Controller and Auditor-General
Tumuaki o te Mana Arotake

B.28

Annual report 2018/19

Cover acknowledgement:
Jenah Shaw, Office of the Auditor-General

Annual report 2018/19

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

September 2019

ISSN 1179-8963

Contents

About this annual report

This annual report informs our stakeholders – Parliament, public entities, and New Zealanders – about our performance for the year 1 July 2018 to 30 June 2019. It has been prepared in accordance with the requirements of the Public Audit Act 2001 and the Public Finance Act 1989.

We are interested in feedback to help us improve our reporting. Feedback can be sent to enquiries@oag.govt.nz.

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Improving trust, promoting value.

Trust and confidence are the foundations of our system of government. They are fundamental to giving government the ability to govern on behalf of the people. To earn New Zealanders' trust and confidence, the public sector must be accountable (trusted) and high-performing (delivering value).

Our work is focused on improving the trust in, and the value of, our public sector. This report looks at how we contributed to this in 2018/19, and how we are positioning ourselves for the future.

Reflections on our achievements

Reflected in this report is what I have seen over the past 12 months: New Zealand's public sector is largely in good shape. Key indicators show that trust and confidence in the public sector remains high. New Zealand is seen as generally free of corruption and enjoys strong governance and accountability. I am proud of our contribution towards these outcomes.

However, we cannot afford to be complacent. We operate in a challenging and changing environment. New Zealand's public sector landscape is increasingly complex with many reviews and major reforms underway. At the same time, the public's expectation of government generally continues to grow. Different groups have different expectations, and matters affecting perceptions of performance and integrity are ever present. In this context, our work to hold public organisations to account for their use of public resources is more important than ever. In addition, auditing is under increased scrutiny internationally due to growing concerns about audit quality and auditor independence. This has the potential to lead to significant changes in the auditing profession.

Our annual audit work is fundamental to what we do, and where we do the most to improve trust and promote value. Each year, we audit about 3500 public sector organisations, which makes up nearly 90% of our total workload. My auditors routinely identify strengths and weaknesses in organisations' financial and performance reporting, systems, and processes, and recommend ways in which public organisations can improve. In an increasingly complex operating environment, it is even more critical that public organisations provide reliable, meaningful and timely information so they can be held accountable.

Our annual audits also inform our other work – including our performance audits (where we look at effectiveness and efficiency) and inquiries. Our performance audit work plan is thematic; we have made good progress on our procurement work programme, and we are close to completing our water management work. Our inquiry work (where we look at matters that concern us about the use of public resources) has reinforced some important messages about setting the right tone at the top and remembering that, where public money is concerned, the ends do not justify the means. We are active in sharing all the key messages from our work.

The Government has a major reform agenda under way affecting many parts of the public sector. During the year, we have chosen to actively engage in these reforms to give our views on both the practical aspects of the proposed reforms and matters affecting public accountability. We have taken the view that helping to get things right is better than reporting on what is wrong. Engaging early to help avoid issues, rather than reporting on them after they have occurred, has also meant getting involved in reviewing major programmes of work, such as the Provincial Growth Fund and the firearms buy-back scheme, as they have progressed. Timely recommendations for improvement help ensure that public money is spent well.

Similarly, raising the profile of our Controller work through separate reporting is aimed at helping agencies maintain appropriate spending within the authority provided by Parliament. We also substantially increased our support for select committees from the previous year.

We continue to assist our colleagues in the international auditing community to raise the standard of auditing around the world. We work particularly closely with our Pacific colleagues, including through "twinning" arrangements with the Cook Islands and Samoa audit offices (where staff from these offices work alongside our staff on matters of shared interest), and supporting Auditors-General around the Pacific through my role as Secretary-General for the Pacific Association of Supreme Audit Institutions.

Areas for improvement

This annual report also highlights where we need to improve. Although our work is highly regarded by Parliament and by most of the organisations we work with, we know we can do more to add value to the public sector by giving more insights from our audit work.

We also need to improve the timeliness of our performance audit and inquiry work in particular. Timely reporting will increase the impact of this work. New investment in the form of increased Crown funding from 1 July will help this.

Looking ahead

Our work is increasing in scale and complexity.

Our work programme for the coming year is focused on several new areas. We will be placing more emphasis on how government activities contribute to outcomes through our multi-year work programme *Improving the lives of New Zealanders*, with a particular focus on family violence in the first year. We will be updating our good practice guidance. We will be focusing on ethics and integrity, given they are key to trust. We will also continue to actively engage in the reform agenda on matters related to effectiveness, efficiency, and accountability.

I thank Parliament for its extra investment in us from 2019/20, which will enable the Office to better help Parliament hold the public sector accountable for its performance.

We intend to use this increase to address the demand for all our services, particularly for inquiries, performance audits, and supporting agencies to do the right thing. We will also use it to improve the timeliness of our work, increase its impact, and invest to improve our capability. We expect to see results from this during 2019/20, with the full effect from 2020/21.

Thank you

I thank all staff and audit service providers for their work during 2018/19. We are fortunate to have staff who strongly align with the values of the Office and the importance of the work we do to support accountability for public spending.

Nāku noa, nā

John Ryan
Controller and Auditor-General

27 September 2019

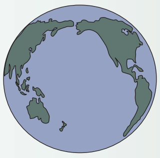
2018/19

Our year in numbers

3500
reports on public organisations' financial statements

250+
speeches and presentations

400+
responses to enquiries



25
substantive international engagements attended to support improved accountability in the Pacific and globally

20+
published letters, and submissions to help shape the public sector

15
reports presented to Parliament

185
select committee appearances

190
letters to Ministers

1200+
mentions in mainstream media

250+
social media posts

18
blog posts

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About us

The Controller and Auditor-General (the Auditor-General) is the auditor of every public organisation in New Zealand. Each year, the Auditor-General audits about 3500 public organisations that are required to publicly report, many of which are funded by rates or taxes.

This includes, for example, every government department, every district health board, every state school, every university and polytechnic, and every local authority.

Collectively, public organisations are managing the spending of more than $150 billion of public money each year.

The Auditor-General's work is carried out by nearly 400 staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand – supported by shared staff in a Corporate Services Team (CST).

We also contract auditors from private sector auditing firms to carry out some audits on the Auditor-General's behalf. We call this whole organisation "the Office".

Our purpose

Improving trust, promoting value.

Our strategic risks

Our strategic risks are:

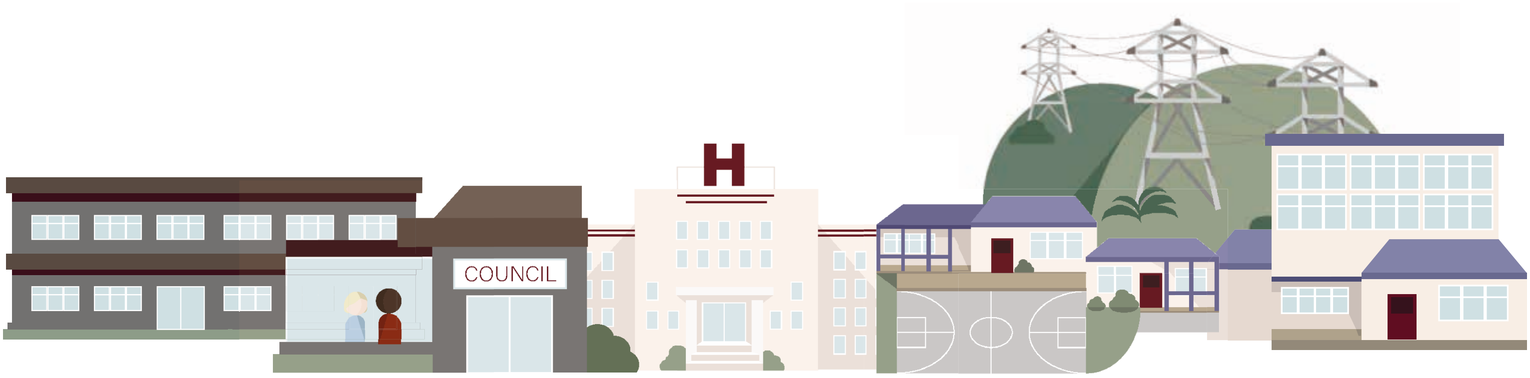
- loss of independence;
- audit failure;
- loss of capability; and
- loss of reputation.

We manage these risks through the processes that support the work we do.

In addition, our Audit and Risk Committee provides further insight and advice to help us identify and manage risk. The Committee's report for the year ended 30 June 2019 is included as Appendix 1.

