was our theme in 2017/18. A themed approach helps us to increase the impact from our work, and more effectively use our unique role to influence improvements in public sector performance and accountability.

Alongside our theme-based work, we carry out multi-year programmes of work on significant matters that we consider warrant ongoing scrutiny, or where we are required or invited to carry out ongoing work. We also carry out work on particular significant matters that warrant our attention, work to share good practice, report on the results of our annual audits in different sectors, and influence improvements through thought leadership. Our ongoing programme of thought leadership work is examining whether our public sector accountability system is keeping pace with changes in the public sector environment.

After consulting with Parliament on our proposed programme of work, we publish the work we intend to carry out in our Annual Plan.

Achieving our 2017/18 work programme

Our progress with the performance audits and other work in our 2017/18 work programme is outlined in Appendix 4.

Water management is the focus of ongoing theme-based work from our 2017/18 work programme. Public entities in both central and local government play critical roles as policy makers, regulators, and service providers in relation to water. These functions are often delivered in collaboration with other entities – for example, iwi and community organisations. Our work is examining how effectively public entities manage their water responsibilities. At the start of our programme, we prepared a scene-setting report to provide context for our work and help the public to better understand how the public sector manages water in New Zealand.

Timeliness of completing the projects in our work programme remains a focus. We aspire to deliver 75% of the projects in our work programme within their planned time frames. We measure timeliness against our planned time frames for significant pieces of work in our work programme.

This year, we did not manage to improve our timeliness compared to the previous two years. We completed a lower percentage of our projects within their planned time frames. 20% of projects (4 out of 20) were delivered within their planned time frames compared to 39% (7 out of 18) in 2016/17 and 32% (8 out of 25) in 2015/16. Another 45% of projects (9 out of 20) were delivered up to 3 months late. When added together, about two-thirds of our projects were delivered either within their planned time frames or within 3 months of their planned time frames. This is comparable to the previous two years.

Our projects are complex and involve managing many dependencies that can affect timeliness. We will continue to look for ways to make the insights from our work available in a timely way, including better management of the dependencies that can affect the timeliness of our project completion.

Consultation on our 2018/19 work programme

Our 2018/19 work programme was confirmed after consultation with members of Parliament and other stakeholders. Consultation with Parliament and other stakeholders helps ensure that our work is relevant and useful to Parliament, public entities, and the public. Select committees endorsed our proposed 2018/19 work programme and the topic of Procurement for our theme-based work starting in 2018/19.

Through our work on procurement, we want to influence those involved in public sector procurement to ensure that they consistently manage it well and in a principled way. In doing so, we want to contribute to maintaining the New Zealand public sector's reputation for honesty and integrity.

Our *Procurement* theme generated a lot of interest. People from within the public and private sectors also sent us carefully considered feedback. All affirmed our aim to see public sector procurement improve.

Inquiries

In contrast to our planned programme of work, our inquiries work is more reactive to matters of current public concern. Our inquiries team manages all inquiry-related issues and carries out any inquiries that the Office decides to undertake. Inquiries issues can arise from our audit or other work, requests from members of Parliament or a public entity, or concerns raised by the public. The work includes determining whether issues raised with us should be subject to further inquiry, and contributing an inquiry perspective to other areas of the Office's work.

When we decide to inquire into an issue, we determine whether that inquiry will be a "routine", "significant", or "major" inquiry. The primary distinction between these three categories is the complexity of the issues and the time involved in considering and reporting about those issues.

Our work in 2017/18

In December 2017, we started work on two major inquiries:

- the Waikato District Health Board's procurement of information technology services from a company named HealthTap Inc.; and
- the Westland District Council's procurement of remedial works for the Franz Josef wastewater plant.

Our work on these two inquiries continues.

In response to a request from Parliament, we also carried out work about how effectively the Overseas Investment Office manages information that could be relevant to decision-makers. This work was planned in our 2016/17 work programme.

In 2017/18, we did not carry out any significant inquiries. None of the issues that we decided to inquire into were determined to be in this category.

We completed work on 44 routine inquiries (including protected disclosures and inquiry-related correspondence) relating to issues in the central and local government sectors. We aim to complete 80% of our routine inquiries within three months. We met our timeliness target with 80% of routine inquiries completed within three months. In our inquiries work, we provided comments and guidance on a range of matters. These included:

- the importance of transparency;
- providing timely and accurate information to governors and stakeholders;
- following good procurement practice; and

- central and local government's ability to demonstrate that good decisions have been made (for example, through good business cases and considering value for money).

The public entities involved in these issues accepted our findings as part of improving their processes and activities. Our reports have been well received by Parliament and the public.

We continue to look for ways to improve the timeliness of our work, while ensuring positive impact and considering the obligations of fairness and natural justice inherent in our work.

Local Authorities (Members' Interests) Act 1968

The Auditor-General also administers the Local Authorities (Members' Interests) Act 1968 (LAMIA), which regulates pecuniary interest matters in local government. This year, we received 46 enquiries under the Act. We measure our timeliness for LAMIA matters from the point where we have all the information we require to carry out our work. This year, we completed 42 out of the 46 enquiries within our target of 30 working days.

Supporting Accountability to Parliament

Our advice and support assists Parliament in its scrutiny of the performance and accountability of the public sector. Effective working relationships with select committees are essential to our ability to support Parliament in its work.

We use information from our audit work throughout the year to advise and inform Parliament and our other stakeholders. We work closely with select committee chairpersons and clerks to ensure that our work meets the needs of select committees.

Our reporting and advice to Parliament identifies issues and risks in the public sector. We provide:

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

We also advise Ministers of the results of the annual audits for entities in their portfolio.

In 2017/18, we provided advice in support of 97 annual reviews, 57 Estimates of Appropriation examinations, and seven sector briefings.

The quality of our relationships with select committees and the effectiveness of our communication help us to use our information and knowledge to best effect. For example, our joint project with the Office of the Clerk of the House of Representatives to improve parliamentary scrutiny has contributed to improvements in the quality and use by select committees of information gathered about public sector performance. Select committee chairpersons find our reports useful in focusing the committees' lines of inquiry. We worked with the Office of the Clerk and Treasury advisors on an effective introduction of new Members of Parliament to the parliamentary scrutiny processes.

We also regularly check – formally and informally – that select committees are satisfied with our work and the relationships they have with us. Every two years, we commission an independent survey of a sample of our key stakeholders, including all select committee chairpersons, about how they perceive the quality and usefulness of our work.

Our 2018 survey indicated that, overall, the Office provides a highly valued service, holding the public sector to account and providing assurance that public money is spent as Parliament intended. Our stakeholders said that they value their relationships with us and our professional, proactive, and responsive approach. They made useful suggestions for improving how we apply the insights from our work to drive improvements in the public sector.

All those interviewed agreed that we act with integrity and independently of the Government. The Office was credited with improving public trust in government agencies and driving better performance across the public sector. All select committee chairpersons interviewed agreed that our advice is relevant and useful, and assists their committee in its work. We have seen an increase in parliamentary focus on tracking changes in entities' performance over time, and in the quality of public expenditure. We will consider how best to further contribute to improvement in these areas through our advice to select committees and our work in improving parliamentary scrutiny.

Eight of the 12 senior public servants interviewed agreed that our advice assists their organisation. As a result of their feedback, we intend to particularly focus on timeliness of reporting as a way to better contribute to "improvement insights" and implementation of our recommendations.

The local government leaders interviewed confirmed that our work in the local government sector is held in high regard, and is viewed as contributing to lifting performance in the sector.

Controller function

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

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

Each year, we report to Parliament on any significant matters related to the Controller function. Our report on the results of the 2016/17 central government audits showed that there were eight instances of unauthorised expenditure, amounting to $90 million (2015/16: 12 instances amounting to $73 million). This equated to 0.1% of the total funding approved through Budget 2016.

The majority of the "unauthorised expenditure" related to the restoration costs for State Highway 1 after damage caused by the Kaikōura earthquake. The expenditure incurred was authorised in advance for "capital expenditure." However, a large proportion of the restoration expenditure needed to be categorised as "operating expenditure". As such, significant expenditure had been incurred outside the specific scope of the authority provided.

Some breaches of authority can result from unforeseen circumstances or from subtleties relating to the nature of expenditure and the implications for its accounting treatment. In principle, it is important for the authorising and accountability system to distinguish between operating and capital expenditure. There are some circumstances – for example, construction and software development – where it is more difficult to forecast the extent to which expenditure, once incurred, will fall into either category. The appropriation system provides some flexibility through "multi-category" appropriations to cater for both operating and capital expenditure. We expect these appropriations to be used judiciously and only when it is appropriate to provide the sort of flexibility they afford.

