Controller and Auditor-General
Tumuaki o te Mana Arotake

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Central government: Results of the 2017/18 audits

Photo acknowledgement:
Chris Tse, Office of the Auditor-General

Central government: Results of the 2017/18 audits

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

December 2018

ISBN 978-0-478-44296-0

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Auditor-General's overview

The *Financial Statements of the Government of New Zealand for the year ended 30 June 2018* (the Government's financial statements) are important for New Zealanders and New Zealand.

They tell a story about what the Government is doing with the money it earns and borrows to deliver the services and investments that support us as individuals and as a nation. Behind the numbers are the things that make a difference in all our lives – hospitals, schools, the highways we drive on, and the taxes we pay. This year, they even tell you that lottery prize payments have gone up – although individually, we might not always feel that they have.

As a nation we should be proud that successive governments have seen transparency and high-quality financial reporting as one of the cornerstones of our financial management system. Globally, the level of reporting and scrutiny that these financial statements show is still rare. We risk taking this for granted but these financial statements are part of what supports the high-integrity and high-trust public sector that we all benefit from. The Government's financial statements are important and we can be proud as New Zealanders of the form they take and that, in many ways, they remain world leading.[1]

This is no small achievement. There are complex and sophisticated judgements required in preparing the Government's financial statements. I would like to acknowledge the work of those involved throughout the public sector and, in particular, in the Treasury for their ambition for, and their continued development of, financial reporting.

I am therefore pleased to have issued an unmodified audit opinion on the Government's financial statements. In short, that means that I can assure Parliament that they fairly reflect the Government's financial performance and position.

I am highlighting in Part 2 of this report what we describe as "key audit matters". When I provide assurance that the estimates behind tax revenue are reasonable, it matters because it means we can tell whether the Government has the money to pay for its spending. When our audit talks about Holidays Act 2003 liabilities, my ultimate interest is not only about the accounting treatment but that public servants, past and present, have been paid correctly for their work.

Of course with a complex set of financial statements there will always be aspects we could improve. State highway valuations are an example of this. The valuation of the state highway network matters – we enjoy the benefits of travelling on it and it contributes significant value to New Zealand. It is important to understand what it would cost to replace, whether it is being invested in, and how it is performing. The quality of the information used in preparing this valuation has

1 *The Economist* (October 20, 2018), "Large economic gains can come from mundane improvements in policy", page 16. The article recognised New Zealand as the only country with public-sector accounting that is up to scratch.

been extensively reviewed this year, resulting in an improved valuation and better disclosure of the assumptions that underpin it. New Zealanders then also want to know whether any performance problems affecting the state highway network are being fixed. This makes it important to think about how best to report on financial matters and the actual performance of services and infrastructure.

I would like the story of how the Government is performing to be told more clearly and vividly in the future. Doing so would support New Zealanders in better understanding, and interrogating, government performance. As Part 1 explains, work is progressing on the Treasury's Living Standards Framework and an associated set of wellbeing indicators (Living Standards Framework Dashboard). I am encouraged by the developments I am seeing, and I will continue to discuss with the Treasury how reporting can be relevant to New Zealanders and tell the story about the performance of services that matter to each of us.

An important aspect of my role as Controller and Auditor-General is the Controller function. This function exists to support the fundamental principle of Parliamentary control over government expenditure. For those not familiar with the function, Part 3 briefly explains the role of the Controller and the context of the function.

In Part 3, I also outline my findings from 2017/18. On a positive note, the number of incidences of unappropriated expenditure has, overall, been going down since 2009/10. However, there were 18 reported instances of unappropriated expenditure in 2017/18.

I would like to emphasise that the unappropriated expenditure during 2017/18 tended to be technical in nature. We highlight in Part 3 several instances where spending beyond the appropriation limits appears to have been unavoidable. However, in other instances, departments could have avoided the situation with better planning and management. I expect government departments to be more careful in managing their appropriations, anticipating when authority for additional spending needs to be sought and gaining that authority in time to avoid unappropriated spending.

This might sound like much ado about a bureaucratic process. However, the principle is fundamental. Parliament is elected by all of us. It authorises the Government's spending. Public organisations ought to put considerable effort into getting appropriation management right.

Finally, I wish to again thank all those involved in preparing and auditing the Government's financial statements. They are a significant and important contribution to the financial management system of our country.

John Ryan
Controller and Auditor-General

3 December 2018

1 The operating environment for central government

1.1 This Part describes the operating environment for central government agencies in 2017/18. It provides some context for this report – in particular, for our audit of the financial statements of the Government of New Zealand (the Government's financial statements).

1.2 The Government's financial statements consolidate the many and varied organisations associated with central government.[2] We audit each of these organisations each year, which informs our work on the Government's financial statements. We need to understand the operating environment for these different organisations because the Government's priorities and expectations directly affect how organisations plan, prioritise, operate, spend, and report funding allocated through the Budget process and approved by Parliament.

Government priorities at the start of 2017/18

1.3 When considering the operating environment for central government organisations, it is important to understand the priorities of the government of the day. Those priorities set the overall direction of the organisations, and can require them to focus their efforts on achieving particular policy objectives. In this regard, 2017/18 was a year of two halves, beginning with the priorities set by the previous government and finishing with those of the current coalition government. The government priorities set at the start of the year, as expressed through the Budget Policy Statement, were:

- responsibly manage the Government's finances;
- build a more productive and competitive economy;
- deliver better public services within tight financial constraints; and
- rebuild Christchurch and respond to the Kaikōura earthquakes.

1.4 The shorter-term fiscal priorities were:

- maintaining rising OBEGAL[3] surpluses over the forecast period so that cash surpluses are generated and net debt begins to reduce in dollar terms;
- reducing net debt to around 20% of gross domestic product (GDP) in 2020;
- if economic conditions allow, beginning to reduce income taxes, and
- using any further financial leeway to reduce net debt faster.

2 This includes government departments, State enterprises, Crown entities (including schools, Crown research institutes, and district health boards), Crown and mixed-ownership model companies, Offices of Parliament, organisations listed in Schedules 4 and 4A of the Public Finance Act 1989, the New Zealand Superannuation Fund, and the Reserve Bank of New Zealand.

3 OBEGAL is Operating balance before gains and losses. It is the total Crown revenue minus total Crown expenses.

Change of government during 2017/18

1.5 In October 2017, a coalition government was sworn in. It set out its immediate priorities through a 100-day plan with 18 objectives, which spanned education, housing, health, child poverty, and climate change. Some of the objectives were completed or progressed to the point that they had an immediate effect on the operations of the organisations that we audit, and had to be accounted for in the organisations' financial statements. Other work done as part of implementing the 100-day plan set in motion events that will have more of an effect in subsequent years. We describe examples of both in the rest of this Part.

1.6 The new Government also outlined its economic strategy to improve the wellbeing and living standards of New Zealanders through sustainable and inclusive growth. Underpinning the strategy, the Government set in place Budget Responsibility Rules and stated an intention to abide by them. These rules are:

- Deliver a sustainable operating surplus across an economic cycle.
- Reduce the level of net core Crown debt to 20% of GDP within five years of taking office.
- Prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
- Take a prudent approach to ensure expenditure is phased, controlled, and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.
- Ensure a progressive taxation system that is fair, balanced, and promotes the long-term sustainability and productivity of the economy.[4]

1.7 The objective to return core Crown debt to 20% of GDP by 2021/22 was reached, ahead of forecast, by the end of 2017/18, at which point core Crown debt was 19.9% of GDP. Budget 2018 decisions are expected to result in net debt increasing above the target before decreasing again.

Immediate priorities of the new Government

1.8 For some public organisations, the change in government meant an immediate re-focusing of their efforts as they worked to implement policy initiatives from the new Government's 100-day plan and the agreements between coalition partners. Significant policy initiatives in 2017/18 were:

- **Education**: The Tertiary Education Commission implemented the policy for first-year fees-free tuition for tertiary students in about six weeks, to take effect from 1 January 2018. Our audit of the Tertiary Education Commission found no issues with the accounting treatment of the implementation.

4 See the 2018 Budget Responsibility Rules on the budget website (www.budget.govt.nz).

- **Housing**: As part of a policy to increase the national housing base, the KiwiBuild programme was set up in the Ministry of Business, Innovation and Employment (MBIE). The programme's aim is to build 100,000 homes for first home buyers in the next 10 years. Another change in housing that had an effect on our audits was the Government cancelling the sale of state houses, announced in December 2017.
- **Regional development**: The Government has committed to providing $3 billion over three years to improve the productivity potential of the regions through the Provincial Growth Fund. The fund was launched in February 2018. It is administered through the newly established Provincial Development Unit in MBIE, with an Independent Advisory Panel to assist decision-making.
- **Pike River**: A new public service department, Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency, started operating on 31 January 2018. Its strategic objective is to stage a safe re-entry and recovery of the Pike River mine drift (access tunnel). The intention is that the department will be disestablished once the Pike River site has been rehabilitated and returned to the Department of Conservation.

Better Public Services discontinued

1.9 The previous Government launched the Better Public Services programme (BPS) in March 2012. As part of the BPS agenda, the Government set targets for 10 "Results", which were grouped into Result Areas. Chief executives were assigned responsibility for delivering Results, often in partnership with other organisations. The State Services Commission published overall results on its website.