What we stand for

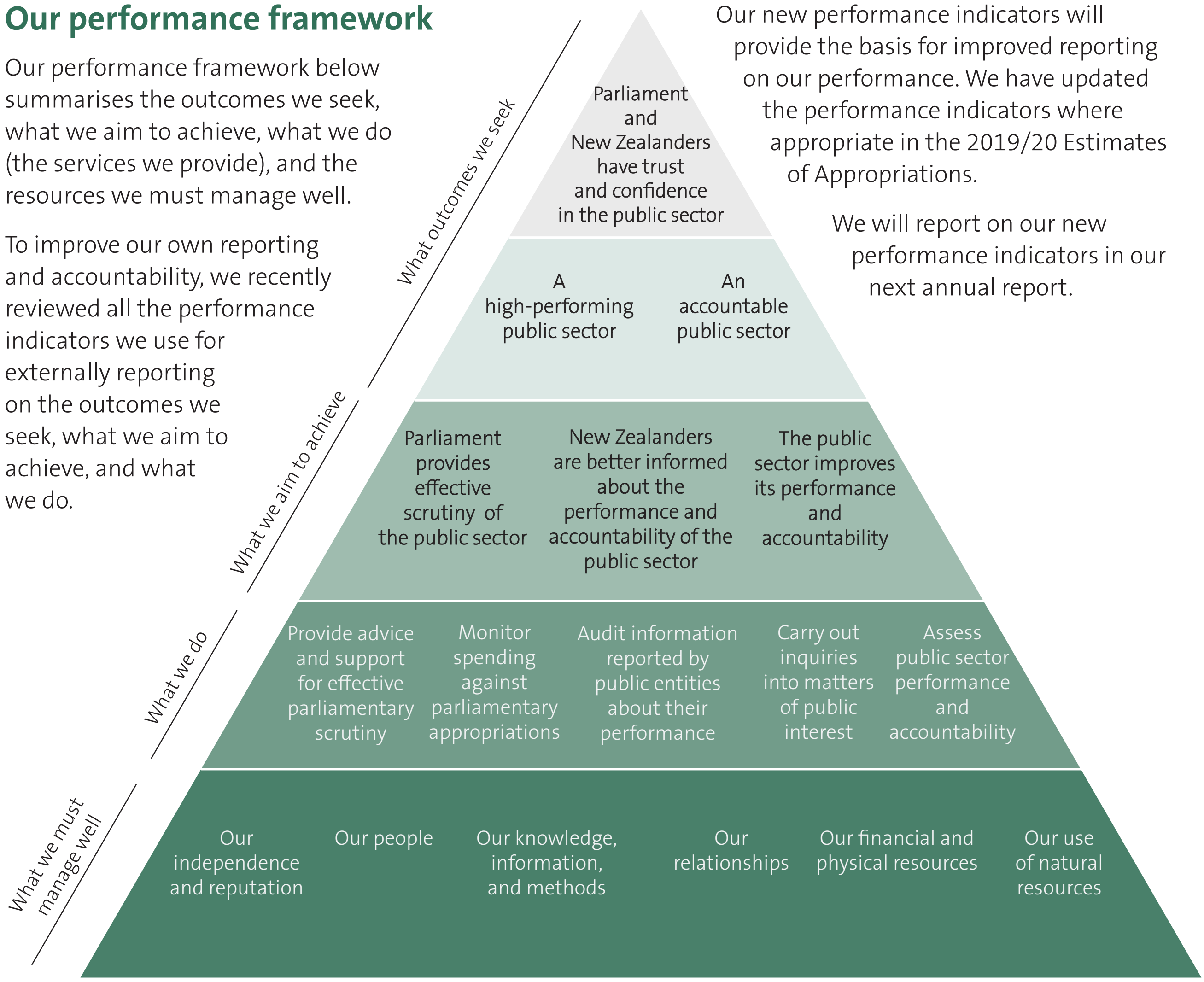
- People matter;
- Our independence is critical;
- We act with integrity and courage;
- We're here to make a difference.



Our performance framework

Our performance framework below summarises the outcomes we seek, what we aim to achieve, what we do (the services we provide), and the resources we must manage well.

To improve our own reporting and accountability, we recently reviewed all the performance indicators we use for externally reporting on the outcomes we seek, what we aim to achieve, and what we do.



Our new performance indicators will provide the basis for improved reporting on our performance. We have updated the performance indicators where appropriate in the 2019/20 Estimates of Appropriations.

We will report on our new performance indicators in our next annual report.

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Reporting on the outcomes we seek

At the top of our performance framework, as shown below, are the three outcomes that we seek to influence. We want Parliament and New Zealanders to have trust and confidence in the public sector. To achieve this, the public sector has to perform well and be accountable.

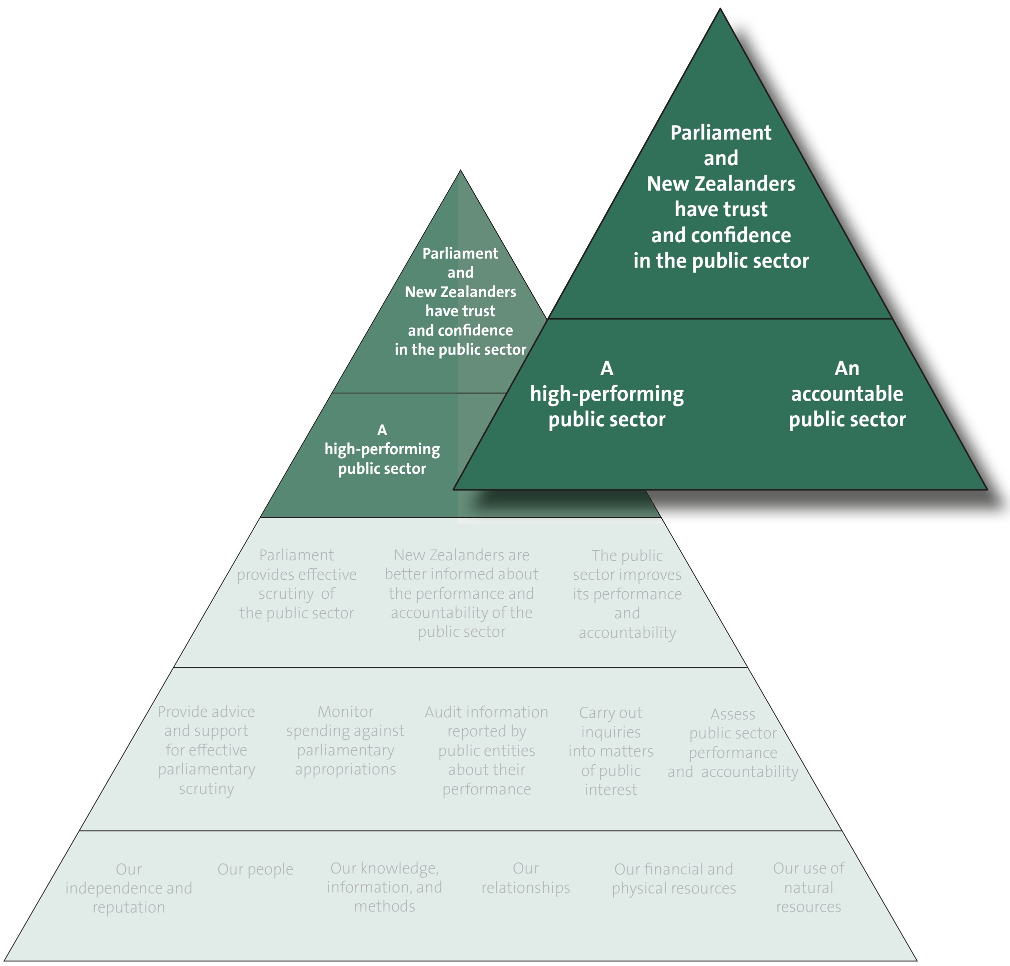
Our strategy describes how we plan to influence these outcomes through strengthening our core work, and also focusing on work that will help to achieve more impact from what we do. In early 2018, we changed the emphasis of our work to respond to changes in our operating environment and better position ourselves to influence the outcomes we seek.

We also reprioritised areas of our Organisation Development Plan to ensure that we have the capability, systems, and organisational culture to support our work.

Next is an overview of our achievements during 2018/19 against our strategic priorities. In the pages that follow, we set out the indicators we use to assess our progress towards our outcomes.

To improve the performance of public organisations and the public management system in which they operate, we:

- responded to proposed reforms of public accountability and published 10 submissions to influence thinking about system changes;
- substantially completed a discussion paper setting the scene for our future work on public sector accountability; and
- started work on consolidating our insights about performance reporting to influence improvement in the way that public organisations report their performance.



To more actively share our insights about what "good" looks like so that public organisations can improve, we:

- revised our website to better promote our good practice guidance; and
- updated and published our good practice guide on severance payments.

To ensure that we continue to improve the impact from our core work, we:

- prepared an engagement and impact plan for every performance audit, inquiry, and major piece of discretionary work;
- improved our audit planning processes through providing more targeted and timely advice; and
- improved our work programme planning by enabling wider contribution to the planning process.

To ensure that we have the capability, systems and organisational culture to enable us to deliver our work, we:

- modernised all our people and capability policies, including finalising our People strategy;
- reviewed aspects of our remuneration and reward system to ensure that our processes are fit for purpose;
- developed a submission for further Crown funding to address our demand, impact and capability needs; and
- implemented many of the findings from the independent effectiveness and efficiency review of Audit New Zealand.

Progress against our outcome indicators

Although overall progress against our outcome indicators was mostly maintained or improved in 2018/19, we consider that there is no room for complacency. Public organisations must continue to improve how they account for the public resources they use, meet the high standards of governance and integrity expected, and continue to improve their performance.

As one of a number of influencers in these areas, we will continue to play our part in influencing these important outcomes.

Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector

Our indicators	Progress		
Worldwide governance ranking (Worldwide Governance Indicators)	**2017** **Above 90th percentile**	2016 Above 90th percentile	2015 Above 90th percentile

New Zealand has consistently ranked above the 90th percentile for all six dimensions of the World Bank's Worldwide Governance Indicators over the last three years. The results for 2018 are not yet available.

Source: World Bank.

Our indicators		2018		2017		2016
Levels of trust in public services (Kiwis Count survey)	**Experience-based trust**	**80%**	+1%	79%	0%	79%
	Perception-based trust	**50%**	+3%	47%	+2%	45%

Overall, New Zealanders' levels of trust based on their personal experience and trust based on their perception of the public service brand have improved over time.

However, there are statistically significant lower results for Māori. For example, in 2018, trust based on experience was 80% overall, but 70% for Māori.

For perception-based trust, the 2018 overall result was 50%. For Māori, it was 35%, with the gap between Māori and non-Māori increasing by 9% since 2012.