International contribution

Each year, we invest significant time and resources into the international auditing community. Through our international work, we aim to strengthen public sector accountability and promote good governance, particularly in the Pacific region. We share our skills, knowledge, and expertise with others. We take part in international auditing conferences, peer review organisations like ours, and host international visitors. In turn, we acquire development opportunities, enhance our own knowledge, and build on our strong international reputation and the effective working relationships we have with other international auditing organisations.

Our major time and resource commitments are to the International Organisation of Supreme Audit Institutions (INTOSAI) and the Pacific Association of Supreme Audit Institutions (PASAI).

We contribute to the working group on environmental auditing, the IntoSAINT project group tasked with promoting use of INTOSAI's integrity self-assessment tool, and the Forum for INTOSAI Professional Pronouncements. The Forum has a mandate to review all of INTOSAI's professional pronouncements as part of a review by INTOSAI of its standard-setting arrangements.

Our strong international reputation was evident with staff appointments to the International Auditing and Assurance Standards Board as a project advisory panel member and as a Board member of the International Public Sector Accounting Standards Board.

Hosting international delegations provides opportunities to exchange information and build on our professional networks. This year, we assisted visiting representatives from the Legislative Assembly of Tonga, the Seoul Metropolitan Government, the Auditor-General of South Africa, the Head of the Court of Accounts of Brazil, and public sector officials from South East Asia as part of their training with Victoria University's English for Public Sector Officials programme.

Our work in the Pacific

PASAI is one of the seven INTOSAI regional organisations. It supports and represents 28 audit institutions in the Pacific. The Auditor-General is the Secretary-General of PASAI. We support accountability, transparency, and good governance in the Pacific through our commitment to PASAI. Our work with PASAI is funded by a contract with the Ministry of Foreign Affairs and Trade.

Our PASAI work is extensive. We support the PASAI secretariat in its work. We have invested in relationships with the audit offices of Samoa and the Cook Islands to support their capacity and capability development. This year, we provided training to assist the Cook Islands Audit Office (CIAO) to improve the quality of its evidence recording and report writing across its audit products and corporate documents. We also provided training to further develop the CIAO's performance audit capability.

This year, our work with the Samoa Audit Office focused on identifying future training and support needs as that Office implements its strategic goals, including a new organisational structure and approach to the completion of financial audits. Mentoring senior staff was a significant focus of our work.

We assisted PASAI with the early stages of developing a peer review programme for the Pacific region. Our work to support PASAI's use of the SAI Performance Measurement Framework assessment tool continued. 12 SAIs from the region were supported to start developing strategic plans that included identifying development needs.

Financial performance for *Statutory Auditor Function MCA*					
	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Income					
Crown	9,611	9,615	9,611	9,611	9,611
Other	165	130	230	243	243
Expenditure	(9,275)	(9,524)	(9,841)	(9,854)	(9,854)
Surplus	**501**	**221**	-		-

* All Estimates information is unaudited.

Statutory Auditor Function MCA costs were $0.6 million lower than the supplementary estimates, mainly due to lower performance audit costs arising from staff vacancies throughout the year and lower associated operating costs.

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

Scope of the appropriation and what is intended to be achieved

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

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

Our performance

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

Financial performance for *Remuneration of Auditor-General and Deputy Auditor-General PLA*					
	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Income	838	1,052	1,052	838	1,052
Expenditure	(739)	(1,052)	(1,052)	(838)	(1,052)
Surplus	**99**	-	-	-	-

* All Estimates information is unaudited.

Remuneration of Auditor-General and Deputy Auditor-General PLA costs were $0.1 million lower than the supplementary estimates, due to the Auditor-General position being vacant for longer than anticipated.

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

Scope of the appropriation and what is intended to be achieved

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

Our performance

Financial performance of output class: *Controller and Auditor-General – Capital Expenditure PLA*					
	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Property, plant, and equipment	595	427	191	538	550
Intangible assets	313	777	670	549	260
Other	60	227	370	76	456
Total Capital Expenditure	**968**	**1,431**	**1,231**	**1,163**	**1,266**

* All Estimates information is unaudited.

Our capital expenditure programme provides for the purchase of facilities and tools to enable our staff to carry out their work – for example, hardware and software for information systems, vehicles, building fit-out, and furniture and fittings.

This year, we met our objectives for maintaining our property, plant, and equipment. Our objectives for intangible assets included completing the upgrade of the Office's document management system. This project has been delayed and is not yet complete. This is reflected in the lower expenditure on intangible assets for 2017/18 compared to the supplementary estimates.

Section 24(1) of the Public Finance Act 1989 allows the purchase or development of assets from working capital and asset disposal proceeds, without any further appropriation.

4 What we must manage well

There are six key resources (or capitals) that we must manage well to improve our organisation and support the delivery of our strategic intentions to 2025.

The six key resources are:

1. Our independence and reputation;
2. Our people;
3. Our knowledge, information, and methods;
4. Our relationships;
5. Our financial and physical resources; and
6. Our use of natural resources.

Our *Organisation Development Plan 2018-21* is structured around these resources to ensure that we are focused on the most important areas we need to develop as an Office over the next four years.

We provide below a description of each resource, and how it creates value for us.

OUR INDEPENDENCE AND REPUTATION

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

Our independence is fundamental to everything we do and to our ability to create value over time. The main purpose of our governing legislation – the Public Audit Act 2001 – is to enable us to provide Parliament with an independent view on how the public sector is operating. Our independence is given statutory recognition and protection under our legislation, which is critical to exercising our ongoing role as an Officer of Parliament.

We cannot do our work without being, and being seen to be, independent. Each year, we scrutinise and apply professional judgement to financial audits of the entire public sector – about 3600 public entities – along with numerous performance audits and inquiries, and advice to parliamentary select committees about the Government's proposed spending and audit results.

Our work gives Parliament and New Zealanders an independent view about public sector performance and accountability, and enables Parliament and the New Zealand public to hold public entities to account for their performance.

Our reputation is critical to maintaining Parliament's and the public's trust and confidence in our work. As we cannot enforce our recommendations, our ability to influence is critical. We aim to be trusted, impartial, and authoritative.

How we protect our independence and reputation

We identify loss of independence and reputation as two of our more significant strategic risks. We manage these risks through the processes that support our work.

We have high expectations of the independence standards that auditors who work for us must meet. These standards are described in *The Auditor-General's Auditing Standards*. They exceed the minimum independence standards required of auditors operating in the private sector.

All our auditors are expected to have a very good understanding of the requirements and the consequences of not meeting the expected standards. We provide advice, training, and support to help our auditors in maintaining their independence.

Our independence requirements limit the additional work that can be carried out for public entities by auditors who work for us. This mitigates the risk that other work could be seen to compromise the auditor's objectivity and diminish the standing and value of the auditor's report.

We have a range of systems and processes in place to identify and mitigate risks to our independence and reputation. Formal declarations of our independence are required for every audit or assurance engagement we carry out. We continually assess the more challenging independence situations and their resolution, and we have monitoring systems to ensure that staff with independence conflicts are not involved in those public entities. The effective relationships we have with public entities and select committees help us to manage reputational risks.

In addition, effective working relationships with all contracted auditors who work for the Auditor-General help to ensure that any potentially difficult independence situations are communicated and resolved before they become a problem.

OUR PEOPLE

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

The experience, knowledge, skills, and commitment of our people are vital to our work and our ability to deliver on our statutory responsibilities and our strategic intentions. It is essential that we attract, develop, and retain talented staff.

As at 30 June 2018, we employed 397 people from diverse backgrounds and experiences, in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand. A shared corporate services team supports both business units. The Auditor-General also contracts auditors from over 35 private sector accounting firms to carry out annual audits on the Auditor-General's behalf. Our website has more detailed information about our staff profile (see oag.govt.nz/our-people/staff-profile).

We promote an organisational culture where people matter. A culture based on trust, respect, inclusiveness, and valuing each person's contribution. We consider this is fundamental to actively engaging, motivating, retaining, and enabling our people to do their best work. We seek independent advice about remuneration in comparable roles, so we can be confident that we are paying our people fairly. We intend to seek external advice to better understand whether we have a gender pay difference, and how we might address it if necessary.

We recognise the importance of regularly monitoring our culture and the engagement of our people, and responding to their feedback to strengthen our organisational culture. Our new employee engagement, culture, and continuous involvement survey has enabled us to identify areas to improve our culture and engagement, as well as other aspects of our business. We continue to prioritise our investment in the systems, tools, and equipment that our people need to do their jobs safely and efficiently. Development of our People strategy will start soon and will ensure that we are well positioned to meet our future capability challenges and opportunities.

We consider equality of employment opportunity critical to creating a workplace that enables all our staff to contribute to their full potential. The principles and practice of equal employment opportunities (EEO) are embedded in our human resources policies. Through our work on EEO, we aim to better understand how we can eliminate discrimination, and promote equity and diversity in our workplace. We are developing a flexible working arrangements policy and guidelines, and working on a plan to improve our Māori cultural competency and use of te reo Māori.