1.10 In January 2018, the new Government announced that it would not continue the BPS programme in the same form. The State Services Commission stopped publishing BPS results on its website. Reporting on BPS results did not stop altogether, because some Crown entities had included BPS results in their Statements of Performance Expectations (for example, infant immunisation results for district health boards). These Crown entities reported results in their 2017/18 annual reports. The Ministry of Health reported aggregated BPS results that were also national health targets in its 2017/18 annual report.

New focus for reporting on performance

From social investment to wellbeing

1.11 The previous Government emphasised a social investment approach, based on using information and technology to identify where additional early investment could improve long-term outcomes. This involved identifying people who are most at risk of poor outcomes later on in life, better understanding their needs and what works for them, and then adjusting services accordingly. As well as potentially improving outcomes for individuals, the expectation was that early investment could reduce the number of New Zealanders relying on social services and the overall costs for taxpayers.

1.12 The new Government has shifted the emphasis from social investment to wellbeing. At a strategic policy level, as part of a suite of changes to Cabinet Committees, it has replaced the Social Policy Cabinet Committee with the Social Wellbeing Cabinet Committee. The Social Wellbeing Board (formerly the Social Investment Board, which was established in July 2017) helps co-ordinate efforts by government departments and supports the delivery of related strategies.

Living Standards Framework

1.13 The Treasury has been developing its Living Standards Framework for a number of years and the new Government has emphasised this approach in its public statements. The current iteration of the framework has three elements: current wellbeing using domains based on the OECD Better Life Index, with some slight adjustment and the inclusion of cultural identity; future wellbeing based on four capitals (human, social, financial/physical, and natural); and risk and resilience. It is intended to support formation of long-term (inter-generational) views on wellbeing outcomes, and the influence of policy decisions and actions on them, by supplementing income-based measures, like per capita GDP in economic policy analysis, with indicators of current and long-term wellbeing.

1.14 Associated with this is work by Statistics New Zealand to develop a broader suite of wellbeing indicators called *Indicators Aotearoa New Zealand*. In the longer run, these indicators will support the data needs of the Living Standards Framework, among other internal and external reporting requirements. The Government is also proposing to embed the concept of wellbeing in the Public Finance Act 1989.

1.15 There is potential for this to have a significant effect on what public organisations measure and report on. In our work we have previously found that public organisations can struggle with outcome measurement and reporting, when compared with the more straightforward reporting on output measures. Reporting through the Living Standards Framework Dashboard and Indicators Aotearoa New Zealand could assist public organisations in their efforts to identify and measure the effect of their work in producing results and making a difference. There is also work underway to increase the focus on wellbeing in agency performance reporting.

Legislative changes in development

1.16 The new Government initiated policy work in a number of portfolios that is likely to result in significant changes in the near future. The changes will affect both the operations of government and the way it measures and reports on its financial and service performance.

State sector and public finance legislation

1.17 The State Sector and Crown Entities Reform Bill was introduced in February 2018 and was enacted as amendments to the Crown Entities Act 2004 and the State Sector Act 1988, which came into effect in October 2018. The amendments strengthen the role of the State Services Commissioner in relation to Crown entities, providing for the Commissioner to approve terms and conditions of employment for chief executives. They also strengthen the Commissioner's powers when carrying out investigations under the State Sector Act 1988.

1.18 Further changes to the way the state sector is managed are being considered, with the State Services Commissioner consulting on proposed changes to the State Sector Act 1988. The proposed changes are intended to improve the flexibility and agility of the state sector to deliver on joint outcomes, raise the capability and diversity of skill sets at the leadership level, and consolidate the agreed core values expected of public servants.

1.19 As part of a broader package of reforms to the Public Finance Act 1989, the Treasury is working on a proposal to establish an Independent Fiscal Institution (IFI). The IFI is intended to provide independent evaluation of fiscal policy performance; support parliamentary scrutiny of public finances and fiscal policy; and provide independent costings of political party policies. The Public Finance Act would need to be amended to enable the IFI to operate in the manner proposed.

Climate change

1.20 In June 2018, the Government began consulting on a proposed Zero Carbon Bill. One of the provisions in the Bill is the establishment of a new public entity, the Climate Commission.

Reducing child poverty

1.21 The Government introduced the Child Poverty Reduction Bill in January 2018. The Bill, if passed, will establish measures of child poverty, require governments to set targets against those measures to reduce child poverty, and amend the Public Finance Act to require the inclusion of a report on child poverty in the information supporting the annual Appropriations Bill. The Government Statistician would have a central role in the proposed framework under the new legislation, reporting on results and defining the terms to be used in the reports.

1.22 As reported back by the Social Services and Community Committee, the Government would be required to start reporting against targets in 2018/19, and to identify and report on child-poverty-related indicators. The Government has already set 3-year and 10-year outcome targets for reducing child poverty ahead of the Bill's passage.

1.23 Embedding outcome measures and requirements to set targets and indicators in legislation reflects a progression of the expectation that governments will be able to measure and account for progress in achieving results, not just delivering outputs.

Structural change ahead

1.24 Since 30 June 2018, the Government has announced further changes involving new public organisations. These include:

- The Ministry of Housing and Urban Development was launched on 1 October 2018. This new public service department combines housing policy, funding, and regulatory functions from the Ministry of Business, Innovation and Employment (including the KiwiBuild programme), the Ministry of Social Development, and the Treasury.
- The Infrastructure Minister announced in August 2018 the Government's intention to establish a new infrastructure body in 2019 to support the improvement of strategy, planning, and project delivery of New Zealand's infrastructure in the public and private sectors. The Government and the Treasury put out a paper on the proposal.
- Given the transition to a post-Treaty of Waitangi settlement phase, the Government recently announced plans to set up a new departmental agency to oversee the Government's work with Māori, to be called the Office for Māori Crown Relations: Te Arawhiti. It will bring several existing units in different departments into one entity. These include the Crown/Māori Relations Unit, the Office of Treaty Settlements, the Marine and Coastal Area (Takutai Moana) Team, and the Settlement Commitments Unit.

Further changes on the horizon

1.25 The Government has started several programmes and reviews looking in depth at different functions. Unlike the initiatives described above, these are still in the review phase and have not yet resulted in any changes or legislative proposals. However, given the scope of the work being done, significant changes might result from the work described below.

Health

1.26 The Government established two independent reviews in the health sector. The first was the Ministerial Inquiry into Mental Health and Addictions, established in January 2018 and scheduled to report in late 2018. The Inquiry has been tasked with reporting on how New Zealand is preventing mental health and addiction challenges and responding to the needs of people with those challenges; and recommending specific changes to improve New Zealand's approach to mental health.

1.27 The second, and potentially more far-reaching exercise, is the New Zealand Health and Disability System Review that was announced in May 2018. The terms of reference and panel membership were approved in August and the final report is expected in March 2020. The reviewers have been tasked with identifying opportunities to improve the performance, structure, and sustainability of the system. The goal is to achieve equity of outcomes, and contribute to wellness for all, particularly Māori and Pacific peoples.

Education

1.28 In March 2018, the Minister of Education announced terms of reference for a review of Tomorrow's Schools, which is being led by an independent taskforce that was appointed in April 2018. The review will focus on changes that might be needed to governance, management, and administration in education for children and young people aged 5-19 years. The review's report is expected in late 2018.

1.29 A second education initiative is the *ITP Roadmap 2020* project, which focuses on the future of institutes of technology and polytechnics (ITPs). The project, which is scheduled to report in December 2018, is being led by the Tertiary Education Commission. It is a response to challenges that threaten the financial viability of ITPs.

Tax

1.30 In November 2017, the Minister of Finance released terms of reference for the Tax Working Group, set up to examine improvements to the structure, fairness, and balance of the tax system. The Tax Working Group issued an interim report in September 2018 and is scheduled to issue a final report no later than February 2019.

Justice sector

1.31 In July 2018, the Minister of Justice launched Hāpaitia te Oranga Tangata: Safe and Effective Justice, which is a programme of work aimed at reforming the criminal justice system. The programme is supported by an advisory group.

2 Our audit of the Government's financial statements

2.1 In this Part, we report the results of our audit of the Government's financial statements for 2017/18.

2.2 We discuss matters arising from our audit, including the audit opinion and the key audit matters in our audit report on the Government's financial statements.

2.3 We issued an audit report that included an unmodified audit opinion on the Government's financial statements for 2017/18.

2.4 We issued our audit report on 1 October 2018.[5]

Our audit opinion

2.5 The audit report appears on pages 30 to 36 of the Government's financial statements. It includes our opinion that those statements:

- present fairly, in all material respects, the Government's:
  - financial position as at 30 June 2018;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2018;
  - unappropriated expenditure for the year ended 30 June 2018;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2018; and
  - trust money administered by departments for the year ended 30 June 2018; and
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards.

Key audit matters and other significant matters

2.6 This is the third year in which we have included key audit matters in our audit report. Key audit matters are those matters that, in the auditor's professional judgement, are of most significance in the audit of the financial statements.

2.7 In determining the key audit matters, we considered matters that, in our view, were complex, had a high degree of uncertainty, or were otherwise important to the public because of their size or nature. The key audit matters for 2017/18 were:

- recognising tax revenue;
- valuing property, plant, and equipment;
- valuing insurance and superannuation liabilities;
- valuing financial assets and liabilities; and
- entitlements under the Holidays Act 2003.