Source: State Services Commission

Our indicators	2018	2017	2016
Corruption score and world ranking (Transparency International Corruption Perceptions Index)	**87 (2nd)**	89 (1st)	90 (1st)

With a score of 87 out of 100, the most recent results show that New Zealand's public sector ranked as second least corrupt in the world after Denmark.

Although the 2018 score was a slight decline from the previous three years, New Zealand remains one of the top-performing countries in the Index.

Source: Transparency International.

Our indicators	2019	2018
Integrity ranking (International Civil Service Effectiveness Index)	**1st**	not comparable

Results for the University of Oxford's 2019 International Civil Service Effectiveness Index show that the New Zealand public sector ranked first on integrity compared to the 38 other countries reviewed.

Source: University of Oxford.

Outcome 2: An accountable public sector

Accountability for the use of public resources is critical. For Parliament and New Zealanders to have trust and confidence in the public sector, public organisations need to provide reliable, meaningful, and timely information so that they can be held accountable.

Each year, we examine trends for these aspects of public sector accountability, including timely and reliable information, sound management, and good governance. We show a high-level summary of the results across our indicators below. Overall, the results show that public sector accountability for public resources is at levels consistent with previous years.

Our indicators for timeliness and quality	Progress				
Audits completed on time	**2018/19**		2017/18		2016/17
	81%	-2%	83%	+3%	80%
We use audits completed on time as a substitute measure for public organisations completing their reporting within statutory time frames.					
Public release of annual reports (for local authorities only)	2018/19		**2017/18**		2016/17
	Not yet available		**97%**	+5%	92%
More local authorities are meeting their timeliness obligations for public release of their annual reports. These results are reported for the previous financial year.					
Unmodified audit opinions	**2018/19**		2017/18		2016/17
	97%	0%	97%	-1%	98%
We use unmodified audit opinions as a substitute measure for reliable information. An unmodified audit opinion means that our auditors considered that the public organisation had fairly reflected its performance in its reporting.					

Our indicators for sound management and good governance		Progress		
		2017/18	2016/17	2015/16
Management control environment results	Very good/Good	95%	95%	95%
	Needs improvement	5%	5%	5%
Financial information systems and controls results	Very good/Good	97%	97%	96%
	Needs improvement	3%	3%	4%
Service performance information and associated systems and controls results	Very good/Good	95%	96%	94%
	Needs improvement	5%	4%	6%

For public organisations in the central government sector (excluding schools), our auditors use a framework to assess each organisation's management control environment, and financial systems and controls.

For some public organisations, we assign grades: needs improvement, good, or very good.

Auditors recommend improvements to ensure that there are effective internal controls for sound management and good governance, and to help entities manage risks.

Results show a relatively consistent and strong position for management control environment, financial systems and controls, and service performance information and associated systems and controls.

Outcome 3: A high-performing public sector

Our indicator for public service quality	Progress				
	2018		2017		2016
Quality of public services (Kiwis Count survey)	**77**	+1	76	+2	74

Since 2007, a sample of New Zealanders has been surveyed to measure satisfaction with a wide cross-section of public services through the Kiwis Count survey.

New Zealanders hold public services in reasonably high regard, and there has been steady improvement in the satisfaction trends since 2007. The average overall service quality score for 2018 is 77 (out of 100) across the 43 services.

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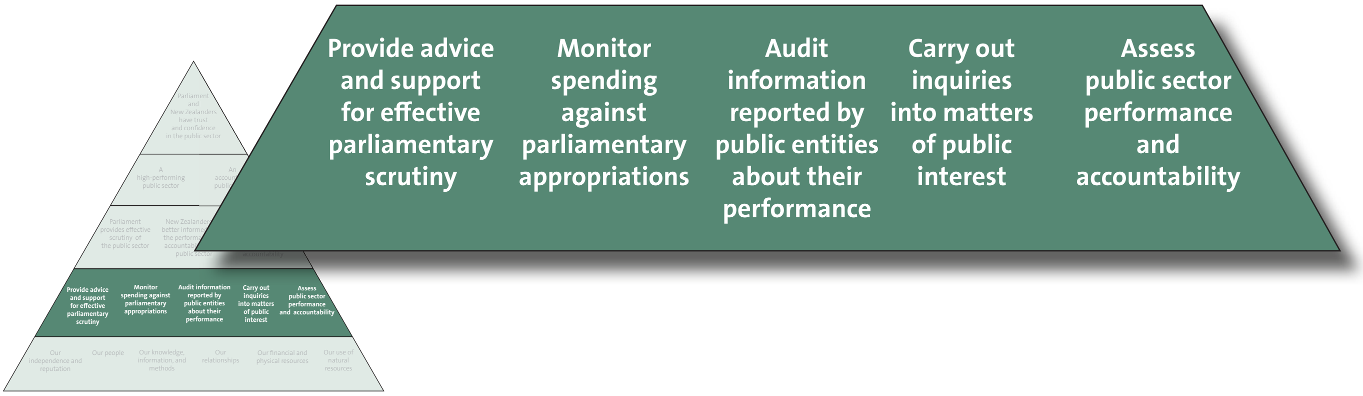
Reporting on the services we delivered

In this Part, we report on the services that we were funded to deliver in 2018/19 and how well we delivered those services.

The services that we are funded to deliver are described in the highlighted layer of our performance framework as shown.



How our work is funded

Our services are funded through appropriations for Vote Audit. In the table below, we show the linkages between our services and our appropriations.

Our services	Our appropriations
Provide advice and support for effective parliamentary scrutiny. Our advice to select committees	*Statutory Auditor Function MCA* MCA means multi-category appropriation – more than one aspect of our work is covered by this appropriation
Monitor spending against parliamentary appropriations. Our Controller function	*Statutory Auditor Function MCA*
Audit information reported by public entities about their performance. Our annual audits of public entities	*Audit and Assurance Services RDA* RDA means revenue-dependent appropriation – the amount of money depends on the audit fees charged for audits of public entities *Audit and Assurance Services* This appropriation is funded by the Crown, not by the small entities that we audit
Carry out inquiries into matters of public interest. Our inquiries	*Statutory Auditor Function MCA*
Assess public sector performance and accountability. Our performance audits and special studies	*Statutory Auditor Function MCA*

We provide more information about our other two appropriations: *Remuneration of Auditor-General and Deputy Auditor-General PLA* (permanent legislative authority) and *Controller and Auditor-General – Capital Expenditure PLA* – at the end of Part 3.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Office for the year ended 30 June 2019.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations, for the year ended 30 June 2019

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

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

Annual and permanent appropriations for Vote Audit	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Output expenses					
Audit and Assurance Services RDA**	82,570	83,614	80,481	80,500	81,617
Audit and Assurance Services	150	150	1,650	1,550	1,850
Total appropriations for output expenses	*82,720*	*83,764*	*82,131*	*82,050*	*83,467*
Other expenses					
Remuneration of Auditor-General and Deputy Auditor-General PLA***	1,064	739	1,052	1,064	1,064
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	6,226	6,080	6,576	6,576	9,939
Supporting Accountability to Parliament	3,444	3,195	3,278	3,278	4,937
Total Statutory Auditor Function MCA	*9,670*	*9,275*	*9,854*	*9,854*	*14,876*
Total appropriations for operating expenditure	93,454	93,778	93,037	92,968	99,407
Capital expenditure					
Controller and Auditor-General Capital Expenditure PLA****	1,090	968	1,266	1,388	1,737
Total annual and permanent appropriations	**94,544**	**94,746**	**94,303**	**94,356**	**101,144**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2018/19, revenue under this appropriation was $82.602 million – see page 18, Financial performance for Audit and Assurance Services RDA.

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

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

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority, for the year ended 30 June 2019

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority for the year ended 30 June 2019 (2018: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority, for the year ended 30 June 2019

The Office did not receive any capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2019 (2018: Nil).

Statutory Auditor Function MCA

About the appropriation ***Statutory Auditor Function MCA***

The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources. It includes two categories:

Supporting Accountability to Parliament

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

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

Performance Audits and Inquiries

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

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

Financial performance for Statutory Auditor Function MCA

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Income					
Crown	9,611	9,611	9,611	9,611	14,633
Other	273	165	243	243	243
Expenditure	(9,670)	(9,275)	(9,854)	(9,854)	(14,876)
Surplus	**214**	**501**	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

Overall performance for *Statutory Auditor Function MCA*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Quality standards are consistently met: stakeholders surveyed who confirm the relevance of our work to users, and reports independently reviewed that are assessed as being of high quality.	At least 85% for stakeholders and 100% for reports	91% for stakeholders when last assessed* 100% for reports	91% for stakeholders 100% for reports	92% for stakeholders 100% for reports
Process standards are consistently met: external review and internal quality assurance review confirm that our performance audit process standards are consistently complied with, and that our policies and procedures for statutory auditor functions meet relevant standards.	Confirmation by external and internal review	Confirmed for external review when last assessed** Internal review results not yet available	Confirmed by external review when last assessed Confirmed by internal review when last assessed	Confirmed by external review Confirmed by internal review

* Our stakeholder surveys are carried out every two years. This result is from our 2018 survey. Our next survey is planned for 2020.

** External peer review of our performance audit function is carried out by the Australian National Audit Office every two years. This result is from the 2017 review. Results from the 2019 review are not yet available.

Overall, we are satisfied that we met our quality and process-related targets for our work to support Parliament in ensuring accountability for the use of public resources. For example, 91% of respondents in our most recent stakeholder survey confirmed the relevance and usefulness of our work. An independent assessment of two of our reports concluded that they were of high quality. The reviewers considered that the reports were well written and the recommendations were likely to lead to improvements. They made useful suggestions about how we could improve the impact of our recommendations that we are considering.