We continue to develop the skills and capability of our people to achieve our strategic objectives and strongly position ourselves to meet future challenges and changes in auditing. We encourage and support learning and development through on-the-job learning and formal training. Some of our people have been seconded internally, externally, and internationally. We also have staff who have been seconded to us from outside the Office to exchange skills and knowledge.

We are accredited as a Recognised Training Employer by Chartered Accountants Australia and New Zealand. We provide practical experience and support for over 30 new graduates each year as they work and study to become chartered accountants. Our people also hold many other professional accreditations and memberships. Some of our people have roles in international auditing organisations.

OUR KNOWLEDGE, INFORMATION, AND METHODS

Our collective knowledge and expertise about the public sector.

Our mandate and independence gives us access to a wealth of information, which we collect and analyse as we carry out audits and our other work. This information, the knowledge we gain from it, and the methods we use to store, analyse, and share it are vital to our role and our ability to create value and insight.

We take our responsibilities for protecting and managing that information seriously. Our business processes and systems protect access to the information we gather and help us to actively monitor and manage any risks to our independence.

Our people and their skills and experience – alongside professional standards – help to identify the information we need to collect. Our methods help to protect the quality of what we collect. We invest in and continue to upgrade our systems and tools to effectively manage and protect our information, and enable us to improve our insights from the information we collect.

The unique view we have of the entire public sector and our professional judgement enable us to draw insights that can help to improve the performance of the public sector. We also contribute internationally – our approaches are often held up as examples for others to follow, and other audit offices come to learn from us. For example, we share our knowledge, information and advice with other audit organisations throughout the world, particularly in the Pacific.

The quality of the relationships we have with others and the ways we communicate help us to use our knowledge to best effect – influencing public entities to make the improvements that our work has identified as necessary.

Our organisation development plan is ensuring that we continue to improve our systems and our capability to analyse and use data differently. Doing so is essential to making full use of the wealth of information we have access to. We are also exploring ways to make our information more accessible while considering how to improve our reporting practices to ensure that they will be fit-for-purpose for the next generation of New Zealanders.

We know that there are risks to our systems so we take active steps to mitigate them, including keeping our disaster recovery and business continuity plans up to date. There are also risks to our capacity and methods. We are actively considering how fit-for-purpose our approaches and practices will be as we prepare to move into the next quarter of the 21st century.

OUR RELATIONSHIPS

Our mutually productive and respectful relationships with all our stakeholders.

Effective working relationships with our many stakeholders are essential to our work and our ability to create value. Our most important external relationships are with Parliament, the organisations that we audit, and other audit institutions around the world (particularly in the Pacific).

As an independent Officer of Parliament, the Office cannot operate without the trust and confidence of Parliament.

Our people advise Parliamentary select committees in support of their work to hold the public sector to account. We help the committees to scrutinise the performance of public organisations on behalf of Parliament. We work hard to support Parliament while maintaining our independence from the Government and the organisations that we audit.

Our relationships with the public entities that we audit support the flow of information, intelligence, and reports that collectively improve efficiencies and, through our recommendations, the delivery of services to New Zealanders.

Good relationships are particularly important when we raise adverse audit findings or discuss complex and technical accounting issues with the public entities we are auditing. Such issues will often not be clear-cut; they can demand much discussion and usually require careful judgement. Although organisations might not always agree with our findings and recommendations, a respectful and trusting relationship helps support this part of the audit process.

Our relationships with other stakeholders also serve to strengthen public sector accountability and promote good governance. For example, we share our skills, information, and advice with other audit organisations throughout the world, particularly in the Pacific. We take part in international auditing conferences, peer review organisations like ours, and host international visitors. We work with other integrity and accountability agencies – for example Transparency International New Zealand – to influence transparency and accountability in the public sector.

Our Strategy aims to increase the impact of our work. This will require us to improve some of our current relationships and develop new relationships where we currently have limited contact, for example, with citizens and iwi groups. We intend to engage more widely on our proposed work programme and use different ways to ensure that our work reaches those who can make the changes required to improve public services.

We regularly check – formally and informally – that our stakeholders are satisfied with the relationships they have with us.

One of the challenges to maintaining effective relationships is the pace and scale of change in the public sector. High staff turnover, large-scale organisational transformation programmes, and increasingly complex institutional arrangements all require effort to ensure that our staff are engaging with the right people at the right time. We actively monitor risk across all the organisations we audit.

The challenges also provide opportunities for new or improved ways of working with others. We want to make better use of our oversight of the entire public sector so that we can take more of an active "thought leadership" role and to collaborate with others to discuss ways to improve New Zealand's public management and accountability system.

Our people are at the heart of our effective relationships. Our organisation development plan aims to ensure that our people have the skills, resources, and systems necessary to make the most of the relationships that we have with our key stakeholders.

OUR FINANCIAL AND PHYSICAL RESOURCES

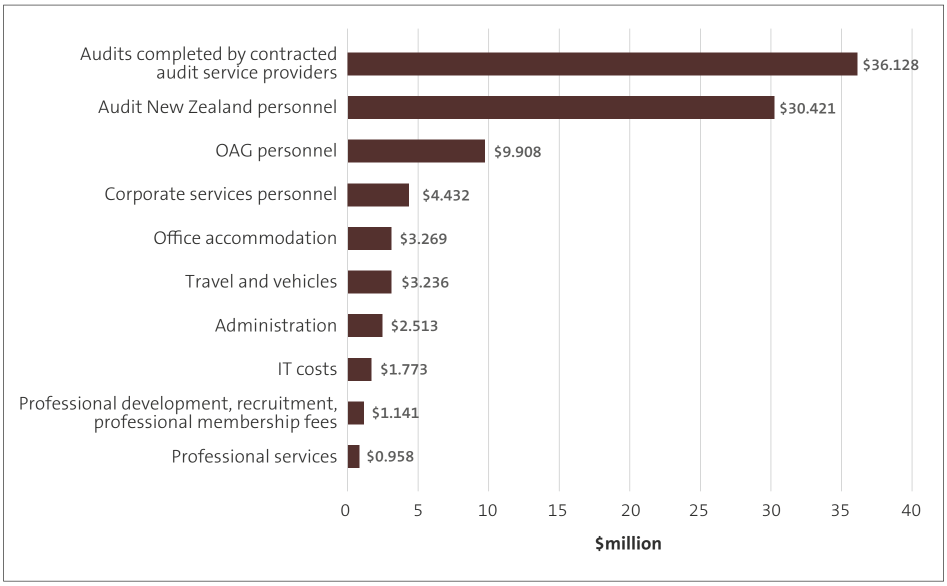
Our use of financial and physical resources to support our work.

The financial and physical resources we use are essential to our work.

Operating costs

Most of our costs are staff-related. Other costs include office accommodation, costs of providing information technology systems, and travel for auditors to work at the premises of the organisations they are auditing.

How our operating funding was spent in 2017/18



Physical assets and software

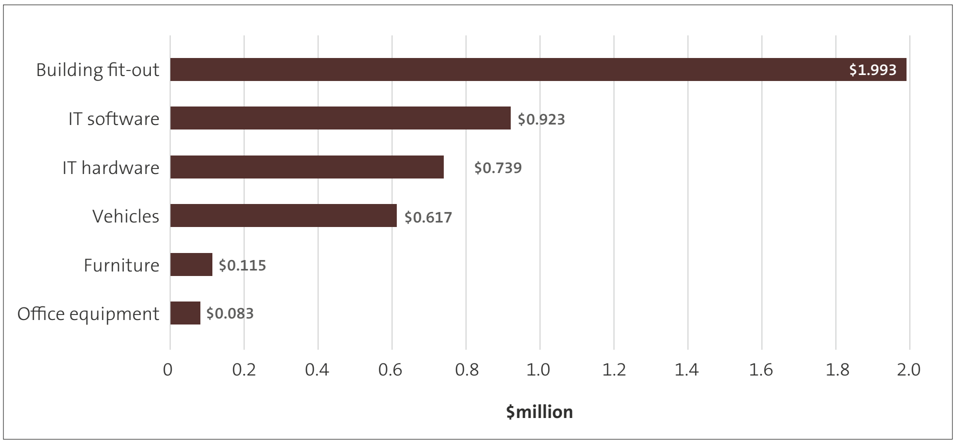
We cannot deliver value without investing in the assets that support our work.

Building fit-out across our seven offices is our largest physical asset.

We acquire and maintain our own information technology hardware and software, and maintain vehicles because our staff travel widely for their work.

Our capital expenditure programme is funded through depreciation and amortisation of existing assets. This funding allows for replacement of our assets, but does not always allow for investing in new technology to improve our systems. We will need extra funds for this in coming years.