5 This is within the statutory deadline as determined by section 35(6) of the Interpretation Act 1999.

2.8 We discuss these matters in paragraphs 2.14 to 2.61 below.

2.9 Accounting for and reporting these matters was not straightforward, not least because of the judgements, estimates, and assumptions underpinning their recognition and measurement. These included assumptions and judgements about the future, particularly the service benefits and cash flows that could be expected from existing assets and liabilities. They could also include assumptions about market prices, interest rates, foreign exchange rates, inflation rates, and discount rates.

2.10 We have included entitlements under the Holidays Act 2003 as a key audit matter for the first time this year because of the significant uncertainties associated with the obligations to remediate issues under the Act and the slow response across government as a whole to address this issue. There is public interest in this matter because it affects a significant number of people employed (and previously employed) in the public sector.

2.11 We have not included social housing as a key audit matter this year (as was done last year) because the Government has discontinued the sale of social houses. Accordingly, encumbrances placed on properties previously identified for sale were removed. The encumbrances had added a complicating factor to the valuation of those properties that required significant judgement. With the encumbrances removed, the valuation of these properties is more straightforward and aligns to market prices for properties of a similar size and condition in the same geographical location.

2.12 We have reproduced the complete audit report, including the key audit matters, in the Appendix.

Other significant matters arising from the audit

2.13 Other significant matters arising from the audit were related to:

- treatment of income-related rent subsidy;
- accounting for the Crown contribution to the City Rail Link development in Auckland; and
- accounting for the mycoplasma bovis outbreak.

Key audit matters for 2017/18

Recognising tax revenue

2.14 The largest source of tax revenue for the Government is income tax. This totalled $51.8 billion for the year ended 30 June 2018. The calculation of revenue from income tax is subject to significant assumptions and judgements because of timing differences between the Government's financial statements being completed and when taxpayers file tax returns.

2.15 Judgement was applied in estimating income tax revenue, and the associated receivables and payables as at 30 June 2018, where taxpayers are yet to file their returns or where payments have been received but no provisional or final tax return has been filed.

2.16 We carried out detailed audit work on these estimates because errors in the underlying assumptions and judgements could result in significant inaccuracies in the Government's financial statements. Our audit work included obtaining an understanding of the systems, processes, and controls in place over the recording of tax revenue; testing underlying data; and assessing the reasonableness of estimation models by checking revenue received relating to previous years against estimates made in those years.

2.17 Inland Revenue has a significant project to develop a new tax system in stages. As part of the project, it will investigate alternative approaches to estimating income tax revenue. At this stage, Inland Revenue is designing a better model for estimating provisional tax revenue from 2018/19 at a taxpayer level. We support Inland Revenue's continuing efforts to improve its processes for estimating tax revenue.

2.18 Overall, we are satisfied that the assumptions and judgements applied in estimating tax revenue are reasonable.

Valuing property, plant, and equipment

2.19 The Government has physical assets of $159.0 billion at 30 June 2018. Some assets are more difficult than others to value because of the uncertainties inherent in their valuation, the quality of data available, and the benefits these assets provide. We identified the following significant assets where there were inherent uncertainties involved in the valuations:

- rail network assets;
- the state highway network; and
- electricity generation assets.

2.20 We were pleased that some improvements were made to the valuations of the Government's assets in 2017/18; in particular, the valuation of the state highway network. Information from valuation improvements can be used for operational and investment planning purposes, and enhancing disclosures about assets service delivery to New Zealanders, condition, and risks and opportunities in achieving the Government's objectives.

2.21 Overall, we are satisfied that the valuations of these assets are reasonable and consistent with valuation practices. The disclosures in the Government's financial statements appropriately outline the basis of valuation and the uncertainties associated with the valuations.

Rail network assets

2.22 One of the key assumptions used in preparing the Government's financial statements is that assets will continue to be held for their intended purpose. For accounting purposes, this determines the basis on which these assets are valued; either on a for-profit basis or on a public benefit basis.

2.23 Assets that are held with the primary purpose of making a profit are valued commercially, based on the income that can be generated from the asset or what the asset can be sold for. Assets that are held for public benefit purposes are generally valued at the cost of replacing all the components of the asset, less an amount that reflects the age and condition of those components.[6]

2.24 Since 2012, as part of the restructuring of New Zealand Railways Corporation, the assets relating to the freight part of the network that were transferred to KiwiRail Holdings Limited (KiwiRail) have been valued on the basis that their intended use is to generate a commercial return. These assets had a value of $186 million as at 30 June 2018. The network assets not used for freight (metro assets) have been valued on a different basis because these assets are considered to provide a broader public benefit. These assets had a value of $871 million as at 30 June 2018.

2.25 The extent to which the freight part of the network is commercial is open to debate. If it were not considered commercial, the basis for valuing these assets would change to reflect a public benefit nature. This would result in the overall rail network assets increasing in value by up to $5.0 billion.

2.26 For the freight part of the network, we considered the evidence supporting a for-profit (commercial) valuation basis for financial reporting purposes against that supporting a public benefit valuation basis. As in past years, this showed mixed results. The evidence considered as part of our review included the State-Owned Enterprises Act 1986, KiwiRail strategy documents, forecast results, correspondence setting out Ministers' expectations, and KiwiRail Board minutes.

2.27 The Ministry of Transport is currently leading a review of rail, considering rail's purpose in New Zealand's transport system. The outcome of that review will be critical to deciding whether valuing the freight part of the network on a commercial basis in the Government's financial statements remains appropriate.

6 Assets valued in this manner are referred to as being valued at their optimised depreciated replacement cost.

2.28 Overall, largely because of the current review, we are satisfied that the judgement applied to the valuation of the freight part of the network on a commercial basis, although marginal, remains reasonable. We are also satisfied that the disclosures in the Government's financial statements appropriately outline the significant judgements.

State highway network

2.29 The valuation of the state highway network (excluding land), as at 30 June 2018 was $31.7 billion. The valuation was carried out by an independent valuer.

2.30 The valuation is based on information from several databases of the New Zealand Transport Agency (the Agency), which identify the components that make up the network and their expected useful lives.

2.31 Because of the unique nature of the network, the value of the components cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, which include assumptions on quantities used in the construction of network components, the estimated remaining lives of the components, and the costs of the components. Changes to the underlying estimates and assumptions can cause a material movement in the valuation of the network.

2.32 Some of the costs associated with road construction (for example, traffic management) in urban areas might potentially be undervalued. An allowance to recognise these costs has been included since 2014 where a reliable estimate can be made.

2.33 During 2017/18, the Agency continued its programme of improving the valuation process and reviewing certain valuation inputs. This in-depth review resulted in significant changes being made to certain estimates and assumptions, including preliminary and general costs and the costs applied to components. Overall, the valuation increased by $5.6 billion (excluding land).

2.34 Although the Agency's programme of work during 2017/18 has reduced the likelihood of an understatement in the valuation of the network, further work is planned to improve the valuation process.

2.35 We acknowledge that the current disclosures in the Government's financial statements are comprehensive, recognise uncertainties and risk of variability in future valuations, and provide a good basis for explaining potential future changes in the valuation.

2.36 We have recommended that the Agency continue to improve the valuation process and we support the Treasury liaising with the Agency, so that the

Treasury can update the disclosures in the Government's financial statements in future years.

2.37 Overall, we are satisfied that the value of the state highway network as at 30 June 2018 is reasonable and consistent with accepted valuation practices, and that the disclosures in the Government's financial statements outlining the inherent uncertainties in the valuation are appropriate.

Electricity generation assets

2.38 Electricity generation assets, which are at least 51% owned by the Government, were valued at $15.9 billion as at 30 June 2018. The valuation of these assets is carried out by specialist valuers because of the complexity and significance of assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create.

2.39 Small changes to assumptions, such as the forecast price of electricity and discount rates used to determine the present value of these prices, could significantly change the reported value of these assets.

2.40 The specialist valuers of each of the generation companies have different assumptions and make different disclosures about the valuation of electricity generation assets.

2.41 The Government accepts the different assumptions and disclosures about these assets because:

- The business models for each of the electricity generation companies are different because they apply different mixes of energy source (such as hydroelectric, geothermal, and wind) to meet electricity demand.
- Information in the Government's financial statements should be consistent with other information available in the market.
- Disclosures relating to electricity generators are based on information disclosed by each of the relevant electricity generation companies. Each company is expected to use the best information available to forecast its future cash flows, based on its own circumstances and expectations. These judgements are supported by experts engaged by each company and have been audited.

2.42 We assessed the appropriateness of using different valuation approaches and assumptions in the Government's financial statements for the valuation of electricity generation assets as well as the related disclosures, and we will continue to do so.

2.43 To assist our assessment, and possibly enhance the disclosure in the Government's financial statements, we have recommended that the Treasury carry out work to better understand the differences in assumptions about common valuation inputs (such as the forecast price of electricity), to ascertain whether they could be standardised for valuations for the Government's financial statements.

2.44 Overall, we are satisfied that the valuation of electricity generation assets at 30 June 2018 is reasonable, and that the disclosures in the Government's financial statements appropriately outline the sensitivity of assumptions and the complexity of the valuation of these assets.

Valuing insurance and superannuation liabilities

2.45 The valuation of the Government's long-term liabilities is complex and requires actuaries to estimate their fair value, based on assumptions about the future. The two significant long-term liabilities at 30 June 2018 are:

- Accident Compensation Corporation (ACC) – outstanding claims liability of $45.3 billion; and
- Government Superannuation Fund (GSF) – government employees' superannuation liability of $11.0 billion.