The Australian National Audit Office's most recent review of our compliance with our performance audit standards and methodology found that the two performance audit reports reviewed were supported by sufficient and appropriate audit evidence, and in the most part met the Auditor-General's Auditing Standard 5 and applicable Performance Audit Manual policies.

The services we deliver under the *Statutory Auditor Function MCA* appropriation

1. Provide advice and support for effective parliamentary scrutiny

About the appropriation

This service is funded through the *Statutory Auditor Function MCA* appropriation. The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

It includes a category Supporting Accountability to Parliament. This category is limited to reporting to Parliament and others as appropriate on matters arising from audits and inquiries, reporting to and advising select committees, and advising other agencies in New Zealand and abroad to support Parliament and the public in holding public entities to account for the use of public resources.

This category is intended to provide advice and assistance to Parliament and our other stakeholders to assist them in their work to improve the performance and accountability of public entities.

Scrutiny of the performance and accountability of the public sector is primarily carried out through select committees. We work closely with select committee chairs and clerks to ensure that our advice and support meet their needs.

We use information from our annual audits to advise and inform Parliament about issues and risks in the public sector. We provide reports and advice to select committees to help their annual reviews of public organisations and their examination of the Estimates of Appropriations, and reports to Parliament on matters arising from our annual audits, performance audits, and other studies.

We also advise Ministers of the results of our annual audits for public organisations in their portfolio.

Performance for *Provide advice and support for effective parliamentary scrutiny*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Stakeholders we survey confirm that our advice assists them.	At least 85%	77% when last assessed*	77%	83%
Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme).	Stakeholders are satisfied	Stakeholders satisfied	Stakeholders satisfied	Stakeholders satisfied
Briefings are given to select committees at least two days before an examination, unless otherwise agreed.	100%	100%	100%	98.5%

* Our stakeholder surveys are carried out every two years. This result is from 2018. Our next stakeholder survey is planned for 2020.

In 2018/19, we provided advice to select committees in support of 116 annual reviews, 63 Estimates of Appropriation examinations, and 6 sector briefings. This is a significant increase over previous years (2017/18: 97, 57, and 7 respectively).

Our work is increasing in scale and complexity. Select committees are responding to the Government's greater emphasis on cross-portfolio delivery by reviewing proposed spending across different votes. For example, we supported select committees when they examined proposed appropriations for the Provincial Growth Fund and the Joint Venture on Domestic Violence. These appropriations covered multiple votes with a number of Responsible Ministers. We expect that this type of work will increase.

Historically, we have presented reports to the House of Representatives and responded subsequently to requests from select committees to brief them on the key points. Frequently, these requests have not been made until some time after the report has been presented.

For our report on long-term plans of local authorities – *Matters arising from our audits of the 2018-28 long term plans* – the Speaker of the House of Representatives hosted an event where the Auditor-General briefed members on the report shortly before it was presented in February 2019. This provided an opportunity for all members, regardless of their select committee, to hear and ask questions about a report of interest to them and their constituents. These briefings have continued in 2019/20.

During the year, we also contributed to a report commissioned to provide ideas for the triennial review of Parliament's Standing Orders and contribute to public debate on enhancing the quality of the country's long-term governance. The report, *Foresight, insight and oversight: Enhancing long-term governance through better parliamentary scrutiny,* suggested reforms that could change how we work with and for Parliament. We will follow developments closely.

Our international contribution

Each year, we contribute to the international auditing community, particularly in the Pacific region. We aim to strengthen public sector accountability and promote good governance by sharing our skills, knowledge, and expertise with other audit bodies throughout the world.

We take part in international efforts to develop accounting and auditing guidance and standards, and we are active members of the International Organisation of Supreme Audit Institutions (INTOSAI) and the Global Audit Leadership Forum. For example, one of our senior staff members represents New Zealand on the International Public Sector Accounting Standards Board, and we contribute to international public sector auditing standard setting through our membership of INTOSAI's Forum for International Pronouncements. This year, we were part of the international peer review team that reviewed the Office of the Auditor-General of Canada.

Our largest time and resource commitments are to the Pacific Association of Supreme Audit Institutions (PASAI), which is the regional body of INTOSAI focused on the Pacific. The Auditor-General of New Zealand is the Secretary-General of PASAI.

Through our commitment to PASAI, we support accountability, transparency, and good governance in the Pacific, which in turn helps to ensure stability in the Pacific and accountability for the resources that New Zealand invests in the region.

Our work with PASAI is funded by a contract with the Ministry of Foreign Affairs and Trade.

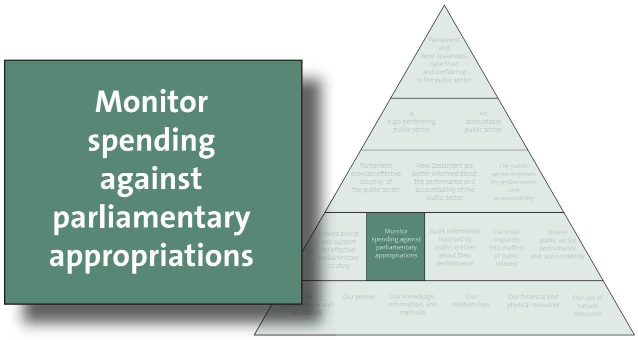
The Auditor-General is also the Auditor-General of Niue and Tokelau under their respective accountability arrangements.

2. Monitor spending against parliamentary appropriations

About the appropriation

This service is funded through the ***Statutory Auditor Function MCA*** appropriation. The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

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



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

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

Each year, we report to Parliament on any significant matters related to the Controller function. Our report on the results of the 2017/18 central government audits showed that there were 10 instances of unauthorised expenditure, amounting to $69 million (2016/17: 8 instances amounting to $90 million). This equated to 0.07% of the total spending approved in Budget 2017.

This year we introduced a new report to inform the public about our Controller work. We published the *Controller update: July to December 2018* on our website. This report provided an interim account of our work and findings for the first half of the year.

We reported on two matters of public spending without authority. The Ministry of Social Development (MSD) had applied money to situations not covered by the law. Some of MSD's winter energy payments were unlawful because they were made outside MSD's legal mandate. They were also made without Parliament's authority to spend and were therefore unappropriated expenditure.

On a separate matter, an error in the paperwork for authority to spend meant that the Ministry of Business, Innovation and Employment spent money on administration of the Provincial Growth Fund before proper authority was in place.

Performance for *Monitor spending against parliamentary appropriations*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Controller function: monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	All procedures are followed, and agreed time frames are met.	All procedures were followed, and agreed time frames were met.	All procedures were followed, and agreed time frames were met.	All procedures were followed, and agreed time frames were met.

3. Carry out inquiries into matters of public interest

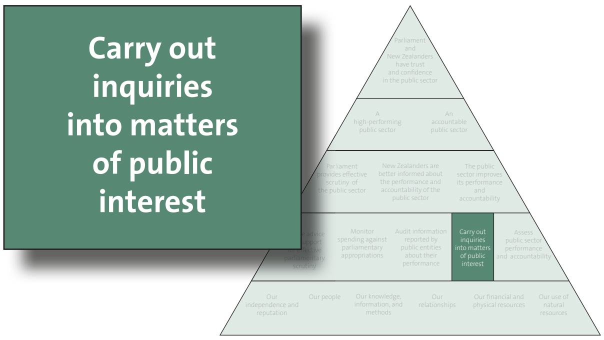
About the appropriation

This service is funded through the ***Statutory Auditor Function MCA*** appropriation. The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

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

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

The Public Audit Act 2001 allows the Auditor-General to carry out an inquiry into any matter concerning a public organisation's use of resources. Possible inquiries can arise from our audit or other work, requests from members of Parliament or a public organisation, or concerns raised by the public. Our inquiries work is often reactive to matters of current public concern.



Performance for *Carry out inquiries into matters of public interest*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Entities accept the key recommendations made in our reports, and the recommendations influence improvement.	As assessed in follow-up reports	Achieved for inquiries	Achieved for inquiries	Achieved for inquiries
Findings on inquiries are reported to the relevant parties within three months for routine inquiries, within six months for significant inquiries, and within 12 months for major inquiries.	At least 80%	Routine inquiries 67%	Routine inquiries 80%	Routine inquiries 76%
	At least 80%	Significant inquiries 50%	No significant inquiries carried out	Significant inquiries 50%
	At least 80%	Major inquiries 0%	Major inquiries 0%	Major inquiries 0%
Local Authorities (Members' Interests) Act 1968 matters that are completed within 30 working days.	At least 80%	92%	91%	88%

In 2018/19, we completed work on 45 routine inquiries (including protected disclosures and inquiry-related correspondence), two significant inquiries, and two major inquiries. Inquiries that we decide to inquire into are categorised as "routine", "significant", or "major", depending on how complex the matter is and how long it is likely to take to consider and report about it.

In our report, *Inquiry into the procurement of works at Franz Josef by the Westland District Council*, we looked at the Council's construction of a stopbank at Franz Josef. Our report contains strong messages about the ends not justifying the means.

Regardless of a perceived sense of urgency, the Council should have complied with the Local Government Act 2002 and the Resource Management Act 1991 and given more attention to the fact that the role of elected members is to govern and not manage. It should have better managed the conflicts of interest, and should have been able to show that public money was well spent and that good procurement practice (to support good decisions) was followed. Several aspects of the process that the Council followed were not acceptable for a public organisation.

We reported to the Waikato Institute of Technology (Wintec) about our additional assurance work carried out on travel expenses and redundancy and severance payments. Our work examined executive travel to Hong Kong and China. Our report outlined that Wintec was in many cases not able to account for the public money it had spent.