Net value of our physical and intangible assets

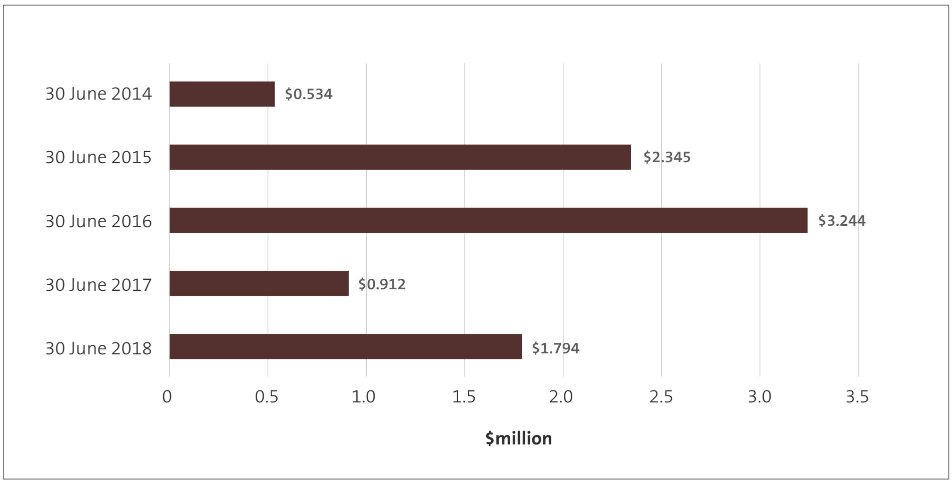


How we are funded

Audit New Zealand and our contracted audit service providers charge fees for the audits they carry out for the Auditor-General. A proportion of annual audit fees are passed on to the OAG, and that money helps to cover the OAG's operating costs related to managing the auditor appointment, standard setting, reporting and other processes supporting our annual audits.

Audit New Zealand is funded by the audit fees charged to entities, which are set at a reasonable level for the audit work completed. Revenue from audit fees varies from year to year, based on the extent of audit work carried out. In some years we generate a surplus, and in other years a loss. To manage these ebbs and flows, we use a memorandum account. We put surpluses into that account so we can draw on the funds when we have a deficit – this helps us to operate sustainably. We have operated the memorandum account since 2013/14, and 2016/17 was the first year we used funds from the memorandum account to meet our costs. The following chart shows the balance of our memorandum account over time.

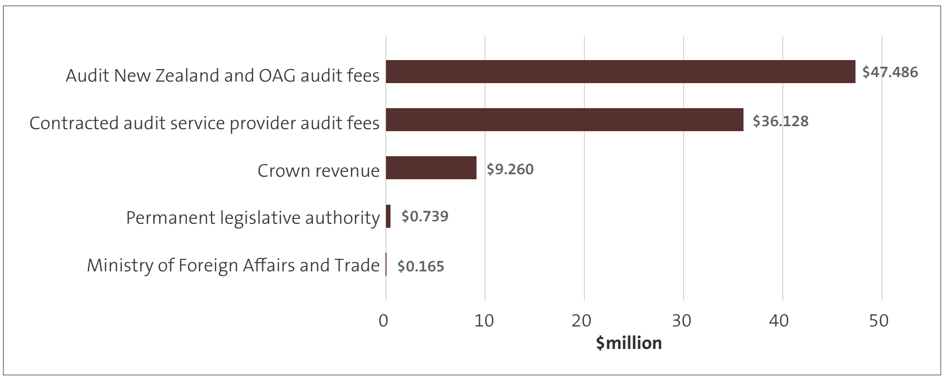
Memorandum account balance over time



The money we use to fund performance audits, inquiries, and support to Parliament comes from the Crown (the appropriation is called *Statutory Auditor Function*). A separate source of funding from the Crown (the appropriation is called *Audit and Assurance Services*) covers part of the cost of audits of smaller entities, such as cemetery trusts and reserve boards. The funding from both appropriations makes up Crown revenue in the following chart.

Funding from the Ministry of Foreign Affairs and Trade represents the funding provided by the New Zealand Aid Programme for our support to the PASAI secretariat.

How our operating costs were funded in 2017/18



Longer-term planning and managing risks

Every three years, we audit the long-term plans of local authorities, which means additional audit fee income every third year. This is the main cause of the surplus and deficit cycle that our memorandum account helps us to manage.

To manage the fluctuations, we regularly update our five-year forecasts for expected fees, costs, and the memorandum account balance. We also monitor our financial risks.

There are risks in securing adequate audit fees to fund our operations, and risks to the affordability of having adequate numbers of competent audit staff who can complete our audits to the required standards.

We manage these risks through prudent financial management, monitoring audit fees to ensure fairness to public entities and to auditors, our staff training programme, and ongoing work to improve the efficiency of our systems and processes.

Risks to our cash position arise from our reliance on timely invoicing and collection of audit fees, and are managed through monitoring and follow-up of audit contracts and invoicing.

OUR USE OF NATURAL RESOURCES

Our use of natural resources and managing the environmental impact of our activities.

Our main environmental impact is from greenhouse gas emissions generated by the air and vehicle travel required to do our work. Despite technology advances, most auditing work is done on site so that our auditors have direct access to records and people. This means unavoidable travel. Our other work also requires travel – for example, our involvement with other audit offices in the Pacific and international auditing organisations.

We want to reduce our environmental impact, and we would like to do more. We are exploring opportunities to work in a more environmentally responsible manner and to be more efficient. We already use video conferencing extensively, and will consider how greater flexible working practices could reduce our overall environmental impact. We are assessing our current policies and practices (including our procurement policies) and will prepare a framework to measure and report our use of natural resources and effect on the environment. We will then consider options for managing and reducing our resource use and environmental impact. Over time, we plan to consider the environmental implications of the work locations of the auditors we appoint and how we could further improve our recruitment, travel, and vehicle policies.

5

Our financial results

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Overview of our financial results

Operating result

For 2017/18, we had an operating surplus of $1.482 million. Of this surplus, $0.882 million is transferred to our memorandum account, which was set up to help us manage the peaks and troughs in our revenue cycle. Our net operating results by output are summarised below.

	Audit and Assurance Services $000	Supporting Accountability to Parliament $000	Performance Audits and Inquiries $000	Remuneration of Auditor-General and Deputy $000	Total $000
Funding	84,646	3,200	6,576	838	95,260
Costs	(83,764)	(3,195)	(6,080)	(739)	(93,778)
Surplus	**882**	**5**	**496**	**99**	**1,482**

Memorandum account

The surplus for the year was consistent with our expected funding cycle.

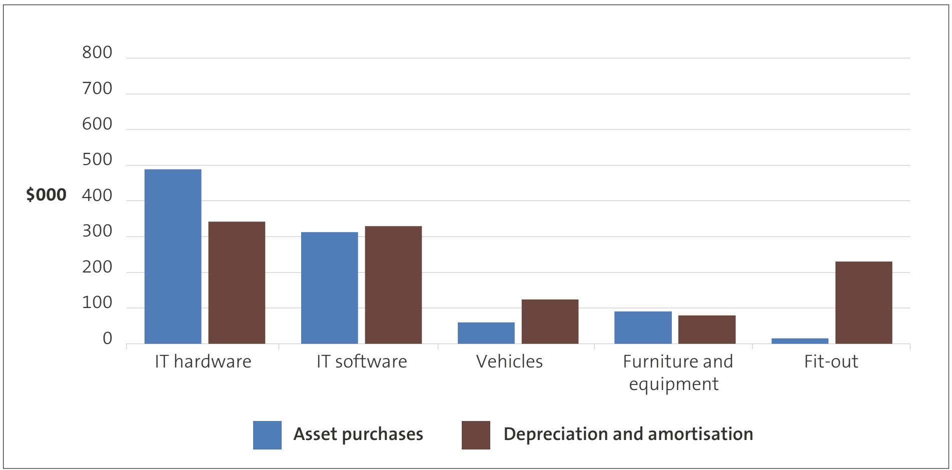
The memorandum account funds are held for future use on audit and assurance services.

Audit and Assurance Services memorandum account	$000
Opening balance at 1 July 2017	912
Funding from Audit and Assurance Services surplus	882
Closing balance at 30 June 2018	**1,794**

Investment in our assets

In 2017/18, we maintained our replacement programme for IT hardware, vehicles, and furniture and equipment. We also continued our investment in improvements to our document management system.

Asset purchases and depreciation



Statement of responsibility

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

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

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2018 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2019 and its operations for the year ending on that date.

John Ryan
Controller and Auditor-General

28 September 2018

Countersigned:

Maria Viviers
Chief Financial Officer

28 September 2018

Financial statements 2017/18

Statement of comprehensive revenue and expense
for the year ended 30 June 2018

This statement reports the revenue and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are on pages 20, 21, 32, and 33.