2.46 These liabilities are significant by value, and there are inherent uncertainties in valuing them that require a high degree of judgement and estimation.

2.47 The assumptions used to calculate the value of ACC's outstanding claims liability include estimating the time for rehabilitation from injuries, the amounts of cash payments and when they will be made, and the inflation and discount rates.

2.48 The assumptions used to calculate the value of the government employees' superannuation liability for past and current members of the GSF include estimating the return on assets owned by the GSF, expected rates of salary increases for currently employed members of the GSF, inflation and discount rates, and mortality rates.

2.49 The Government's financial statements set out the sensitivity of assumptions.[7] There can be a large effect on the size of these liabilities when there are changes in the assumptions, which has a corresponding effect on the amount of actuarial gains and losses.

2.50 We evaluated the appropriateness of the main assumptions (such as inflation and discount rates) used in valuing the long-term liabilities. For discount rates and inflation assumptions, the Treasury determines a table of risk-free discount rates and inflation assumptions each year, using an agreed methodology. These are required to be consistently applied to valuations of long-term liabilities. We

7 Note 2 to the *Financial Statements of the Government of New Zealand for the year ended 30 June 2018* sets out the key judgements, estimates, and assumptions, and the sensitivity of the assumptions.

reviewed the table of risk-free discount rates and inflation assumptions as at 30 June 2018 and concluded that they had been calculated in keeping with the agreed methodology.

2.51 We have asked the Treasury to consider the recommendations from our review of the methodology as part of its own annual review process.

2.52 Overall, we are satisfied that the assumptions and judgements applied in estimating the Government's long-term liabilities as at 30 June 2018 are reasonable, and that the disclosures in the Government's financial statements outline the sensitivity of the valuations to changes in assumptions.

Valuing financial assets and liabilities

2.53 The Government has financial assets of $142.5 billion, of which $80.3 billion are measured at fair value. It also has financial liabilities of $131.2 billion, of which $10.2 billion are measured at fair value. The financial assets and financial liabilities measured at fair value include marketable securities, share investments, advances, and derivatives.

2.54 The fair value of some of the financial assets and financial liabilities cannot be measured using quoted market prices and, instead, must be estimated by applying an appropriate valuation model. Market data is used as an input to the models when available; otherwise, non-market data is used, which requires the exercise of significant judgement. We paid particular attention to evaluating the appropriateness of inputs to models that had been derived from non-market data.

2.55 We are satisfied that the fair values for financial assets and financial liabilities are reasonable and that the disclosures in the Government's financial statements outline the significant judgements.

Entitlements under the Holidays Act 2003

2.56 Many public organisations have reviewed, or are in the process of reviewing, historical payroll calculations to determine whether they have complied with the Holidays Act 2003 (the Act) and other related legislation, or have an obligation to pay more to past and present employees. Some public organisations have quantified their obligation and made payments. Others have been able to reasonably estimate the amounts to be paid, and have recognised a liability.

2.57 There are still several public organisations (with large numbers of past and present public servants) continuing to work on calculating the potential liability. The Government's financial statements disclose an unquantifiable contingent liability as at 30 June 2018 for these organisations' past non-compliance with the Act.

2.58 We obtained an understanding of the progress made by some of the most affected organisations (for example, the Ministry of Education, district health boards, the Department of Corrections, and KiwiRail) in resolving the payroll calculation issues.

2.59 There are complexities in some sectors, and the liability is taking longer than expected to calculate.

2.60 The slow response in addressing non-compliance with the Act and the resulting obligations is a matter of concern because it has a direct effect on many people employed (and previously employed) in the public sector. Furthermore, the delay in settling these obligations and ensuring continuing compliance adds to the overall liability of the Government.

2.61 We would like the Treasury to continue to work with sector leaders, including other central agencies, to support public organisations that continue to disclose an unquantified contingent liability, to focus on settling the obligations and ensure continuing compliance.

Other significant audit matters

Treatment of income-related rent subsidy

2.62 In the Government's 2016/17 financial statements, payments by the Ministry of Social Development (the Ministry) to Housing New Zealand Corporation and Tāmaki Regeneration Limited for income-related rent subsidies were treated as rental income by Housing New Zealand and Tāmaki Regeneration, and as non-departmental output expenses by the Ministry.

2.63 The Government's 2016/17 financial statements reflected these transactions as both income and expenditure, on the basis that the subsidy is equivalent to a benefit payment to the tenant. This resulted in the Government's financial statements recognising rental income at market levels, even though the rentals received from tenants might not be at a market rate.

2.64 Last year, we raised concerns about the clarity of the underlying documentation to support the accounting treatment of the income-related rent subsidy in the Government's 2016/17 financial statements. We recommended that the Treasury work with the Ministry, Housing New Zealand, and Tāmaki Regeneration to review the evidence to support the accounting treatment applied.

2.65 The Treasury reviewed the underlying documentation to support the income-related rent subsidy accounting treatment in 2017/18 and concluded that a fairer reflection would be to eliminate the payments between the Ministry and the

Crown-owned housing providers in the Government's financial statements. As a result, the comparative figures for 2016/17 relating to income-related rent subsidy revenue and expenditure have been restated in the Government's 2017/18 financial statements.

2.66 We agree with the Treasury's current treatment of income-related rent subsidy revenue and expenditure as recorded in the Government's 2017/18 financial statements and the relevant disclosures on this matter.

Accounting for the Crown contribution to the City Rail Link development in Auckland

2.67 City Rail Link Limited is a jointly controlled non-listed company of which the Crown is the majority shareholder, co-funded by the Crown and Auckland Council, for the purpose of designing and constructing the Auckland City Rail Link (an underground rail line between the city centre and the existing western line). City Rail Link was established in 2016/17 after a heads of agreement was signed by the Crown and Auckland Council, which includes sharing the costs incurred by City Rail Link.

2.68 In keeping with advice provided by the Treasury and agreed by us, the Ministry of Transport is recognising the value of the Crown's investment in City Rail Link at its share of the joint operation, using the equity method of accounting. This is consistent with how Auckland Council is accounting for its interest in City Rail Link.

2.69 We are satisfied that the value of the Crown's interest in City Rail Link is fairly stated in the Government's financial statements.

Accounting for the mycoplasma bovis outbreak

2.70 The Government's decision to cull cows on farms infected by mycoplasma bovis generated significant public interest.

2.71 After the decision, we discussed with the Ministry for Primary Industries[8] and the Treasury when to recognise a liability (relating to claims that might be made by affected farmers). We concluded that the appropriate recognition point for the liability was when an infection notice was issued to farmers. As at 30 June 2018, a provision of $52.6 million was recognised in the Government's financial statements.

2.72 An unquantified contingent liability for farms that might become infected after 30 June 2018 has also been disclosed in the Government's financial statements.

8 The current Controller and Auditor-General was, before starting in that role on 2 July 2018, the Deputy Director-General – Corporate Services for the Ministry for Primary Industries. The Deputy Auditor-General has therefore dealt with all matters relating to the Ministry for Primary Industries.

2.73 The decision to cull infected cows resulted in expenditure being incurred by the Ministry for Primary Industries in excess of its appropriation. This has been disclosed in the Statement of Unappropriated Expenditure.

2.74 We are satisfied that the accounting for the consequences of the Government's decision on the mycoplasma bovis outbreak is reasonable and that the disclosures are appropriate.

The Controller function

3

3.1 The Controller function is an important aspect of the Auditor-General's work. It supports the fundamental principle of Parliamentary control over government expenditure.

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

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

3.3 Parliament's approval to incur expenditure is mainly provided through appropriations, which are authorised in advance through the annual Budget process and annual Acts of Parliament. Expenditure can also be authorised in advance through "permanent" legislation and can also be approved retrospectively.

3.4 We have explained in previous years what the Controller and Auditor-General does to help ensure that government spending stays within the limits approved by Parliament.

3.5 Our discussion in this Part includes:

- why the Controller work is important;
- who is responsible for ensuring that public money is spent correctly;
- how much unappropriated expenditure was incurred with Cabinet authority in 2017/18; and
- how much public expenditure was incurred without prior Cabinet authority in 2017/18.

Why is the Controller work important?

3.6 In their role as Controller, the Controller and Auditor-General helps maintain the transparency and legitimacy of the state sector financial management system. The Controller provides an important check on the system on behalf of Parliament, and the New Zealand public.

3.7 The appropriation part of the state sector financial management system ensures that Parliament, on behalf of New Zealanders, has adequate control over how the Government uses public resources. It also ensures that the Government can be held to account for how it has used those resources.

3.8 Most of the Crown's funding is obtained through taxes. New Zealanders want assurance that the Government is spending public money as intended.

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

3.9 Departmental chief executives are responsible under the Public Finance Act 1989 for the financial management and performance of their department. This includes ensuring that they have both the funds and the necessary legal authority before incurring expenses or capital expenditure.

3.10 Departments are required to report to the Treasury the expenses and capital expenditure incurred by the department against the appropriation or other statutory authority provided. The first report for the financial year is provided in October (covering the previous July to September period) and then monthly after that.

3.11 The Treasury is then required to compile reports to the Controller and Auditor-General in October (for July to September) and then monthly after that. The Treasury's reports set out all expenditure incurred compared with the appropriation (or other authority) and all expenditure incurred without authority or in excess of the authority given.

Who checks whether departments are spending money lawfully and responsibly?