The report also outlined what is expected of public organisations when they are spending public money on travel, such as having good records of what the money has been spent on, and being able to show who travelled, that the trip had a clear and approved purpose, and that policies were followed.

Our work reinforced the principle that public organisations need to be good stewards of public money. They should be able to demonstrate that they are spending it well. Getting the basics right helps to build trust and confidence in the public sector.

There are often ongoing effects from our work. For example, discussions continue at select committees, and at central and local government levels, about the lessons from our inquiry work this year. Questions about governance, procurement process and capability, and management of local emergencies and risks are still being considered.

It is challenging to balance the obligations of fairness and natural justice inherent in our work with the increasing volume and complexity of the matters we consider. Our inquiries work is not as timely as we would like. We did not meet our timeliness targets for the three inquiry categories. Of our routine inquiries, 67% (30 of 45) were completed within three months. One of our two significant inquiries was completed within six months, and neither of our two major inquiries were completed within our 12-months target.

We intend to improve how we carry out our initial assessment of matters so that we can make faster progress, and improve the impact of our work. We also plan to increase investment in our inquiries work to help address our timeliness challenges.

Local Authorities (Members' Interests) Act 1968

The Auditor-General also administers the Local Authorities (Members' Interests) Act 1968 (LAMIA), which regulates pecuniary interest matters in local government. This year, we received 37 applications for approval under the Act, and 21 requests for guidance. We measure our timeliness for LAMIA matters from the point where we have all the information we require to carry out our work. This year, we completed 34 out of the 37 enquiries (92%) within our target of 30 working days. We also carried out 7 investigations into potential breaches of the Act.

4. Assess public performance and accountability

About the appropriation

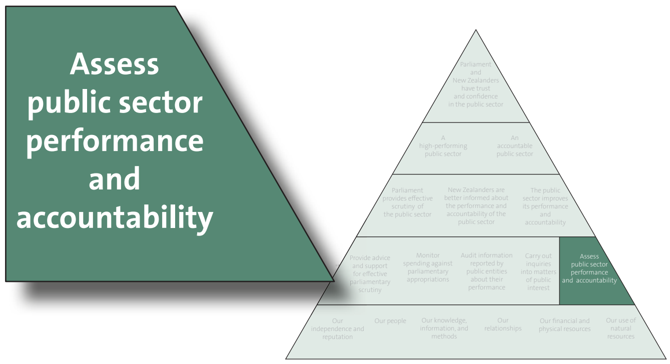
This service is funded through the *Statutory Auditor Function MCA* appropriation. The purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

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

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

The Public Audit Act 2001 allows the Auditor-General to assess the performance and accountability of public organisations, particular sectors, or the public sector as a whole.

Our work includes evaluation and assessment work, special studies, and advice and recommendations for improvement.



Performance for *Assess public sector performance and accountability*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Entities accept the key recommendations made in our reports, and the recommendations influence improvement.	As assessed in follow-up reports	Achieved for performance audits	Achieved for performance audits	Achieved for performance audits
Projects in the programme of work under this output class that are delivered within their planned time frames.	At least 75%	31%	20%	39%

Every year, we carry out a wide range of work to assess public sector performance and accountability. We identify and prioritise work that we consider will best contribute to achieving our impacts and our ultimate outcome – that Parliament and New Zealanders can have trust and confidence in the public sector.

After consulting with Parliament on our proposed programme of work, we publish the work we intend to carry out in our annual plan. In 2018/19, we completed reports on a range of matters. Appendix 4 lists those reports, which are all available on our website. Our progress with the performance audits and other work in our 2018/19 work programme is outlined in Appendix 5.

Performance audits are an important part of our work programme. They enable us to delve more deeply into particular areas of performance than is possible through our annual audits. Their purpose is to influence improved public sector performance and provide assurance to Parliament, public organisations and the public that public organisations are delivering what they have been set up and funded to do.

Each year, we assess the progress public organisations make in acting on the recommendations from a selection of our previous performance audits. The selection of audits we follow up is based on the significance of the areas identified for improvement in the performance audit report, the time that has elapsed since our recommendations were made, and the resources we have available to assess progress.

Generally, we follow up after 18 to 24 months. This allows the entity time to make any necessary changes. Sometimes, changes in the organisation's operating environment mean that we delay our follow-up assessments or that we refocus them. We will continue to monitor the implementation of our recommendations.

Timeliness of our work

Timeliness of completing our work remains a focus. We aim to deliver at least 75% within their planned time frames.

This year, we did not achieve our timeliness target. Only 31% of our projects (5 out of 16) were delivered within their planned time frames. Another 56% of projects (9 out of 16) were delivered within three months of our planned time frames. When added together, 87% of our projects were delivered within their planned time frames or within three months of their planned time frames.

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

Audit and Assurance Services RDA

About the appropriation Audit and Assurance Services RDA

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

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

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Income from third parties	82,602	84,496	80,481	80,500	81,617
Expenditure	(82,570)	(83,614)	(80,481)	(80,500)	(81,617)
Surplus**	**32**	**882**	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

Audit and Assurance Services (RDA) revenue was $2.1 million higher than in the Supplementary Estimates, due to higher estimated value of work to date on audits that were under way at 30 June 2019, and improved cost recovery on audits. Costs were also $2.1 million higher than in the Supplementary Estimates, due to the equivalent higher costs of audits completed by contracted audit service providers, and higher operating costs in Audit New Zealand.

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

Audit and Assurance Services

About the appropriation Audit and Assurance Services

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. It provides for audit and related assurance services of smaller entities, such as cemetery trusts and reserve boards, which are funded by the Crown rather than by audit fees charged to these entities.

This appropriation also provides for when costs exceed revenue under the *Audit and Assurance Services RDA*. These deficits are funded by prior-year surpluses from this output class, which are held in the Office's memorandum account.

Financial performance for Audit and Assurance Services

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Income	150	150	150	150	150
Expenditure	(150)	(150)	(1,650)	(1,550)	(1,850)
(Deficit)**	-	-	**(1,500)**	**(1,400)**	**(1,700)**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

The higher expenditure appropriations in the Estimates provide a buffer to cover potential deficits on the Audit and Assurance Services RDA output class. Deficits are reported through this appropriation and are funded by the Audit and Assurance Services memorandum account.

A combined view of the financial performance for the two appropriations is shown below:

Combined financial performance for Audit and Assurance RDA and Audit and Assurance Services

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Income	150	150	150	150	150
Income from third parties	82,602	84,496	80,481	80,500	81,617
Total Income	**82,752**	**84,646**	**80,631**	**80,650**	**81,767**
Expenditure	(82,720)	(83,764)	(82,131)	(82,050)	(83,467)
Surplus/(Deficit)**	**32**	**882**	**(1,500)**	**(1,400)**	**(1,700)**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

** Forecast deficits are funded by the Office's memorandum account, which is explained further in Note 15 in the notes to the financial statements.

The services we deliver under the appropriations *Audit and Assurance Services RDA* and *Audit and Assurance Services*

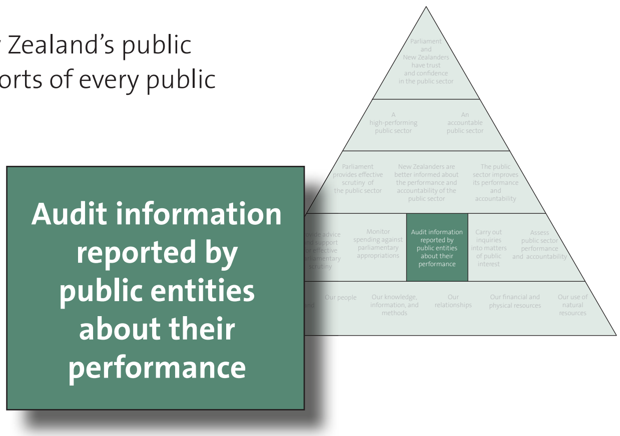
5. Audit information reported by public entities about their performance

About the appropriation

This service is funded through both the Audit and Assurance Services RDA and Audit and Assurance Services appropriations.

The purpose of the Audit and Assurance Services RDA appropriation is to provide audit services to all public entities and other audit-related assurance services. These audit services are funded by audit fees charged to public entities.

The purpose of the Audit and Assurance Services appropriation is to provide for audit and related assurance services of smaller entities, such as cemetery trusts and reserve boards, which are funded by the Crown rather than by audit fees.



Our annual audits are fundamental to all we do and to New Zealand's public accountability system. Every year, we audit the financial reports of every public organisation that is required to have an audit – from large government departments, local authorities, and district health boards to every state school and licensing trust. In 2018/19, our annual audits and other assurance services accounted for 89% of our total operating expenditure.

We use information from our annual audits to help us advise Parliament and others, and to assist our other work. For Parliament and New Zealanders to have trust and confidence in the public sector, public organisations must provide reliable, meaningful and timely information so that they can be held accountable.

These are important indicators of a high-performing and accountable public sector. We expect public organisations to respond to our audit recommendations to improve their systems and controls, and prepare their reports within statutory time frames.