	Notes	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Revenue						
Crown funding	2	10,599	10,817	10,813	10,599	10,813
Audit fee revenue	3	84,492	76,414	83,162	83,215	80,494
Other revenue		169	149	230	230	230
Gain on sale of plant and equipment		-	47	18	-	-
Total revenue		**95,260**	**87,427**	**94,223**	**94,044**	**91,537**
Expenditure						
Personnel costs	4	45,704	43,252	43,960	43,929	43,787
Other operating costs	5	46,596	44,709	46,597	47,850	47,013
Depreciation and amortisation expense	10, 11	1,105	1,126	1,191	1,108	1,192
Capital charge	6	373	404	373	373	373
Total expenditure		**93,778**	**89,491**	**92,121**	**93,260**	**92,365**
Surplus/(deficit)		**1,482**	**(2,064)**	**2,102**	**784**	**(828)**
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		**1,482**	**(2,064)**	**2,102**	**784**	**(828)**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

Statement of financial position
as at 30 June 2018

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

	Notes	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Current assets						
Cash and cash equivalents	7	5,254	2,695	6,626	2,941	3,295
Receivables	8	8,344	7,087	6,750	8,796	6,978
Prepayments		809	781	579	779	579
Work in progress	9	1,105	1,737	1,201	1,562	1,562
Total current assets		***15,512***	***12,300***	***15,156***	***14,078***	***12,414***
Non-current assets						
Plant and equipment	10	3,547	3,682	3,415	3,494	3,623
Intangible assets	11	922	938	1,028	1,153	1,081
Total non-current assets		***4,469***	***4,620***	***4,443***	***4,647***	***4,704***
Total assets		**19,981**	**16,920**	**19,599**	**18,725**	**17,118**
Current liabilities						
Payables and deferred revenue	12	5,695	4,785	6,198	6,034	5,584
Repayment of surplus due to the Crown	13	600	268	18	-	-
Employee entitlements	14	5,091	4,195	3,914	4,238	4,045
Total current liabilities		**11,386**	**9,248**	**10,130**	**10,272**	**9,629**
Non-current liabilities						
Payables and deferred revenue	12	10	22	-	-	-
Employee entitlements	14	570	517	462	536	453
Total non-current liabilities		580	539	462	536	453
Total liabilities		**11,966**	**9,787**	**10,592**	**10,808**	**10,082**
Net assets		**8,015**	**7,133**	**9,007**	**7,917**	**7,036**
Equity						
Taxpayers' funds		6,221	6,221	6,221	6,221	6,221
Memorandum account	15	1,794	912	2,786	1,696	815
Total equity		**8,015**	**7,133**	**9,007**	**7,917**	**7,036**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2018

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

	Note	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Taxpayers' funds						
Balance at 1 July		**6,221**	**6,221**	**6,221**	**6,221**	**6,221**
Total comprehensive revenue and expense		1,482	(2,064)	2,102	784	(828)
Transfer of memorandum account net (surplus)/ deficit for the year		(882)	2,332	(2,084)	(784)	828
Capital contribution		-	-	-	-	-
Surplus repayment due to the Crown		(600)	(268)	(18)	-	-
Balance at 30 June		**6,221**	**6,221**	**6,221**	**6,221**	**6,221**
Memorandum account						
Balance at 1 July		**912**	**3,244**	**702**	**912**	**1,643**
Memorandum account net surplus/(deficit) for the year		882	(2,332)	2,084	784	(828)
Balance at 30 June	**15**	**1,794**	**912**	**2,786**	**1,696**	**815**
Total equity						
Balance at 1 July		7,133	9,465	6,923	7,133	7,864
Balance at 30 June		**8,015**	**7,133**	**9,007**	**7,917**	**7,036**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

Statement of cash flows
for the year ended 30 June 2018

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

	Notes	Actual 2017/18 $000	Actual 2016/17 $000	Main Estimates 2017/18 $000*	Supplementary Estimates 2017/18 $000*	Main Estimates 2018/19 $000*
Cash flows from operating activities						
Receipts from the Crown		10,599	10,817	10,813	10,599	10,813
Receipts from public entities[1]		48,620	42,480	48,145	47,568	47,420
Payments to suppliers[1]		(11,939)	(13,217)	(12,183)	(13,779)	(14,011)
Payments to employees		(43,362)	(41,239)	(42,366)	(42,366)	(42,193)
Net GST paid[2]		241	25	-	-	-
Capital charge paid		(373)	(404)	(373)	(373)	(373)
Net cash flow from (used in) operating activities	16	3,786	(1,538)	4,036	1,649	1,656
Cash flows from investing activities						
Receipts from sale of plant and equipment		8	109	32	28	174
Purchase of plant and equipment		(654)	(654)	(561)	(614)	(1,006)
Purchase of intangible assets		(313)	(777)	(670)	(549)	(260)
Net cash flow from (used in) investing activities		(959)	(1,322)	(1,199)	(1,135)	(1,092)
Cash flows from financing activities						
Surplus repayment to the Crown		(268)	(77)	(172)	(268)	(340)
Net cash flow from (used in) financing activities		(268)	(77)	(172)	(268)	(340)
Total net increase (decrease) in cash held		**2,559**	**(2,937)**	**2,665**	**246**	**224**
Cash at the beginning of the year		2,695	5,632	3,961	2,695	3,071
Cash at the end of the year		**5,254**	**2,695**	**6,626**	**2,941**	**3,295**

* All Estimates information is unaudited.

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

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

The accompanying notes form part of these financial statements.

Statement of commitments
as at 30 June 2018

This statement records expenditure to which the Office is contractually committed at 30 June 2018.

Non-cancellable operating lease commitments

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

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

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

	Actual 2017/18 $000	Actual 2016/17 $000
Non-cancellable operating lease commitments		
Not later than one year	2,567	2,750
Later than one year and not later than five years	4,077	6,426
Later than five years	39	-
Total non-cancellable operating lease commitments	6,683	9,176
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	**6,683**	**9,176**

Statement of contingent liabilities and contingent assets
as at 30 June 2018

This statement discloses situations that existed at 30 June 2018, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2018 (2017: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2018 (2017: Nil).

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 30 June 2018

Note 1: Statement of accounting policies

Reporting entity

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

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

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

The financial statements of the Office are for the year ended 30 June 2018 and were authorised for issue by the Controller and Auditor-General on 28 September 2018.

Basis of preparation

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

Statement of compliance

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

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

These financial statements comply with PBE Standards.

Presentation currency and rounding

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

Standards issued and not yet effective and not early adopted

Standards and amendments issued but not yet effective, which have not been early adopted and which are relevant to the Office, are:

Financial Instruments

In January 2017, the External Reporting Board (XRB) issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which might result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of the Office adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of the Government will adopt PBE IFRS 9. The Office has not yet assessed the effect of the new standard.

Impairment of Revalued Assets

In April 2017, the XRB issued *Impairment of Revalued Assets*, which now clearly scopes revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost was scoped into the impairment accounting standards.

Under the amendments, a revalued asset can be treated as impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of the Office adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of the Government will adopt the amendment.

Service Performance Reporting

In November 2017, the XRB issued PBE FRS 48 *Service Performance Reporting*, which establishes requirements for selection and presentation of service performance information. Previously, there has been no PBE standard dealing solely with performance reporting.

The Office has not yet assessed the effect of the new standard, which is required to be adopted from the 2021/22 financial year.

Budget and forecast figures

The forecast financial statements (Main Estimates 2018/19) have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures (all Estimates information) are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2017/18 Main Estimates and Supplementary Estimates

The 2017/18 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2017, and in the Office's 2016/17 annual report.

The 2017/18 Supplementary Estimate forecast financial statements are based on the updated forecasts published in Budget 2018.

2018/19 Main Estimates

The 2018/19 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2018. They have been prepared in accordance with PBE Financial Reporting Standard 42: *Prospective Financial Statements* and comply with that standard.

The 2018/19 forecast financial statements were approved for issue by the Deputy Controller and Auditor-General on 4 April 2018. The Deputy Controller and Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Office regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what might occur during the 2018/19 year. The forecast figures have been compiled on the basis of existing government policies and after the Deputy Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee.

The main assumptions, which were adopted as at 4 April 2018, were as follows:

- The Controller and Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Controller and Auditor-General will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand and the effects of the Public Audit Act 2001.
- The Controller and Auditor-General will continue to use audit expertise from Audit New Zealand and private sector accounting firms.
- Forecast personnel costs are based on expected staff numbers necessary to deliver the work of the Office, incorporating remuneration rates that are based on current costs adjusted for anticipated market changes.
- Operating costs are based on estimates of costs that will be incurred under the Office's current operating model, with small allowances for price increases.
- Forecast capital expenditure and depreciation are based on planned replacement of motor vehicles and IT equipment, plus continued investment in developing the Office's software programs.

The actual financial results achieved for 30 June 2019 are likely to vary from the forecast information presented, and the variations might be material. There are no known significant changes since the approval of the forecasts.