3.12 This is where the function of the Controller comes in. To check and verify the spending, the Controller and Auditor-General's Controller team:

- reviews the Treasury's monthly reports;
- carries out some tests on the financial information (provided by the Treasury from the Crown Financial Information System);
- reports back to the Treasury highlighting any issues (including unappropriated expenditure), comments on actions needed to confirm or validate any unappropriated expenditure, and advises on any further action that the Treasury or the department needs to take to resolve outstanding issues; and
- informs relevant auditors of the issues affecting the departments they audit.

3.13 For government departments, as well as auditing the financial statements, the Controller and Auditor-General is responsible for auditing the appropriations administered by each department (the appropriation audit).

3.14 Through the appropriation audit, our auditors look at systems and some transactions to check that public money was spent as intended by Parliament. If an appointed auditor detects spending outside authority through the appropriation audit work, then the auditor will discuss the matter with the department's chief executive, advise the department about reporting the matter and taking corrective action, and inform the Controller and Auditor-General. The appointed auditor will also check whether the department properly reports the matter in its financial statements.

Expenditure above or beyond the appropriation limits

3.15 The state sector financial management system provides flexibility to enable lawful spending above or beyond the limits specified by each appropriation in some circumstances. Those limits comprise the type of expenditure, the scope of what the expenditure can cover, the amount, and the timing.

3.16 In limited circumstances, expenditure can be legally incurred outside the bounds authorised by the Appropriation (Main Estimates) Act or the Appropriation (Supplementary Estimates) Act. For example, there is flexibility in the Public Finance Act 1989 for small amounts of expenditure (sections 26A and 26B) and for emergencies (section 25). Imprest Supply Acts also provide flexibility to enable the Government to incur expenditure not covered at the time by Appropriation Acts. In practice, Cabinet approval is required to incur expenditure under the provisions of an Imprest Supply Act. To remain lawful, any expenditure incurred under imprest supply must be appropriated by Parliament within that financial year (usually under an Appropriation Act).

3.17 We have urged government departments to seek early approval as soon as they have identified the need for previously unanticipated expenditure, so that any expenditure over and above the appropriation can be authorised by Cabinet before the event and authorised by Parliament in an Appropriation (Supplementary Estimates) Act.

3.18 However, some expenditure is unexpected and would not be anticipated when the main Budget is put together; for example, the expenses incurred for the Northcote by-election on 9 June 2018.

3.19 When government departments do not get approval for unappropriated expenditure before it is incurred, it is unlawful. Ministers need to report the matter to Parliament, and they must seek Parliament's retrospective approval of the expenditure through an Appropriation (Confirmation and Validation) Act.

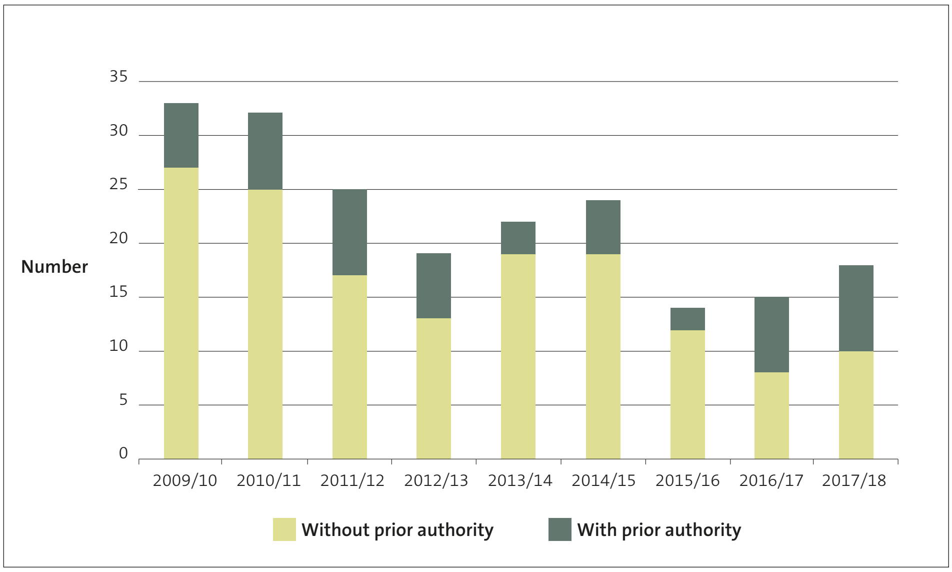
3.20 Expenditure outside the bounds of the appropriations tends to be relatively small. In 2017/18, it was less than 0.13% of the Government's budgeted expenditure for 2017/18 as set out in Budget 2017 (2016/17: less than 0.14%).

How much unappropriated expenditure was incurred in 2017/18?

3.21 The Government's financial statements report 18 instances of unappropriated expenditure (2016/17: 15). Expenditure incurred without appropriation in 2017/18 was $119 million (2016/17: $124 million).

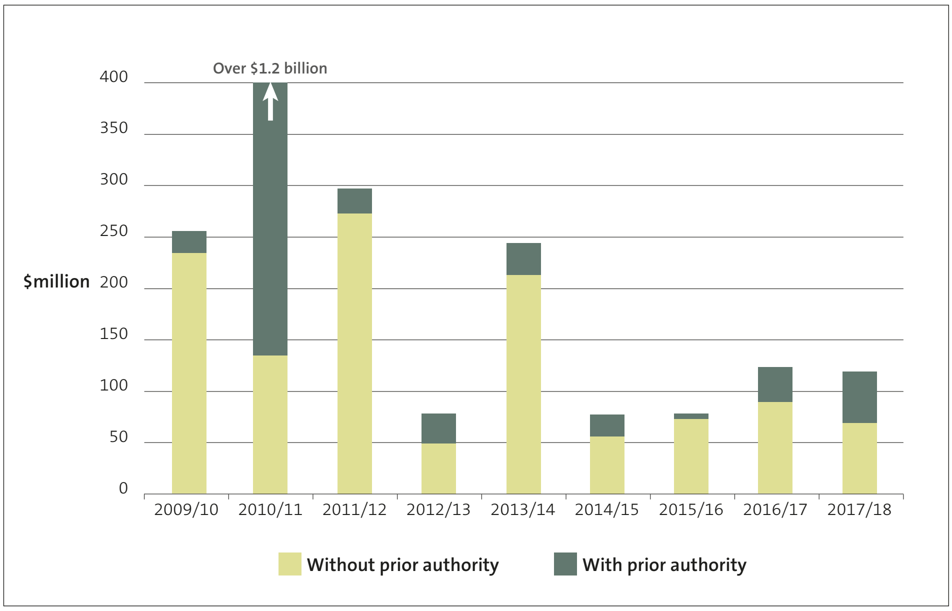
3.22 Figure 1 shows that the number of times that government departments have incurred unappropriated expenditure has fluctuated in recent years. However, since 2009/10, there has been an overall downward trend in incidences of unappropriated expenditure. More than 30 instances were reported in 2009/10 and 2010/11. Less than half of that was reported in 2015/16 and 2016/17. And, although the number of instances increased slightly in 2017/18, the dollar amount decreased (See Figure 2).

Figure 1
Instances of unappropriated expenditure, from 2009/10 to 2017/18



3.23 The dollar amount of unappropriated expenditure since 2009/10 is shown in Figure 2. After the extraordinary circumstances in 2010/11, in which unappropriated expenditure exceeded $1.2 billion (a figure that is literally off the chart) because of the Canterbury earthquakes, unappropriated expenditure fell to $298 million in 2011/12 and has fallen further still since then. In the last four years (2014/15 to 2017/18), unappropriated expenditure has averaged less than $100 million.

Figure 2
Dollar amount of unappropriated expenditure, from 2009/10 to 2017/18



Note: The upper limit shown in Figure 2 is $400 million. Actual unappropriated expenditure for 2010/11 was more than $1.2 billion; most of this was authorised expenditure for the purchase of residential red zone properties in Canterbury after the February 2011 earthquake.

Unappropriated expenditure incurred with authority

3.24 As mentioned in paragraphs 3.15 and 3.16, the Public Finance Act 1989 provides for some flexibility in how public expenditure is authorised. This is necessary to allow the Government to function in the new financial year before the Appropriation (Main Estimates) Bill has been enacted, to allow for unanticipated expenditure during the year as circumstances change, to allow for immediate expenditure in emergencies, and to provide for the approval of relatively small amounts of expenditure in excess of appropriation without needing prior approval from Parliament. Such flexibility is provided by sections 26A and 26B of the Public Finance Act and the Imprest Supply Act provisions under sections 4A and 12B of the Public Finance Act.

3.25 In 2017/18, prior authority was obtained for eight instances of unappropriated expenditure (2016/17: seven instances), and the Government's financial statements reported $50 million of unappropriated expenditure incurred with authority, compared with $34 million in 2016/17 (the dark green areas in Figures 1 and 2).

3.26 Section 26B of the Act provides final authority for unappropriated expenditure approved by the Minister. Expenditure authorised under imprest supply is authorised temporarily; it needs to be appropriated before the end of the financial year to secure lawful authority. Figure 3 provides a breakdown of unappropriated expenditure that was incurred with prior authority to do so.