Performance for *Audit information reported by public entities about their performance*

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Public entities' audited reports are signed within the statutory time frame.	At least 80%*	81%	83%	80%
Audit reports not signed within the statutory time frame are because of inaction on our part.	Less than 15%**	19%	23%	14%
Management reports are issued within six weeks of issuing the audit report.	100%	97%	95%	96%

Performance indicator	Performance standard	2018/19 result	2017/18 result	2016/17 result
Long-term plan (LTP) audit opinions are signed by 30 June (unless held up by the local authority).	Not applicable as not an LTP year	Not assessed, as not an LTP year	97%	Not assessed, as not an LTP year
Long-term plan (LTP) management reports are provided to local authorities.	Not applicable as not an LTP year	Not assessed, as not an LTP year	100%	Not assessed, as not an LTP year
Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits, and monitor the reasonableness of audit fees.	Confirmation by annual independent review	Confirmed by annual independent review (See Appendix 2)	Confirmed by annual independent review	Confirmed by annual independent review
Percentage of respondents from our satisfaction survey of public entities who are satisfied with their audit (including the expertise of audit staff and the public entity's relationship with those staff).	At least 85%	76%	80%***	Results not comparable
Percentage of respondents from our satisfaction survey of public entities who are satisfied with the usefulness of the management report they receive****	At least 70%	69%	76%	Results not comparable
Appointed auditors who have a quality assurance grade of at least "satisfactory", based on our most recent quality assurance review.	100%	94%	95%	97%

* We revised this performance standard from 75% in 2016/17 and 2017/18 to 80% in 2018/19.

** We revised this performance standard from less than 30% in 2016/17 and 2017/18 to less than 15% in 2018/19.

*** Due to survey methodology changes, this result differs from what we reported in 2017/18. Our survey method changed from telephone to on-line in 2016/17. This year, the survey rating scale changed from a 10-point scale to a 5-point scale. We surveyed using both scales in 2017/18 and reported the result (77%) using the 10-point scale. This year, we report the 2017/18 result using the 5-point scale (80%) to enable a comparison with 2018/19. The changes mean that the 2016/17 results are not comparable with the 2017/18 and 2018/19 results.

**** We revised this performance indicator to provide a more objective assessment of how well our management reports help public organisations improve. We explain more on page 28.

Timeliness

We expect public organisations to prepare their annual reports within statutory time frames. This year, 81% achieved this. Those that did not were mostly small public organisations such as schools, cemetery trustees, and subsidiaries of public organisations. There are a range of reasons why these organisations find it challenging to meet their reporting obligations on time. We will look at how we might address these reasons with the organisations and auditors as appropriate.

Sometimes, we are responsible for public organisations not meeting their reporting obligations on time. This year, 19% of the organisations that did not meet their timeliness obligations were due to our inaction. This was mainly because some of the firms we contract to carry out audits (our audit service providers) had difficulties resourcing the work.

We aim to have all our management reports issued within 6 weeks of issuing the audit report. This supports public organisations to action our recommendations in a timely way. This year, 97% of our management reports were issued within that time frame. Delays were caused by some late responses to matters raised in our draft management reports, and also by resourcing challenges for some of our audit service providers.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors from Audit New Zealand and private sector auditing firms to carry out the annual audits of public entities, on his behalf. Our processes are designed to ensure that these auditors are independent, that they carry out audits of high quality, and that their audit fees are reasonable.

Every year, we commission an independent review of our processes for appointing auditors and monitoring audit fees. This year's independent review confirmed the probity and objectivity of the methods and systems that we use to allocate and/or tender audits, and to monitor the reasonableness of audit fees. Appendix 2 contains the review report.

There is pressure within the audit market for fees to increase. This pressure comes from a tight labour market, international developments that are challenging the status quo, and rising expectations of auditors – not only from the organisations being audited, but also the regulators.

To help us with our monitoring of audit fees, we periodically commission an independent effectiveness and efficiency review of Audit New Zealand, our in-house audit service provider. A review in 2018 showed that we can continue to use Audit New Zealand as a benchmark from which we can compare the pricing of private sector audit providers.

In 2018/19, fees increased due to:

- changes in the scale of operations of some organisations;
- resetting of audit fees for schools in some regions, where they were lower than necessary to retain auditors and achieve quality audits;
- variable quality of the financial statements and performance information prepared by some organisations; and
- small changes in auditor charge-out rates (the average hourly cost of carrying out audits).

Changes in audit fees from 2016/17 to 2018/19 are summarised in the following table. The figures exclude additional audit fees negotiated with a small number of public organisations as a result of unforeseen problems arising after audit fees were agreed.

Changes in audit fees, 2016/17 to 2018/19

	2017/18 to 2018/19				2016/17 to 2017/18			
Sector	**Increase in total fee**	**Because of changes in time**	**Because of changes in charge-out rate**	**Number of organisations***	**Increase in total fee**	**Because of changes in time**	**Because of changes in charge-out rate**	**Number of organisations***
	%	%	%		%	%	%	
Central government	5.4	9.1	(3.7)	328	1.0	1.1	(0.1)	356
Local government	2.7	1.2	1.5	380	2.7	0.6	2.1	401
Schools	6.0	5.2	0.8	2393	1.5	0.0	1.5	2404
Total	**4.6**	**5.8**	**(1.2)**	**3101**	**1.6**	**0.8**	**0.8**	**3161**

* The number of organisations are all those organisations where audit fees were agreed at the time our analysis was prepared. This number differs from the total number of public sector organisations referred to on page 6.

** For a number of central government organisations, auditors have proposed significantly increased audit hours. We have restricted the associated audit fee movement, effectively diluting the average hourly charge-out rates.

Our independence

Maintaining independence is fundamental to our work. The credibility of our work relies on being free from influences (real or perceived) so as to enable us to carry out our work and report without constraint. We have high standards of independence, higher than those that apply to the auditing profession generally. We ensure that our independence standards remain appropriate to our changing operating environment. We closely monitor compliance with those standards.

Satisfaction with our auditing services

Each year, our satisfaction survey assesses public organisations' satisfaction with our auditing services. We survey about 550 public organisations. The response rate is generally about 50%.

Our target for public entities' satisfaction with our audit services is that at least 85% of the entities we survey are satisfied with their audit and the expertise of our auditors. This year, we did not achieve our target. Of the entities that responded to our survey, 76% confirmed that they were satisfied with the services our auditors provide. We use our survey results to determine where we can best focus our efforts on improving our auditing services. The matters raised are generally in the value-added area. This is an ongoing challenge for auditors worldwide. The most significant value we give is of course the assurance we provide to stakeholders from the audit itself. However, we know that we can provide more insight to entities through our core audit work, and we are aiming to do that.

Implementation of our recommendations

Each year, our auditors prepare management reports that provide our findings and recommendations so that those with responsibility for making improvements can take action. As indicated in our previous annual report, we have reassessed how we measure public organisations' implementation of our recommendations.

Previously, we reported on the percentage of key recommendations in our management reports that are accepted and acted on by public organisations. To determine this, we carried out a relatively subjective desk-based assessment of whether a small sample of about 45 public organisations had accepted the key recommendations from our management reports.

To improve the objectivity of our assessment and increase the sample size, this year we revised the indicator and the methodology. Our revised indicator – the percentage of respondents from our satisfaction survey of public organisations who are satisfied with the usefulness of our management reports – provides for a more objective assessment of the difference our work makes. Through our satisfaction survey, we asked public organisations about the usefulness of our management reports. The survey provides a larger sample size and a more objective assessment based on direct feedback from public organisations.

We intend to further revise how we assess public organisations' implementation of our recommendations.

Carrying out quality assurance reviews

The quality of audit work carried out on behalf of the Auditor-General is paramount. We carry out quality assurance reviews of appointed auditors usually once every three years to ensure that they have complied with *The Auditor-General's Auditing Standards*. We expect all our auditors to achieve at least a "satisfactory" grade. This year, 94% of our auditors met this target. Those auditors who did not achieve a grade of at least "satisfactory" were auditors from small private sector auditing firms. We work with those auditors to address any immediate concerns and carry out a follow-up review in the following year. Where necessary, we make changes to auditors' portfolios.

The Auditor-General's Auditing Standards

The Public Audit Act 2001 requires us to report each year on any significant changes made to *The Auditor-General's Auditing Standards*. This year, there were no significant changes made to *The Auditor-General's Auditing Standards*. Effective from 1 July 2019, the Auditor-General's standard on independence was strengthened by limiting the work that audit firms can carry out in addition to the audit of public organisations, to work of an assurance nature.

Appropriations relating to all our services

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

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

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

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Income	1,064	838	1,052	1,064	1,064
Expenditure	(1,064)	(739)	(1,052)	(1,064)	(1,064)
Surplus	-	**99**	-	-	-

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

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

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

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

	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000	Main Estimates 2019/20 $000*
Property, plant, and equipment	509	595	550	484	559
Intangible assets	242	313	260	448	950
Other	339	60	456	456	228
Total Capital Expenditure	**1,090**	**968**	**1,266**	**1,388**	**1,737**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

This year, we met our objectives for maintaining our property, plant, and equipment. Our objectives for intangible assets included completing the upgrade of the Office's document management system. This project has been delayed and is not yet complete. This is reflected in the lower expenditure on intangible assets for 2018/19 compared to the Supplementary Estimates.

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

4

What we must manage well

There are six key resources (or capitals) that we must manage well to improve our organisation and support the delivery of our strategic intentions to 2025. A detailed description of each resource is on our website.

OUR INDEPENDENCE AND REPUTATION

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

We cannot do our work without being independent, and being seen to be independent. Our reputation is critical to maintaining Parliament's and the public's trust and confidence in our work.

To protect the quality and independence of our audit work, we:

- actively monitored and managed potential conflicts of interest for our staff who carry out and report on audits and inquiries on behalf of the Auditor-General;
- ensured the independence of the private sector auditors appointed to carry out audits on behalf of the Auditor-General. We received 84 requests from the private sector auditors appointed to carry out audits on behalf of the Auditor-General, to carry out other work for the organisations they audited. We decided whether the potential effect on their independence that the other work presented meant they could or could not carry out that other work; and
- announced stronger independence standards from 2019/20, limiting the work that may be carried out by firms that audit public organisations on our behalf to work of an assurance nature only.

OUR PEOPLE

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

The experience, knowledge, skills, and commitment of our people are vital to our work and our ability to deliver on our statutory responsibilities and our strategic intentions.