Summary of significant accounting policies

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

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

Goods and Services Tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Output cost allocation

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

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

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

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

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below:

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

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

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

Note 2: Crown funding

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

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

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

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

Note 3: Audit fee revenue

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

Fee revenue generated by the Office for audits and other assurance work
Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to

the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised. When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Fee revenue generated by contracted audit service providers for audits

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

Critical accounting estimates and assumptions

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

Breakdown of fee revenue

	Actual 2017/18 $000	Actual 2016/17 $000
Fee revenue generated by the Office for audit and assurance services	48,364	42,791
Fee revenue generated by contracted audit service providers for audits of public entities*	36,128	33,623
Total audit fee revenue	**84,492**	**76,414**

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

Note 4: Personnel costs

Accounting policy

Superannuation schemes

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

Breakdown of personnel costs

	Actual 2017/18 $000	Actual 2016/17 $000
Salaries and wages	42,416	40,546
Other employee-related costs	1,106	1,097
Employer contributions to defined contribution plans	1,233	1,189
Increase in employee entitlements	949	420
Total personnel costs	**45,704**	**43,252**

Note 5: Other operating costs

Accounting policy

Expenses of audit service providers

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

Operating leases

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

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other operating costs

	Actual 2017/18 $000	Actual 2016/17 $000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	94	90
Operating lease payments	2,568	2,582
Fees for audits of public entities carried out by PKF Goldsmith Fox Audit*	-	14
Fees for audits of public entities carried out by other contracted audit service providers*	36,128	33,609
Other expenses	7,806	8,414
Total other operating costs	**46,596**	**44,709**

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

Note 6: Capital charge

Accounting policy

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

Further information on the capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate is determined by the Treasury, and for the year ended 30 June 2018 was 6% (7% from 1 July 2016 to 31 December 2016 and 6% from 1 January 2017 to 30 June 2017).

Note 7: Cash and cash equivalents

Accounting policy

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

Further information on cash and cash equivalents

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

During this financial year, no funds were drawn down under the facility (2017: Nil).

Note 8: Receivables

Accounting policy

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

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

Breakdown of receivables and further information

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

	2017/18			2016/17		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
Not past due	7,005	-	7,005	5,477	-	5,477
Past due 1-30 days	895	-	895	1,279	-	1279
Past due 31-60 days	363	-	363	237	-	237
Past due 61-90 days	38	-	38	54	-	54
Past due >90 days	74	(31)	43	71	(31)	40
Carrying amount	**8,375**	**(31)**	**8,344**	**7,118**	**(31)**	**7,087**

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

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

	Actual 2017/18 $000	Actual 2016/17 $000
Balance at 1 July	31	31
Additional provisions made during the year	-	-
Receivables written off during the year	-	-
Balance at 30 June	**31**	**31**

Note 9: Work in progress

Accounting policy

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

Critical accounting estimates and assumptions

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

Note 10: Property, plant, and equipment

Accounting policy

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

Additions

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

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

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

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

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

Impairment of property, plant, and equipment

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

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

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

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

Critical accounting estimates and assumptions

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

Breakdown of property, plant, and equipment and further information

	Furniture and fittings $000	Office equipment $000	Leasehold improvements $000	IT hardware $000	Motor vehicles $000	Total $000
Cost						
Balance at 1 July 2016	1,562	384	3,154	2,862	1,119	9,081
Additions	52	65	-	310	227	654
Disposals	(4)	-	-	(453)	(276)	(733)
Balance at 30 June 2017	1,610	449	3,154	2,719	1,070	9,002
Additions	42	49	15	488	60	654
Disposals	(58)	(3)	-	(818)	(37)	(916)
Balance at 30 June 2018	**1,594**	**495**	**3,169**	**2,389**	**1,093**	**8,740**
Accumulated depreciation and impairment losses						
Balance at 1 July 2016	1,459	357	717	2,265	431	5,229
Depreciation expense	39	21	229	311	161	761
Elimination on disposal	(4)	-	-	(451)	(215)	(670)
Balance at 30 June 2017	1,494	378	946	2,125	377	5,320
Depreciation expense	43	37	230	342	124	776
Elimination on disposal	(58)	(3)	-	(817)	(25)	(903)
Balance at 30 June 2018	**1,479**	**412**	**1,176**	**1,650**	**476**	**5,193**
Carrying amounts						
Balance at 1 July 2016	103	27	2,437	597	688	3,852
Balance at 30 June 2017	116	71	2,208	594	693	3,682
Balance at 30 June 2018	**115**	**83**	**1,993**	**739**	**617**	**3,547**

Note 11: Intangible assets

Accounting policy

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

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

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

Amortisation

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

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

Critical accounting estimates and assumptions

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

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2016	4,162	120	4,282
Additions	505	272	777
Disposals	-	-	-
Balance at 30 June 2017	**4,667**	**392**	**5,059**
Additions	-	313	313
Disposals	-	-	-
Reclassification	(80)	80	
Balance at 30 June 2018	**4,587**	**785**	**5,372**
Accumulated amortisation and impairment losses			
Balance at 1 July 2016	3,636	120	3,756
Amortisation expense	365	-	365
Disposals	-	-	-
Balance at 30 June 2017	4,001	120	4,121
Amortisation expense	298	31	329
Disposals	-	-	-
Reclassification	(56)	56	
Balance at 30 June 2018	**4,243**	**207**	**4,450**
Carrying amounts			
Balance at 1 July 2016	526	-	526
Balance at 30 June 2017	666	272	938
Balance at 30 June 2018	**344**	**578**	**922**

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

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at their face value.

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

Critical accounting estimates and assumptions

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

Breakdown of payables and deferred revenue

	Actual 2017/18 $000	Actual 2016/17 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,092	1,156
Income in advance	3,333	2,619
Accrued expenses	328	308
Total payables under exchange transactions	*4,753*	*4,083*
Current payables and deferred revenue under non-exchange transactions		
GST payable	942	702
Total payables and deferred revenue under non-exchange transactions	*942*	*702*
Total current payables and deferred revenue	**5,695**	**4,785**
Non-current payables and deferred revenue under exchange transactions		
Other payables	10	22
Total non-current payables and deferred revenue	**10**	**22**

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

Note 13: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year. The amount to be repaid includes any unused Crown funding and/or gains on sale of assets from the previous financial year. Any surplus arising from audit fees collected under the revenue-dependent appropriation is transferred to the memorandum account and held for use in the *Audit and Assurance Services RDA* output class in future years. The memorandum account is explained further in Note 15.

	Note	Actual 2017/18 $000	Actual 2016/17 $000
Surplus/(Deficit)current year		1,482	(2,064)
Less: Surplus/(Deficit) transferred to/from memorandum account	15	882	(2,332)
Total provision for payment to the Crown		**600**	**268**

Note 14: Employee entitlements

Accounting policy

Short-term employee entitlements

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

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

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

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

Long-term employee entitlements

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

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

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

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

The discount rate is based on New Zealand Government bond data at 30 June 2018. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $36,263 lower and $39,952 higher respectively.

If the salary inflation factor were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $51,542 higher and $47,273 lower respectively.

Breakdown of employee entitlements

	Actual 2017/18 $000	Actual 2016/17 $000
Current employee entitlements		
Salary and other accruals	1,548	1,294
Annual leave	2,981	2,480
Time off in lieu of overtime worked	285	156
Retiring leave	171	165
Sick leave	106	100
Total current employee entitlements	*5,091*	*4,195*
Non-current employee entitlements comprise:		
Retiring leave	570	517
Total non-current employee entitlements	*570*	*517*
Total employee entitlements	**5,661**	**4,712**

Note 15: Memorandum account

The memorandum account summarises the accumulated surpluses and deficits incurred in the provision of audit and assurance services by the Office on a full cost recovery basis. These transactions are included as part of the Office's operating income and expenses in the surplus/deficit, but are excluded from the calculation of the Office's repayment of surplus (see Note 13).

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

	Actual 2017/18 $000	Actual 2016/17 $000
Audit and assurance services		
Balance at 1 July	912	3,244
Revenue	84,646	76,583
Expenses	(83,764)	(78,915)
Surplus/(deficit) for the year	882	(2,332)
Balance at 30 June	**1,794**	**912**

Note 16: Reconciliation of net surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of comprehensive revenue and expense on page 47 to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 50.

	Actual 2017/18 $000	Actual 2016/17 $000
Net Surplus/(deficit)	**1,482**	**(2,064)**
Add/(Less) non-cash items		
Depreciation and amortisation	1,107	1,126
Total non-cash Items	*1,107*	*1,126*
Add/(Less) movements in statement of financial position items		
(Increase)/decrease in prepayments	(28)	(203)
(Increase)/decrease in receivables	(1,224)	(164)
(Increase)/decrease in work in progress	1,309	(38)
(Decrease)/increase in payables	158	(593)
(Decrease)/increase in employee entitlements	977	445
Total movements in working capital items	*1,192*	*(553)*
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	5	(47)
Total items classified as investing activities	*5*	*(47)*
Net cash flow from operating activities	**3,786**	**(1,538)**

Note 17: Related party transactions

The Office is a wholly owned entity of the Crown.