Figure 3
Unappropriated expenditure incurred with prior authority during the year ended 30 June 2018

Unappropriated expenditure by category	2017/18 Number	2017/18 $million*	2017/18 Votes
Expenses and capital expenditure incurred in excess of existing appropriation and approved by the Minister of Finance under section 26B of the Public Finance Act 1989	3	16	Health, Justice, Social Development
Expenses and capital expenditure incurred with Cabinet authority to use imprest supply but in excess of appropriation prior to the end of the financial year	4	11	Business, Science and Innovation; Primary Industries and Food Safety (2); Transport
Expenses and capital expenditure incurred with Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year	1	23	Health
Total	**8**	**50**	

* Figures are rounded to the nearest million dollars.

3.27 During 2017/18, the Minister of Finance used his powers under the Public Finance Act 1989 to authorise three instances of unappropriated expenditure for a total of $16 million. The three instances related to Vote Health, Vote Justice, and Vote Social Development with unappropriated expenditure of $12.85 million, $0.898 million, and $2.33 million respectively.

3.28 The unappropriated expenditure by the Ministry of Health was a result of increasing demand for individualised funding services and additional claims for equipment and residential care services. The Ministry of Justice incurred additional expenditure to fund the Northcote byelection, which was announced after the Supplementary Estimates had been finalised. The Ministry of Social Development forecast an increase in the number of payments that would be granted under the Recoverable Assistance programme; however, the dollar value of the payments was greater than expected, exceeding the appropriation by $2.33 million. All three of these instances of unappropriated expenditure were lawful under section 26B of the Public Finance Act but will need to be confirmed by Parliament in a subsequent Appropriation Act.

3.29 There were four instances in which Cabinet had granted authority to use imprest supply to increase expenditure for which expenditure (about $11 million) remained above the spending limit appropriated for the year.[9] These related to Vote Primary Industries and Food Safety (two appropriations) and one appropriation each in Vote Business, Science and Innovation and Vote Transport.

3.30 Cabinet agreed to approve expenditure to enable cattle culling on properties affected by mycoplasma bovis. An additional $8 million was approved for the Ministry for Primary Industry's management of the outbreak. The expenditure incurred in excess of the original appropriation was $2.64 million. An additional $100 million was approved for compensation and voluntary payments. The amount incurred in excess of the original appropriation was $6.11 million. The expenditure incurred was within Cabinet-approved limits but was over the appropriation limit because Cabinet approved the extra funding after the Supplementary Estimates had been finalised. Therefore, the spending remained unappropriated at 30 June 2018.

3.31 The Ministry of Business, Innovation and Employment received Cabinet approval to use imprest supply for an additional $1.2 million for emergency telecommunications services under Vote Business, Science and Innovation. This approval was given after the Supplementary Estimates had been finalised, resulting in the Ministry incurring $1.2 million of unappropriated expenditure. (A further $66,000 of unappropriated expenditure was incurred without Cabinet authority.)

3.32 The Ministry of Transport is responsible for the Crown's share of costs incurred by joint venture airports.[10] The Ministry received claims dating back several years, and Cabinet approved up to $700,000 of extra funding from imprest supply to meet those claims. The amount of these claims exceeded the authority provided in the Supplementary Estimates by $597,000.

3.33 The unappropriated expenditure incurred with Cabinet authority but without appropriation during the year, amounting to $23.5 million, was under Vote Health. The settlement for the Mental Health and Addictions Support Workers Pay Equity Claim was agreed after the Supplementary Estimates had been finalised, and Cabinet agreed that the funding would be met from imprest supply. However, there was no existing appropriation authorising the payment.

9 Imprest Supply Acts allow the Government to incur expenses or capital expenditure in advance of gaining further appropriation from Parliament. But this authority is granted only if that further appropriation is obtained during the same financial year (that is, in the annual Appropriation (Supplementary Estimates) Act). If expenditure incurred under imprest supply is not appropriated during the financial year, it remains unappropriated and is unlawful until it is validated by Parliament.

10 Airports in which the Government is a joint venture partner.

Because the decision was too late in the year to obtain appropriation through the Supplementary Estimates, the $23.5 million remained unappropriated.

How much unappropriated expenditure was incurred without prior authority?

3.34 The Government's financial statements report 10 instances of unappropriated expenditure incurred in 2017/18 outside the bounds of an appropriation and without prior Cabinet authority to use imprest supply (2016/17: eight instances). The amount of expenditure incurred without prior authority was $69 million (2016/17: $90 million). This was 0.07% of the Government's budgeted expenditure for 2017/18 as set out in Budget 2017 (2016/17: 0.1%).

3.35 Figure 4 provides a breakdown of public expenditure that was not only unappropriated but also incurred without prior Cabinet authority.

Figure 4
Unappropriated expenditure incurred without prior Cabinet authority during the year ended 30 June 2018

Unauthorised expenditure by category	2017/18 Number	2017/18 $million*	2017/18 Votes
Expenses and capital expenditure incurred in excess of appropriation and without prior Cabinet authority to use imprest supply	5	6	Building and Housing; Business, Science and Innovation (2); Health; Prime Minister and Cabinet
Expenses and capital expenditure incurred outside the scope of an appropriation and without prior Cabinet authority to use imprest supply	2	46	Business, Science and Innovation; Internal Affairs
Expenses and capital expenditure incurred without appropriation and without prior Cabinet authority to use imprest supply	3	17	Building and Housing, Internal Affairs, Transport
Total	**10**	**69**	

* Figures are rounded to the nearest million dollars.

3.36 In four of the 10 instances shown in Figure 4, the Government spent less than $1 million more than the amount that was authorised by existing appropriations. A further four instances were between $1 million and $3.5 million above the existing appropriations.

3.37 The more significant instances of unauthorised expenditure reported in the Government's financial statements, in terms of the amounts involved, were in

Votes Building and Housing; Business, Science and Innovation; and Transport. Between them, they accounted for $62.8 million of the $68.7 million of unappropriated expenditure incurred without prior Cabinet authority.

Vote Building and Housing

3.38 In August 2017, the Ministry of Business, Innovation and Employment received approval for three in-principle expense transfers from 2016/17 to 2017/18, totalling $1.25 million to the Temporary Accommodation Services appropriation.

3.39 Approval for a fourth expense transfer to Temporary Accommodation Services was not obtained initially. The Ministry obtained authority in March 2018, but $3.34 million in expenses incurred up to that point was unauthorised.

Vote Business, Science and Innovation

3.40 In September 2017, Crown Fibre Holdings Limited changed its name to Crown Infrastructure Partners Limited. The Ministry of Business, Innovation and Employment paid $45 million to Crown Infrastructure Partners Limited in December 2017 for the rollout of ultra-fast broadband. This payment was considered to be outside the appropriation because the scoping statement limited expenditure to the company under its previous name (Crown Fibre Holdings Limited) and not the company under its name at the time the payment was made (Crown Infrastructure Partners Limited).

3.41 This is the largest instance of unappropriated expenditure reported in the Government's financial statements, and accounts for 38% of the total unappropriated expenditure for the year. The expenditure was budgeted for and was paid to the correct company. However, because of the company's name change, the expenditure was deemed to be outside the scope of the appropriation.

Vote Transport

3.42 The Crown and Auckland Council are joint sponsors of the Auckland City Rail Link. Vote Transport includes an appropriation for the Government's share of capital expenditure on the project ($436 million for 2017/18). In 2017/18, the Ministry of Transport paid $14.45 million to Auckland Council in finance costs for stage 1 works and interim funding. These finance costs did not meet the criteria for being capitalised and have been accounted for as operating costs. Vote Transport had no appropriation for operating costs for the City Rail Link, so the finance cost expense was unappropriated.

3.43 Although the finance cost expense was unappropriated, it was not additional to the total funding under the Vote for the City Rail Link. The Ministry's total expenditure on the City Rail Link was within the spending limit authorised by Parliament and committed by the Crown; the issue was one of the correct accounting treatment of some of the expenditure and the implications of that for the necessary appropriation category.

Trend in unauthorised expenditure

3.44 Figure 1 shows that the number of times that expenditure was incurred without prior Cabinet authority has declined overall in recent years. In 2017/18, there were 10 instances of expenditure incurred without prior authority, slightly more than a third of the number that occurred in 2009/10 (27 instances).

3.45 Figure 2 shows the dollar amount of unappropriated expenditure incurred without prior Cabinet authority from 2009/10 to 2017/18. There appears to be no discernible pattern to the dollar amount of unauthorised expenditure in the past nine years. However, in the last four years, the sum of money involved has been significantly lower than over the preceding four years, and the $69 million incurred in 2017/18 is the lowest since 2014/15.

Summary for 2017/18

Lawful but requiring confirmation

3.46 The three instances of unappropriated expenditure totalling $16 million that were incurred under section 26B were incurred lawfully (see paragraphs 3.27 and 3.28). That section of the Public Finance Act provides authority for expenditure to exceed appropriations by a limited amount in the last three months of the financial year, with the Minister of Finance's approval. This is desirable for providing flexibility when the extra spending is too late to be included in that year's Appropriation (Supplementary Estimates) Act.

3.47 Some of this extra expenditure was driven by demand. The unappropriated expenditure will need to be confirmed in the next Appropriation (Confirmation and Validation) Act.

Unlawful and requiring validation

3.48 The remaining 15 instances (totalling $103 million) are unlawful because either (a) the department obtained Cabinet's prior approval but the expenditure was not appropriated for in the Supplementary Estimates process or (b) the department incurred the expenditure without first getting Cabinet approval.

This expenditure will need to be validated in the next Appropriation (Confirmation and Validation) Act.