To ensure that we can deliver high-quality work, we:

- modernised all of our people and capability policies, to attract and retain great staff – including new flexible working arrangements;
- introduced career boards to help our staff identify and build their career paths and capabilities;
- continued the training and development of our audit staff, including supporting their qualifying as chartered accountants and holding 44 training events to further develop their capability;
- introduced leaders' programmes for our managers;
- held more than 20 workshops on how to have courageous conversations; and
- invested in our capability and competence in engaging with Māori – staff were trained in te reo, and were encouraged and supported to learn their pepeha.

Equal employment opportunities

Under the Public Audit Act 2001, the Auditor-General must develop and publish an equal employment opportunities (EEO) programme, ensure that this programme is complied with, and include in the annual report an account of how the programme was met.

We consider quality of employment opportunity critical to creating a workplace that enables all our staff to contribute to their full potential. The principles and practice of equal employment opportunities are embedded in our human resources policies. Through our work on EEO, we aim to better understand how we can further promote equity and diversity in our workplace. For example, we have embedded a flexible working arrangements policy and guidelines, and we are actively improving our Māori cultural competency, including use of te reo Māori.

OUR KNOWLEDGE, INFORMATION, AND METHODS

Our collective knowledge and expertise about the public sector.

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

During 2018/19, we laid the foundations for a step change in how we manage information. We:

- replaced much of our core computing infrastructure, increasing security, resilience, and capacity – in particular to support our increasing data analytics work;
- started work on a data and knowledge strategy, to make sure that we focus on the data that would most improve the usefulness of our reporting;
- invested in our research and development function, hiring more data and analytics specialists;
- improved security and functionality for our staff by upgrading our systems;
- commissioned an external review of the security of our ICT environment to give us assurance about the security of our systems and information;
- continued to invest in ICT infrastructure and improving our document management system; and maintained the integrity of our record-keeping processes by updating our retention and disposal schedule.

OUR RELATIONSHIPS

Our mutually productive and respectful relationships with all our stakeholders.

Effective working relationships with our many stakeholders are essential to our work and our ability to create value.

We:

- strengthened our relationships with public sector and audit profession groups by providing briefings and presentations on good practice, emerging risks, and sector insights;
- held a series of events for the government procurement community, so practitioners and decision-makers could hear from leaders of some of New Zealand's biggest procurement projects;
- started briefings on our key reports for members of Parliament in addition to our briefings for select committees;
- increased our focus on liaising with audit and risk committee chairs, including establishing new forums to be hosted in Auckland and Christchurch starting in 2019/20;
- provided a series of all-day events in five cities, so finance teams and other public sector staff could hear about the latest accounting and auditing developments, standards, issues, and opportunities;
- collaborated with Transparency International New Zealand to host a number of events focused on strengthening public sector integrity and transparency;
- further strengthened our international relationships through sharing our skills, knowledge, and expertise with audit colleagues from around the world, including hosting training in a self-assessment tool for audit organisations like ours to analyse integrity risks and assess the maturity level of their integrity managements systems, and hosting six international delegations; and
- enhanced our relationships with Pacific audit offices by training staff in their offices and in ours in support of improving accountability, transparency, and good governance in the Pacific.

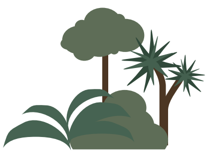
OUR FINANCIAL AND PHYSICAL RESOURCES

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

The financial and physical resources we use are essential – we cannot deliver value without investing in the assets that support our work.

We:

- were successful in our bid for further Crown funding to address demand, impact, and capability needs for the Office; and
- had an independent effectiveness and efficiency review of Audit New Zealand carried out.



OUR USE OF NATURAL RESOURCES

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

Most auditing work is done on site so that our auditors have direct access to records and people. This means that our main environmental impact is from greenhouse gas emissions generated by the flights and driving required to do our work.

We:

- arranged information sessions for managers, set up an online centre for resources, and produced a range of guides, all with the aim of reducing our environmental footprint;
- commissioned the Sustainability Trust to carry out a sustainability audit for our Auckland, Wellington, and Christchurch premises;
- progressively moved to a paperless meeting environment;
- presented regular features for staff on the Office's intranet. For example, we told staff how much paper we were using and encouraged less printing, and we promoted keep-cups; and
- gathered data from our suppliers to collate a baseline of the Office's environmental footprint, giving us a better understanding of the environmental effects of our flights (domestic, international, and trans-Tasman) and vehicle use (rental, taxi, office fleet, and pool cars).

Our financial results

Overview of our financial results

Operating result

For 2018/19, we had an operating surplus* of $0.246 million. Of this surplus, $0.032 million is transferred to our memorandum account, which was set up to help us manage the peaks and troughs in our revenue cycle.

Our net operating results by output are summarised below.

	Audit and Assurance Services $000	Supporting Accountability to Parliament $000	Performance Audits and Inquiries $000	Remuneration of Auditor-General and Deputy $000	Total $000
Funding	82,752	3,308	6,576	1,064	93,700
Costs	(82,770)	(3,444)	(6,226)	(1,064)	(93,454)
Surplus/(Deficit)	**32**	**(136)**	**350**	**-**	**246**

* The operating surplus excludes gain on sale of assets, which was $7,000 for the year.

Memorandum account

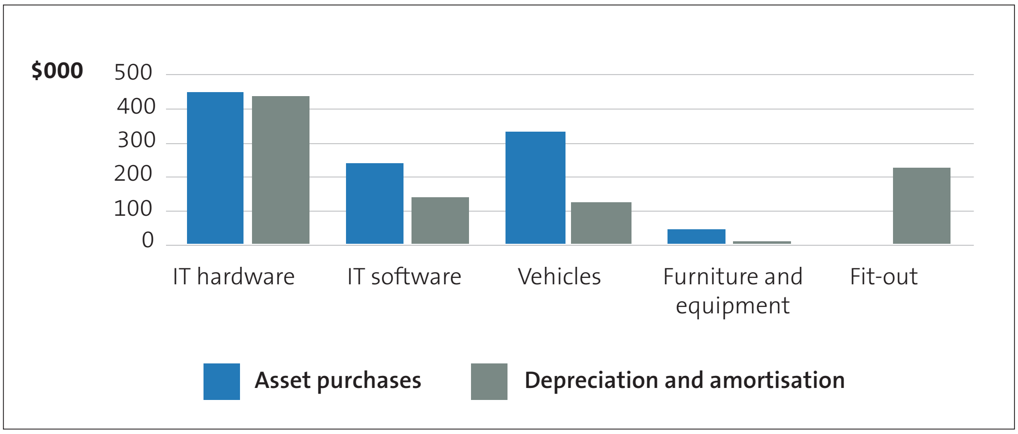
The surplus for the year was consistent with our expected funding cycle.

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

	$000
Opening balance at 1 July 2018	1,794
Funding from Audit and Assurance Services surplus	32
Closing balance at 30 June 2019	**1,826**

Investment in our assets

In 2018/19, we maintained our replacement programme for IT hardware, vehicles, and furniture and equipment. We also continued our investment in improvements to our document management system.



Statement of responsibility

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

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

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2019 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2020 and its operations for the year ending on that date.

John Ryan
Controller and Auditor-General

27 September 2019

Maria Viviers
Chief Financial Officer

27 September 2019

Statement of comprehensive revenue and expense

for the year ended 30 June 2019

This statement reports the revenue and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are on pages 15, 23, 24, and 29.

	Notes	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Revenue						
Crown funding	2	10,825	10,599	10,813	10,825	15,847
Audit fee revenue	3	82,597	84,492	80,494	80,513	81,630
Other revenue		278	169	230	230	230
Gain on sale of plant and equipment		7	-	-	-	-
Total revenue		**93,707**	**95,260**	**91,537**	**91,568**	**97,707**
Expenditure						
Personnel costs	4	45,819	45,704	43,787	45,165	49,963
Other operating costs	5	46,221	46,596	47,013	45,559	46,957
Depreciation and amortisation expense	10, 11	1,041	1,105	1,192	1,065	1,289
Capital charge	6	373	373	373	373	373
Total expenditure		**93,454**	**93,778**	**92,365**	**92,162**	**98,582**
Surplus/(deficit)		**253**	**1,482**	**(828)**	**(594)**	**(875)**
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		**253**	**1,482**	**(828)**	**(594)**	**(875)**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

Explanations of significant variances against the Main Estimates are detailed in Note 20. Revenue for 2018/19 was lower than for 2017/18 because 2017/18 included the triennial audits of local authorities' long-term plans.