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

Key management personnel compensation

	Actual 2017/18	Actual 2016/17
Key management personnel remuneration ($000)	3,450	3,611
Full-time equivalent key management personnel	11	11.9

Key management personnel at 30 June 2018 comprised the Deputy Auditor-General and the 10 members of the OAG and Audit New Zealand Leadership Teams.

Note 18: Financial instruments

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

Market risk

Currency risk

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

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2017: Nil).

Interest rate risk

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

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

Credit risk

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

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

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

The Office's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net receivables (see Notes 7 and 8).

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

Liquidity risk

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

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

The Office's financial liabilities are outlined in Note 12: Payables and deferred revenue. These are all due to be settled on 30-day terms.

Categories of financial instruments

The carrying amounts of financial instruments are as follows:

	Notes	Actual 2017/18 $000	Actual 2016/17 $000
Loans and receivables			
Cash and cash equivalents	7	5,254	2,695
Receivables	8	8,344	7,087
Total loans and receivables		**13,598**	**9,782**
Financial liabilities measured at amortised cost			
Payables		5,695	4,785
Total creditors and other payables	12	**5,695**	**4,785**

Note 19: Capital management

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

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

Note 20: Explanations of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2017/18 budget figures (2017/18 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The overall surplus for the year was $1.4 million, which was $0.6 million less than budgeted in the Main Estimates.

The surplus in the audit and assurance services revenue-dependent appropriation was $1.2 million less than budgeted, with higher net costs of delivering audits. These costs included additional personnel costs in Audit New Zealand and additional work carried out by contracted audit service providers.

The lower surplus in audit and assurance services was partly offset by an unbudgeted surplus of $0.5 million relating to performance audits and inquiries, which was mainly due to lower personnel costs in the OAG.

Statement of financial position

Receivables are $1.6 million higher than the Main Estimates, due to timing of billing of audit fees. This has also resulted in a lower than budgeted cash balance.

Employee entitlements were $1.2 million higher than the Main Estimates, due higher leave balances and additional staff.

The balance of the memorandum account was $1m less than the Main Estimates, reflecting the lower surplus on the audit and assurance services revenue dependent appropriation.

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Independent Auditor's Report

PKF Goldsmith Fox Audit
Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

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

- the financial statements of the Controller and Auditor-General (the Auditor-General) on pages 47 to 74 that comprise the statement of financial position, statement of commitments, and statement of contingent liabilities and contingent assets as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2018 on pages 8 to 11; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2018 on pages 14 to 33.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
  - present fairly, in all material respects, the:
    - financial position as at 30 June 2018;
    - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General;
  - complies with generally accepted accounting practice in New Zealand;
  - presents fairly, in all material respects, for the year ended 30 June 2018:
    - what has been achieved with each appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the appropriation statements of the Auditor-General for the year ended 30 June 2018, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

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

Basis for our Opinion

We carried out the audit in accordance with the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we applied the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* that is also applied to the audit of performance information in many other public sector entities in New Zealand. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

PKF Goldsmith Fox Audit
Chartered Accountants

We have fulfilled our responsibilities in accordance with International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports.*

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

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

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

The Auditor-General is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Auditor-General is responsible for assessing his ability to continue as a going concern. The Auditor-General is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate his activities, or there is no realistic alternative but to do so.

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

Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports* will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the published Estimates of the Auditor-General.

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Chartered Accountants

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the International Standards on Auditing (New Zealand) and the Auditor-General's Auditing Standard 4 – *The Audit of Performance Reports*, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auditor-General's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor-General.
- We evaluate the appropriateness of the reported performance information within the Auditor-General's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Auditor-General and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Auditor-General's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Auditor-General to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor-General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information included on pages 3 to 7, 34 to 46, and 79 to 89, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

PKF Goldsmith Fox Audit
Chartered Accountants

Independence

We are independent of the Auditor-General in accordance with the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

The engagement partner on the audit resulting in this independent auditor's report is Gordon Hansen.

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit
Christchurch, New Zealand

Dated: 28 September 2018

Appendix 1
Entities audited under section 19 of the Public Audit Act 2001

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

At 30 June 2018, arrangements had been entered into for audits of the following entities:

- The New Zealand Sports Foundation Charitable Trust
- The AUT/Millennium Ownership Trust
- ANDRILL Joint Venture
- New Zealand Antarctic Research Institute
- Te Awa Tupua
- Te Korotete.

Appendix 2
Report from the independent reviewer

18 July 2018.

John R Strahl

P O Box 33141 Petone Post Shop

Lower Hutt

John Ryan

Controller and Auditor-General

PO Box 3928

Wellington 6140

Dear Mr Ryan

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSES 2018

Background and instructions

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

Audit New Zealand, a business unit of your Office, has a large and competent staff. However, with approximately 3,545 public entities in New Zealand which must be separately audited, it is impractical for Audit New Zealand itself to carry out all these audits. You thus contract auditors from the private sector to carry out many of these on your behalf. The Office of the Auditor-General (OAG), sets strategy, policy, and standards, and appoints and oversees auditors, both from Audit New Zealand and auditors contracted from the private sector, who carry out audits on your behalf.

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

This is my report on that review for the year ending 30 June 2018.

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

My instructions are;

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

Allocate and tender audits

Monitor the reasonableness of audit fees; and

Anything else that impacts on those activities'

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

Types of Audit Appointments

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

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

Appointments for new entities

In the last financial year, the Auditor-General appointed auditors for 24 new entities. That number includes 7 schools or school related entities. Apart from schools, these new entities are mainly subsidiary entities created or acquired by existing entities (13), but 4 were completely new. All of these appointments were made following the principles set out in the 'Allocation Model' on which I will comment later. I observed no dissatisfaction by any of those entities to either the appointment made, the terms of appointment, or the proposed audit fee. I conducted a review of the files relating to the 4 completely new appointments. All were well documented, showed appropriate consideration of the principles of the Allocation Model, good process and decision making using objective standards.

New entities which must be audited by you by virtue of the Audit Act, often are created without any specific consideration of that requirement. I was satisfied with the approach taken by your office to track these down and to manage the appointment process.

Re-appointments (other than for schools)

Existing auditors were re-appointed during the last financial year to audit 142 public entities and their subsidiaries for a further term. Most were PFA 4th Schedule Administering Bodies and Cemetery

Trusts. In respect of all the appointments covered by this paragraph, I observed no dissatisfaction from any of the entities and an appropriate process appeared to be followed and in accordance with the principles set out in the Allocation Model.

New appointments for existing entities

There were 75 new appointments made for existing entities, 14 of which were late changes for school audits for the 2016 year due to non-completion by the previous auditor. All were appointed pursuant to the principles of the Allocation Model. None were significant and no dissatisfaction in respect of the appointments made was evident.

Appointment of school auditors

The appointment of auditors of all schools and school related entities arises on a 3 year cycle and this has commenced this year so that the audits for the year ending 31 December 2018 may be completed with the appointments to be for the 2018-2020 years.

This is a very major exercise with 2466 schools and related entities involved.

I reviewed the process that is currently underway.

As part of that process every school is advised and has the opportunity for some input. About 30 schools have requested a change for the 2018-2020 period. While all such requests are considered, I understand that it is unlikely that all will be agreed to. All existing audit service providers are also consulted. At the time of my review, eight audit service providers have withdrawn themselves from consideration in respect of some or all of the schools they currently audit, due to retirement or business reasons. Different auditors will need to be appointed for those schools.

The process for the vast majority appears to be going well, and in respect of these, re-appointments or new appointments will be completed in accordance with the Allocation Model.

It is likely that a tender process will be used for the others.

While no appointments have yet been made I was satisfied that the process currently underway appeared reasonable and appropriate.

Audit Allocation Model

As can be seen from the appointments above, the vast majority have been made using the Allocation Model. The Allocation Model has been the principal method used for appointments since it was first adopted in 2003 and later revised in 2010. This is now a well established and publicised set of principles are set out in a document entitled; "Appointing public sector auditors and setting audit fees.' The principles are summarised in that document as comprising;

auditor independence

auditor knowledge about public entities and public sector audits

the particular audit skills required

- the audit's quality and cost; and
- the need for the Auditor-General to always have access to enough audit capacity and capability

The full guide is available on the OAG website (ISBN-978-0-478-38310-2) and is provided to any entity and auditor when appropriate. It is consistently followed and referred to when issues arise.