3.49 There are many reasons why the Government incurs expenditure that has not been appropriated for, or otherwise authorised by, Parliament. Some of those reasons include oversights, inaccurate forecasting, poor planning, or poor management. But many other reasons are unavoidable or, at least, understandable. Examples include the three particular events described in the following paragraph, which accounted for 77% ($78.6 million) of the $103 million of expenditure requiring validation.

3.50 The Ministry for Primary Industries incurred 8.5% of this amount ($8.7 million) to deal with the mycoplasma bovis outbreak. The Ministry of Health incurred 24% of this amount ($24.8 million) settling the Mental Health and Addictions Support Workers Pay Equity Claim. And the Ministry of Business, Innovation and Employment incurred a further 44% of this amount ($45 million) because of a company name change.

3.51 In our view, most expenditure that was unlawful and therefore in need of Parliament's validation was incurred in reasonable circumstances. We consider that the public finance authorisation and accountability system generally continues to work well, and the transparency of disclosures in the Government's financial statements (and in government departments' annual reports) provide transparency to Parliament and the New Zealand public about expenditure when it is incurred above or beyond the appropriation limits.

3.52 Nonetheless, we expect improvements to be made in those instances where departments can better manage their appropriations, better anticipate events (and their financial reporting treatment and related appropriation implications), and make better use of the flexibility provisions provided in the Public Finance Act 1989.

Appendix
Our audit report on the financial statements of the Government

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND FOR THE YEAR ENDED 30 JUNE 2018

Opinion

I have audited the financial statements of the Government of New Zealand (the financial statements of the Government) for the year ended 30 June 2018 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 36 to 138 comprise:

- the annual financial statements that include the statement of financial position as at 30 June 2018, the statement of financial performance, analysis of expenses by functional classification, statement of comprehensive revenue and expense, statement of changes in net worth, and statement of cash flows for the year ended on that date, a statement of segments, and notes to the financial statements that include accounting policies, borrowings as at 30 June 2018, and other explanatory information;
- a statement of unappropriated expenditure for the year ended 30 June 2018;
- a statement of expenses or capital expenditure incurred in emergencies for the year ended 30 June 2018; and
- a statement of trust money administered by departments for the year ended 30 June 2018.

In my opinion, the financial statements of the Government on pages 36 to 138:

- present fairly, in all material respects the Government's:
  - financial position as at 30 June 2018;
  - financial performance and cash flows for the year ended on that date;
  - borrowings as at 30 June 2018;
  - unappropriated expenditure for the year ended 30 June 2018;
  - expenses or capital expenditure incurred in emergencies for the year ended 30 June 2018; and
  - trust money administered by departments for the year ended 30 June 2018;
- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards.

My audit was completed on 1 October 2018. This is the date on which my opinion is expressed.

The basis for my opinion is explained below and I outline the key audit matters addressed in my audit. In addition, I outline the responsibilities of the Treasury and the Minister of Finance and my responsibilities relating to the financial statements of the Government. I also comment on other information and explain my independence.

Basis for opinion

I carried out my audit in accordance with *The Auditor-General's Auditing Standards*, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with *The Auditor-General's Auditing Standards*.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the Government for the current year. In applying my professional judgement to determine key audit matters, I considered those matters that are complex, have a high degree of uncertainty, or are important to the public because of their size or nature. This year, I have included the entitlements under the Holidays Act 2003 as a key audit matter because of the significant uncertainties associated with the obligations to remediate issues under the Act and the public interest in this matter as it affects a significant number of current and former public servants.

The key audit matters addressed in my audit of the financial statements of the Government as a whole, and in forming my opinion thereon, are as follows.

Recognising tax revenue	How we addressed this matter
The largest source of revenue for the Government is income tax. This revenue source totals $51.8 billion for the year ended 30 June 2018. As outlined in Note 2, income tax is subject to significant assumptions and judgements due to the timing differences between the reporting date and when taxpayers file tax returns. In order to record tax revenue, judgement is applied to estimating: - the amount of tax revenue to be collected from provisional taxpayers who have not yet filed their final tax return; - the amount of tax revenue where payments have been received but no provisional or final tax return has been filed; and - the amount of tax revenue to be collected from, or refunded to, taxpayers who are not subject to provisional tax.	We obtained an understanding of the systems, processes, and controls in place over the receipt and review of provisional and final tax returns, tax assessments, and tax revenue receipts. We assessed controls in place over significant reconciliation processes. We tested the underlying data used in the various tax revenue estimation models to ensure that it was relevant and was used appropriately. This was performed by reviewing evidence to support key assumptions. The sensitivity of key assumptions was also tested. We tested the reasonableness of the estimation models by checking actual revenue received related to previous financial years against estimates made in those years. I am satisfied that the assumptions and judgements applied in estimating tax revenue are reasonable.

Valuing property, plant, and equipment	How we addressed this matter
The Government owns significant physical assets totalling $159.0 billion. The valuation of some of these assets requires significant judgement due to the uncertainties inherent in the valuation of these assets, the quality of data available, and the benefits these assets provide. I have identified some specific assets where such judgements are evident.	
State highway network As outlined in Note 16, the state highway network has been valued at $31.7 billion at 30 June 2018 by an independent external valuer. Due to the unique nature of the state highway network, the value of the assets cannot be measured with precision. Significant estimates and assumptions have been applied to the valuation, which include assumptions on: quantities and rates used in the construction of state highway network components, the remaining life of the assets, and the unit costs to apply. Changes to the underlying estimates and assumptions can cause a material movement in the state highway valuation. There are some uncertainties about the values assigned to different components (formation, bridges, etc.) of the	We obtained an understanding of how the state highway network is valued, the significant estimates and assumptions used, and the reasonableness thereof. This involved confirming the competence, capabilities, and objectivity of the valuer, challenging the valuers' key assumptions, and assessing the valuation procedures, including the information extracted from databases. We also considered whether there were any limitations placed on the valuer and the appropriateness of centrally calculated rates that were applied to the valuation. We also carried out audit procedures to confirm that key controls were operating over the systems and processes used to record cost and other asset information related to the state highway network.

2

state highway network due to limited information on quantities and useful lives within some databases and incomplete information relating to certain cost components.

Some of the costs associated with road construction (for example, traffic management) in urban areas are assessed as being a significant part of the network that may potentially be undervalued. An allowance to recognise these costs has been included since 2014 where a reliable estimate can be made.

I am satisfied that the value of the state highway network at 30 June 2018 is reasonable and consistent with valuation practices, and that the disclosures outlining the inherent uncertainties in the valuation are appropriate.

Rail network

As outlined in Note 16, the rail network has been valued at $1.2 billion at 30 June 2018. In arriving at this value, the freight and the metro transport parts of the network have been valued on different bases, reflecting the commercial nature of the freight part of the network and the public benefit nature of the metro transport part of the network.

The extent to which the freight part of the network is commercial is open to debate. The Government is currently conducting a review of rail, which is working towards defining the purpose of rail and determining the appropriate structure and capital requirements and funding mechanisms for KiwiRail in future years. This review is ongoing and might result in changes that could affect the valuation of the freight part of the network.

As outlined in Note 16, the valuation of the rail network could increase by up to $5.0 billion if the entire rail network was not considered commercial and it was valued on an optimised depreciated replacement cost basis.

We considered the evidence around the commercial nature versus the public benefit nature of the freight part of the rail network. The evidence included reviewing:

- the State-owned Enterprises Act 1986;
- strategy documents;
- forecast results;
- correspondence setting out the Ministers' expectations; and
- minutes from KiwiRail Board meetings.

As in past years, the evidence showed mixed results for the commercial nature versus the public benefit nature of the freight part of the rail network.

We also considered the updated terms of reference for the review of rail in New Zealand. The outcome of the current review will be key in deciding whether valuing the freight network on a commercial basis remains appropriate.

Due largely to the current review of rail, I am satisfied that the judgement to value the freight part of the network on a commercial basis for the current year, although marginal, remains reasonable, and that the disclosures appropriately outline the significant judgements.

Electricity generation assets

As outlined in Note 16, the electricity generation assets, which are at least 51% owned by the Government, are valued at $15.9 billion at 30 June 2018.The valuation of these assets is carried out by specialist valuers because of the complexity and significance of the assumptions about the future prices of electricity, the generation costs, and the generation volumes that these assets will create.

As a result, small changes to these assumptions, in particular, the forecast prices of electricity and the discount rates used to determine the present value of these prices – could significantly change the value of these assets.

We obtained an understanding of how electricity generation assets are valued. This involved confirming the competence, capabilities, and objectivity of the valuers, testing the valuers' procedures for carrying out the valuations, including the information they used to carry them out, and challenging the valuers' critical assumptions and judgements. We also used our own valuation specialists to assess the valuers' procedures.

We tested the sensitivity of the key underlying assumptions used by the valuers to ensure that they were reasonable, and we compared the forecast prices of electricity to the expected longer-term wholesale prices and market data where it was available.

I am satisfied that the valuation of electricity generation assets at 30 June 2018 is reasonable, and that the disclosures appropriately outline the sensitivity and the complexity of the valuation of electricity generation assets.

Valuing insurance and superannuation liabilities	How we addressed this matter
The Government has insurance liabilities of $45.3 billion and public servants' superannuation liabilities of $11.0 billion as at 30 June 2018. The valuation of these liabilities is complex and requires actuaries to estimate the value, based on assumptions about the future. I have identified some specific liabilities because of the significance of the value of those liabilities and the uncertainties inherent in the valuations.	

Accident Compensation Corporation's outstanding claims liability

As outlined in note 11, the outstanding claims liability of the Accident Compensation Fund (ACC) has been valued at $40.6 billion at 30 June 2018 by an independent actuary.

Key assumptions used to value the outstanding claims liability include:

- selecting an appropriate risk-free discount rate to present value future cash flows;
- selecting an appropriate risk margin for the inherent uncertainty in the estimate of the present value of future cash flows;
- estimating the impact of inflation and innovation on future medical costs; and
- estimating the length of rehabilitation from injuries.

The sensitivity of each assumption is analysed in Note 11. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large impact on the value of the liability as well as the actuarial gain or loss recognised.

We obtained an understanding of how ACC's outstanding claims liability is valued by assessing the reasonableness of the approach taken to value the liability. We also reviewed the key assumptions adopted by ACC for each significant claim type to ensure that these were appropriate.

We tested the systems and controls and carried out detailed testing of the process for recording claims.

We tested key assumptions by evaluating them against past claims experience. We assessed the reasonableness of forecasts that diverged from past experience by looking at the evidence supporting the forecasts.

We engaged our own actuaries to review the scope, approach, and reasonableness of the estimate of the liability.

We tested the reconciliations of the underlying claims data to ACC's systems, examined the sensitivity analysis for movements in key assumptions, and evaluated the related financial statement disclosures.

I am satisfied that the assumptions and judgements applied in estimating ACC's outstanding claims liability at 30 June 2018 are reasonable, and that the disclosures outline the sensitivity of the valuation to changes in assumptions.

Government Superannuation Fund's unfunded liability

As outlined in Note 20, the Government's liability for public servants' superannuation entitlements for past and current members of the Government Superannuation Fund has been valued at $11.0 billion at 30 June 2018 by an independent actuary.

The present value of the unfunded liability is also sensitive to the estimated return on the Fund's assets, expected rates of salary increases for public servants who are members of the Fund, and estimated inflation and discount rates. The Fund's assets are exposed to share price risks arising from its holding of equity instruments. Equity instruments are reported at fair value. Movements in share prices therefore directly translate into movements in the value of the share investment portfolio.

The sensitivity of critical assumptions and judgements is analysed in Note 20. This sensitivity analysis indicates that assumptions are closely linked, cannot be viewed in isolation, and changes in assumptions can have a large impact on the value of the liability.

We obtained an understanding of how the Government's liability for public servants' superannuation entitlements is valued. This involved confirming the competence, capabilities, and objectivity of the actuary, as well as testing the actuary's valuation procedures. We engaged our own actuaries to review the assumptions, judgements, and procedures used to value the liability.

We tested key controls that ensure the completeness and accuracy of membership data that was used in the actuary's valuation.

We evaluated the appropriateness of key assumptions used in estimating the return on assets owned by the Fund and compared the expected rates of salary increases against external benchmarks.

I am satisfied that the Government's reported liability for public servants' superannuation entitlements at 30 June 2018 is reasonable, and that the disclosures outline the sensitivities of the valuation to changes in assumptions.

Valuing financial assets and liabilities	How we addressed this matter

As outlined in Note 26, as at 30 June 2018, the Government has financial assets of $142.5 billion (of which $80.3 billion are valued at fair value and $62.2 billion are valued at amortised cost) and financial liabilities of $131.2 billion (of which $10.2 billion are valued at fair value and $121.0 billion are valued at amortised cost).

Financial assets and liabilities measured at fair value include derivatives (which have a principal value of $232.5 billion), marketable securities, and share investments.

Where quoted market prices are not available to determine the value of financial assets and liabilities, fair value must be estimated. This is done by applying a valuation approach that is most appropriate for the asset or liability, such as using valuation models. Inputs into the models will use

We obtained an understanding of the valuation techniques, controls, and inputs used to determine the fair value of financial assets and liabilities.

We also carried out a range of audit procedures that reflected the nature of the financial assets and liabilities being valued, the valuation techniques adopted, and the uncertainties that existed in determining their fair values. These audit procedures included:

- testing the internal controls in place over data relating to financial assets and liabilities that has been entered into financial and treasury systems;
- obtaining an understanding of the controls and valuation approaches applied where a fund manager carries out the valuation;

market data when available; otherwise inputs are derived from non-market data, which requires judgement.

The fair value of financial assets and financial liabilities that are valued using non-observable inputs are valued at $4.3 billion and $0.06 billion respectively.

- comparing the fair value of financial assets and liabilities to independent information and investigating any significant variances; and
- assessing the appropriateness of the inputs used for valuing financial assets and liabilities where the fair value was dependent on non-observable inputs.

I am satisfied that the fair values of financial assets and liabilities at 30 June 2018 are reasonable and that the disclosures outline the significant judgements.

Entitlements under the Holidays Act 2003

As outlined in Note 25, a number of entities have commenced a review of payroll calculations in order to ensure compliance with the Holidays Act 2003 and other relevant legislation.

Where possible, provision has been made in the financial statements of the Government for obligations arising from those reviews or settlement has been made in the current or previous financial year.

To the extent that an obligation cannot reasonably be quantified at 30 June 2018, an unquantified contingent liability has been disclosed. Work continues to be undertaken by entities to calculate the potential liability required to remediate the issues associated with the calculation of these entitlements. In the case of certain sectors, complexities exist and the calculation of the liability is taking longer than expected to resolve. Entities within these sectors employ a significant number of public servants and the liabilities to settle these obligations remain uncertain.

How we addressed this matter

For those entities most significantly affected, we obtained an understanding of the progress made in resolving the payroll calculation issues and we assessed the reasonableness of the approach to the financial reporting of these issues.

We carried out a range of procedures to audit the liabilities recognised, including:

- reviewing processes followed for valuing the liabilities and testing a sample of transactions,
- assessing the competence, capabilities, and objectivity of independent experts who were involved in the valuation,
- challenging critical assumptions and judgements made in estimating the liabilities.

Where no liability could be reliably measured, we engaged with and challenged entities and their experts to understand the complexities associated with the calculation of a liability, what uncertainties existed, and the progress being made to resolve these uncertainties.

I am satisfied that the liabilities recognised for entitlements represent the best estimate using available information and that, in those cases where a liability cannot be reliably measured, the disclosures are appropriate.

Responsibilities of the Treasury and the Minister of Finance for the financial statements of the Government

The Treasury is responsible for preparing financial statements of the Government that:

- comply with generally accepted accounting practice in New Zealand, in accordance with Public Benefit Entity accounting standards; and
- present fairly the Government's financial position, financial performance, and cash flows; and
- present fairly the Government's:
  - borrowings;
  - unappropriated expenditure;
  - expenses or capital expenditure incurred in emergencies; and
  - trust money administered by departments.

The Minister of Finance is responsible for forming an opinion that the financial statements of the Government present fairly the financial position and financial performance of the Government.

The responsibilities of the Treasury and the Minister of Finance arise from the Public Finance Act 1989.

The Treasury is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements of the Government that are free from material misstatement, whether due to fraud or error. The Treasury is also responsible for the publication of the financial statements of the Government, whether in printed or electronic form.

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In carrying out their respective responsibilities for the financial statements of the Government, the Treasury and the Minister of Finance are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements of the Government

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *The Auditor-General's Auditing Standards* 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 readers take on the basis of the financial statements of the Government.

For the budget information reported in the financial statements of the Government, my procedures were limited to checking that the amounts agree to the Government's relevant published budgets.

I did not evaluate the security and controls over the publication, whether in printed or electronic form, of the financial statements of the Government.

As part of an audit in accordance with *The Auditor-General's Auditing Standards*, I exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Government, 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 my 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.

- I 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 internal control used by the Treasury to prepare the financial statements of the Government.

- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Treasury.

- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Treasury to prepare the financial statements of the Government, up to the date of my auditor's report, based on the audit evidence I have obtained.

- I evaluate the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

As part of my audit, I obtain information from my staff and appointed auditors of the organisations that are consolidated into the financial statements of the Government, including information about:

- elimination of transactions between the organisations that are consolidated into the financial statements of the Government;

- application by those organisations of appropriate accounting policies and Treasury instructions to prepare the financial statements of the Government; and

- the risks of material misstatement of the financial statements of those organisations that may affect the financial statements of the Government.

I communicate with the Treasury, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Treasury, I determine those matters that were of most significance in my audit of the financial statements of the Government for the current year and are therefore the key audit matters described in this report.

I am responsible for expressing an independent opinion on the financial statements of the Government and reporting that opinion to you based on my audit. My responsibility arises from the Public Audit Act 2001.

Other information

The Treasury is responsible for the other information. The other information comprises the information included on pages 1 to 35 and 139 to 148, but does not include the financial statements of the Government and my auditor's report thereon.

My opinion on the financial statements of the Government does not cover the other information and I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Government, my responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the financial statements of the Government or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the Auditor-General's independence requirements, which incorporate 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 and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code).*

As an Officer of Parliament, I am constitutionally and operationally independent of the Government. Prior to commencing my role as Auditor-General on 2 July 2018, I was Deputy Director-General for the Ministry for Primary Industries. Thus, the Deputy Auditor-General deals with all matters relating to the Ministry for Primary Industries. Other than this matter, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in the Government.

John Ryan
Controller and Auditor-General
Wellington, New Zealand

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