I consider the Allocation Model remains fit for purpose. Prior to its adoption most audit appointments were made following a contestable tender process. The conduct of audits in the public sector requires specialist expertise, and a careful balance to ensure good quality and consistent auditing at reasonable cost. I remain of the view that these objectives and the balancing required to retain a consistent level of quality and reasonable cost, is best achieved by use of the Allocation Model as opposed to a pure contestable process in the vast majority of cases. This is a view shared by all of the private sector audit service providers that I consulted. I understand that the contestable process will continue to be used in individual cases when appropriate, but I doubt this will happen very often and I consider the current mix about right.

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

While the Allocation Model has operated well since last reviewed in 2010, I consider that it would be good practice for it to be revisited within the next few years although I have no particular expectation that material change will be necessary.

Audit fees

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

In practice, at the commencement of every individual audit appointment, the proposed fee is first referred to OAG by the auditor for review to ensure its reasonableness. Considerable detail including a clear breakdown of appropriate team mix and rates is expected. In respect of the school round of appointments, the OAG has provided to all audit service providers involved a detailed brief of its expectations around fee levels and any movements from previous years. Once the OAG has approved each auditor's compliance with that guidance, it is then for the auditor and entity to agree the fees. The OAG will assist in that process and has available a comprehensive data base of fees in the sector. It is the strong preference of the Auditor-General for the entity and the appointed auditor to reach agreement without further intervention from the OAG, and that is almost always the case.

In the year under review there are currently no outstanding disputes over audit fees.

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

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

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

While the process for the appointment and fixing of fees for schools has just commenced, I have observed some tension over school audit fees for a small number and in a few regions. Some audit service providers consider the cumulative effect of several years of audit fee increase constraint, particularly where the base rate has been historically low, could result in some withdrawal from the market if fees do not increase. I recommend that extra care is taken in this round where historically low rates remain, to ensure the fees are reasonable for all parties and that there is not a loss of provider depth or quality.

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

Issues arising after appointment

Except as mentioned, I have observed virtually no disputes over the initial appointment of auditors or the first setting of the audit fee. There continue to be some very limited numbers of subsequent dissatisfaction, but in this year less than previously. This is most commonly raised by the entity. They almost always involve the entity thinking they have to pay too much or that the performance or relationship between the entity and the auditor is not good. It is sometimes both. It is not uncommon for these to arise where extra work had been incurred because of poor quality financial information provided by the entity or a lack of full understanding of the information required by the auditor.

The number involved remains very small. I have reviewed several of the disputed cases. In all cases the Auditor-General has taken a consistent, constructive and objective position and has sought to assist the parties resolve the issue. As mentioned earlier, I am unaware of any currently outstanding disputes.

Other issues

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

Conclusions

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

1. the process and methods used to allocate audits has been conducted fairly reasonably and with suitable probity and objectivity
2. the approach and process taken to fix and monitor the reasonableness of audit fees has been reasonable having regard to the interest of all parties and has been conducted with suitable probity and objectivity
3. the subsequent issues that have arisen for both appointments and fees have been dealt with objectively fairly and reasonably.

Yours sincerely

John R Strahl.

Appendix 3
Reports and other work published in 2017/18

Performance audits
Managing the school property portfolio
Ministry of Social Development: Using a case management approach to service delivery – Progress in responding to the Auditor-General's recommendations
Ministry of Health: Supporting the implementation of patient portals
Auckland Council: Working to provide customer-centred services online
Getting the right information to effectively manage public assets: Lessons from local authorities
Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Final monitoring report
Ministry of Justice: Modernising court services
Using information to improve social housing services
Infrastructure as a Service: Are the benefits being achieved?
Inland Revenue Department: Procurement for the Business Transformation programme
Monitoring how water is used for irrigation
Inquiries
Fuji Xerox and all-of-government contracts (letter to Rt Hon Winston Peters MP)
Decision to grant Peter Thiel citizenship (letter to Denise Roche MP)
How the Overseas Investment Office uses information
Partnership schools: Request for investigation (letter to Hon Nikki Kaye MP)
Other reports and studies
Review of Defence Major Projects Report 2016
Commentary on He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position
Reflections from our audits: Investment and asset management
Introducing our work programme – Water management
Digital access to information and services: Learning from examples
Using data in the public sector (4 articles)
Results of the 2016 audits of tertiary education institutions (Letter to Education and Workforce Committee)
Results of the 2016 school audits (Letter to the Ministry of Education)
Observations from our 2016/17 central government audits (Letter to state sector chief executives)
Main matters arising from the 2016/17 audits of district health boards (Letter to district health board chairs and chief executives, and Ministry of Health Director General and Chief Financial Officer)
Port companies: Matters arising from our 2016/17 audits (Letter to chief executives and chairs of port companies)
Central government: Results of the 2016/17 audits
Local government: Results of the 2016/17 audits
Health sector: Results of the 2016/17 audits
Other work published
Model financial statements for government departments 2016/17
MPs' guide to the Auditor-General
Annual Report 2016/17
Draft annual plan 2018/19
Annual plan 2018/19

Appendix 4
Progress against our proposed work programme for 2017/18

The following table compares our progress against our proposed work programme for 2017/18 as described in the Appendix to our Annual Plan 2017/18.

Work we planned for 2017/18	Published title	Date
Water theme – Scene-setting report	*Introducing our work programme – Water management*	26/10/17
Security of drinking water supply sources	No longer expected to be published as our work has been superseded by the Havelock North Drinking water inquiry.	
Optimising the demand for and the supply of drinking water	Published in 2018/19 (20/9/18)	
Progress on freshwater quality management since 2011	Expected to be finished in 2018/19	
Spending on clean-up of significant water bodies	Expected to be finished in 2018/19	
Managing water: Monitoring its use for irrigation	*Monitoring how water is used for irrigation*	10/5/18
Management of stormwater networks to reduce the effects of flooding	Expected to be finished in 2018/19	
How effective are the processes used to consider marine reserve proposals?	Expected to be finished in 2018/19	
Marine spatial planning for the Hauraki Gulf	Expected to be finished in 2018/19	
Auckland Council – topic to be determined	Expected to be finished in 2018/19	
Review of Defence Major Projects Report 2017	Expected to be finished in 2018/19	
Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Final monitoring report	*Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Final monitoring report*	19/12/17
Inland Revenue Department: Progress of the Business Transformation programme	*Inland Revenue Department: Procurement for the Business Transformation programme*	22/3/18
Central government: Results of the 2016/17 audits	*Central government: Results of the 2016/17 audits*	13/12/17
Central government: Results of the 2016/17 audits – Letter to Chief Executives	*Central government: Results of the 2016/17 audits – Letter to Chief Executives*	16/5/18
Health sector: Results of the 2016/17 audits	*Health sector: Results of the 2016/17 audits*	26/6/18
Local government: Results of the 2016/17 audits	*Local government: Results of the 2016/17 audits*	29/3/18
Ports sector: Results of the 2016/17 audits	*Port companies: Matters arising from our 2016/17 audits – Letter to Chief Executives and Chairs*	19/6/18
Summary of results of the 2016 school audits	*Results of the 2016 school audits*	18/12/17

Reflections report on *Information* theme	Published in 2018/19 (27/9/18)	
Public management and accountability	To be included in our work on the future of public management and accountability	
Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports (various follow-up reports/articles)	Individual follow-up or progress reports published during the year as planned	Various

Appendix 5
Progress with work carried forward from 2016/17

Work we planned for 2016/17	Published title	Date
Review of Defence Major Projects Report 2016	Published by the Ministry of Defence	6/7/17
Review of the Treasury's 2016 statement on New Zealand's long-term fiscal position	*Commentary on He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position*	25/7/17
Schools: How the management of school property affects the ability of schools to operate effectively (carried forward from 2015/16)	*Managing the school property portfolio*	27/7/17
Reflections report on *Investment and asset management* theme	*Reflections from our audits: Investment and asset management*	1/8/17
Health patient information systems	*Ministry of Health: Supporting the implementation of patient portals*	29/11/17
Auckland Council – Digital re-engineering of customer interfaces	*Auckland Council: Working to provide customer-centred services online*	30/11/17
Investment to improve the information about local government assets	*Getting the right information to effectively manage public assets: Lessons from local authorities*	5/12/17
Return on investment in modernising the courts (carried forward from 2015/16)	*Ministry of Justice: Modernising court services*	19/12/17
Social housing – How well Housing New Zealand uses information to manage investment, assets, and tenancies	*Using information to improve social housing services*	19/12/17
Infrastructure as a Service: Are benefits being realised?	*Infrastructure as a Service: Are the benefits being achieved?*	27/2/18
Overseas Investment Office – How effectively does it collect and manage information relevant to decision-makers?	*How the Overseas Investment Office uses information*	12/4/18
Using data to improve public services: The state of leadership, on-the-job learning, investment assessment, and capability development	*Data in the public sector* – Four articles	28/6/18
How secure is data in the public sector?	Integrated with the *Data in the public sector* articles	28/6/18

About our publications

All available on our website

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

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

Notification of new reports

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

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests.

Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

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