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2019

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

	Notes	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Current assets						
Cash and cash equivalents	7	5,209	5,254	3,295	3,056	2,730
Receivables	8	7,597	8,344	6,978	6,978	7,087
Prepayments		637	809	579	579	781
Work in progress	9	1,499	1,105	1,562	1,848	1,737
Total current assets		***14,942***	***15,512***	***12,414***	***12,461***	***12,335***
Non-current assets						
Plant and equipment	10	3,346	3,547	3,623	3,404	3,108
Intangible assets	11	1,017	922	1,081	1,213	1,874
Total non-current assets		***4,363***	***4,469***	***4,704***	***4,617***	***4,982***
Total assets		**19,305**	**19,981**	**17,118**	**17,078**	**17,317**
Current liabilities						
Payables and deferred revenue	12	5,883	5,695	5,584	5,112	5,645
Repayment of surplus due to the Crown	13	221	600	-	-	-
Employee entitlements	14	4,548	5,091	4,045	4,092	4,578
Total current liabilities		***10,652***	***11,386***	***9,629***	***9,204***	***10,223***
Non-current liabilities						
Payables and deferred revenue	12	6	10	-	-	-
Employee entitlements	14	600	570	453	453	548
Total non-current liabilities		***606***	***580***	***453***	***453***	***548***
Total liabilities		**11,258**	**11,966**	**10,082**	**9,657**	**10,771**
Net assets		**8,047**	**8,015**	**7,036**	**7,421**	**6,546**
Equity						
Taxpayers' funds		6,221	6,221	6,221	6,221	6,221
Memorandum account	15	1,826	1,794	815	1,200	325
Total equity		**8,047**	**8,015**	**7,036**	**7,421**	**6,546**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

Statement of changes in equity
for the year ended 30 June 2019

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

	Notes	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Taxpayers' funds						
Balance at 1 July		**6,221**	**6,221**	**6,221**	**6,221**	**6,221**
Total comprehensive revenue and expense		253	1,482	(828)	(594)	(875)
Transfer of memorandum account net (surplus)/deficit for the year		(32)	(882)	828	594	875
Capital contribution		-	-	-	-	-
Surplus repayment due to the Crown		(221)	(600)	-	-	-
Balance at 30 June		**6,221**	**6,221**	**6,221**	**6,221**	**6,221**
Memorandum Account						
Balance at 1 July		**1,794**	**912**	**1,643**	**1,794**	**1,200**
Memorandum account net surplus/(deficit) for the year		32	882	(828)	(594)	(875)
Balance at 30 June	15	**1,826**	**1,794**	**815**	**1,200**	**325**
Total Equity						
Balance at 1 July		8,015	7,133	7,864	8,015	7,421
Balance at 30 June		**8,047**	**8,015**	**7,036**	**7,421**	**6,546**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2019

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

	Notes	Actual 2018/19 $000	Actual 2017/18 $000	Main Estimates 2018/19 $000*	Supplementary Estimates 2018/19 $000*	Main Estimates 2019/20 $000*
Cash flows from operating activities						
Receipts from the Crown		10,825	10,599	10,813	10,825	15,847
Receipts from public entities[1]		47,672	48,620	47,420	47,265	46,457
Payments to suppliers[1]		(11,594)	(11,939)	(14,011)	(13,689)	(11,703)
Payments to employees		(44,909)	(43,362)	(42,193)	(44,147)	(48,925)
Net GST paid[2]		(87)	241	-	(265)	25
Capital charge paid		(373)	(373)	(373)	(373)	(373)
Net cash flow from (used in) operating activities	16	*1,534*	*3,786*	*1,656*	*(384)*	*1,328*
Cash flows from investing activities						
Receipts from sale of plant and equipment		111	8	174	174	83
Purchase of plant and equipment		(848)	(654)	(1,006)	(940)	(787)
Purchase of intangible assets		(242)	(313)	(260)	(448)	(950)
Net cash flow from (used in) investing activities		*(979)*	*(959)*	*(1,092)*	*(1,214)*	*(1,654)*
Cash flows from financing activities						
Surplus repayment to the Crown		(600)	(268)	(340)	(600)	-
Net cash flow from (used in) financing activities		*(600)*	*(268)*	*(340)*	*(600)*	-
Total net increase (decrease) in cash held		***(45)***	***2,559***	***224***	***(2,198)***	***(326)***
Cash at the beginning of the year		5,254	2,695	3,071	5,265	3,056
Cash at the end of the year		**5,209**	**5,254**	**3,295**	**3,056**	**2,730**

* All Estimates information is unaudited. The figures under Main Estimates 2018/19 reflect the forecasts published in Budget 2018 and in the Office's 2017/18 annual report, and the figures under Supplementary Estimates 2018/19 reflect the updated forecasts published in Budget 2019.

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

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

Statement of commitments

as at 30 June 2019

This statement records expenditure to which the Office is contractually committed at 30 June 2019.

Non-cancellable operating lease commitments

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

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

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

	Actual 2018/19 $000	Actual 2017/18 $000
Non-cancellable operating lease commitments		
Not later than one year	2,439	2,567
Later than one year and not later than five years	3,991	4,077
Later than five years	-	39
Total non-cancellable operating lease commitments	***6,430***	***6,683***
Capital commitments		
Contractual	-	-
Total capital commitments	***-***	***-***
Total commitments	**6,430**	**6,683**

Statement of contingent liabilities and contingent assets

as at 30 June 2019

This statement discloses situations that existed at 30 June 2019, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2019 (2018: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2019 (2018: Nil).

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2019

Note 1: Statement of accounting policies

Reporting entity

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

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

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

The financial statements of the Office are for the year ended 30 June 2019 and were authorised for issue by the Controller and Auditor-General on 27 September 2019.

Basis of preparation

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

Statement of compliance

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

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

These financial statements comply with PBE Standards.

Presentation currency and rounding

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

Early adoption of PBE IFRS 9

The Crown has elected to early adopt PBE IFRS 9 *Financial Instruments* in preparing the 30 June 2019 Financial Statements of Government (FSG). In line with the FSG, the Office has elected to early adopt PBE IFRS 9 *Financial Instruments*.

In adopting PBE IFRS 9, the Office has applied transitional relief and elected not to restate the information for previous years. There were no differences arising from the adoption of PBE IFRS 9 in relation to classification, measurement, and impairment.

Standards issued and not yet effective and not early adopted

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

PBE IPSAS 41 Financial Instruments

The External Reporting Board (XRB) issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the Office has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

Service Performance Reporting

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

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

Budget and forecast figures

The forecast financial statements (Main Estimates 2019/20) have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures (all Estimates information) are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2018/19 Main Estimates and Supplementary Estimates

The 2018/19 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2018, and in the Office's 2017/18 annual report.

The 2018/19 Supplementary Estimates forecast financial statements are based on the updated forecasts published in Budget 2019.

2019/20 Main Estimates

The 2019/20 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2019. They have been prepared in accordance with PBE Financial Reporting Standard 42: *Prospective Financial Statements* and comply with that standard.

The 2019/20 forecast financial statements were approved for issue by the Controller and Auditor-General on 9 April 2019. The Controller and Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Office regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2020 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what might occur during the 2019/20 year. The forecast figures have been compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee.

The main assumptions, which were adopted as at 9 April 2019, were as follows:

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

The actual financial results achieved for 30 June 2020 are likely to vary from the forecast information presented, and the variations might be material. There are no known significant changes since the approval of the forecasts.

Summary of significant accounting policies

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

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

Goods and Services Tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Output cost allocation

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

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

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

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

Critical accounting estimates and assumptions

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

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

Commitments

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

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

Note 2: Crown funding

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

Accounting policy

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

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

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

Note 3: Audit fee revenue

Accounting policy

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

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

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

Fee revenue generated by contracted audit service providers for audits

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

Critical accounting estimates and assumptions

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

Breakdown of fee revenue

	Actual 2018/19 $000	Actual 2017/18 $000
Fee revenue generated by the Office for audit and assurance services	46,888	48,364
Fee revenue generated by contracted audit service providers for audits of public entities*	35,709	36,128
Total audit fee revenue	**82,597**	**84,492**

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

Note 4: Personnel costs

Accounting policy

Superannuation schemes

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

Breakdown of personnel costs

	Actual 2018/19 $000	Actual 2017/18 $000
Salaries and wages	43,732	42,416
Other employee-related costs	1,062	1,106
Employer contributions to defined contribution plans	1,296	1,233
Increase/(decrease) in employee entitlements	(271)	949
Total personnel costs	**45,819**	**45,704**

Note 5: Other operating costs

Accounting policy

Expenses of audit service providers

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

Operating leases

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

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other operating costs

	Actual 2018/19 $000	Actual 2017/18 $000
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	97	94
Operating lease payments	2,605	2,568
Fees for audits of public entities carried out by other contracted audit service providers*	35,709	36,128
Other expenses	7,810	7,806
Total other operating costs	**46,221**	**46,596**

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

Note 6: Capital charge

Accounting policy

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

Further information on the capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate is determined by the Treasury, and for the year ended 30 June 2019 was 6% (2018: 6%)

Note 7: Cash and cash equivalents

Accounting policy

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

Further information on cash and cash equivalents

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

During this financial year, no funds were drawn down under the facility (2018: Nil).

Note 8: Receivables

Accounting policy

Short-term receivables are recorded at their face value, less an allowance for expected losses and any provision for impairment.

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

The expected credit loss rates for receivables at 30 June 2019 and 1 July 2018 are based on the payment profile of revenue on credit over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period.

The allowance for credit losses at 30 June 2019 and 1 July 2018 was determined as 0%.

Breakdown of receivables and further information

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

30 June 2019	Gross $000	Estimates of losses (%)	Expected credit losses $000	Impaired credit losses $000	Net $000
Not past due	6,843	0%	-	(11)	6,832
Past due 1- 30 days	596	0%	-	-	596
Past due 31-60 days	82	0%	-	-	82
Past due 61-90 days	17	0%	-	-	17
Past due >90 days	76	0%	-	(6)	70
Carrying amount	**7,614**		**-**	**(17)**	**7,597**

1 July 2018	Gross $000	Estimates of losses (%)	Expected credit losses $000	Impaired credit losses $000	Net $000
Not past due	7,005	0%	-	-	7,005
Past due 1- 30 days	895	0%	-	-	895
Past due 31-60 days	363	0%	-	-	363
Past due 61-90 days	38	0%	-	-	38
Past due >90 days	74	0%	-	(31)	43
Carrying amount	**8,375**		**-**	**(31)**	**8,344**

Movements in the provision for impairment and allowance for credit loss of receivables are as follows:

	Actual 2018/19 $000	Actual 2017/18 $000
Allowance for credit losses as at 1 July calculated under PBE IPSAS 29	**-**	**-**
PBE IFRS 9 expected credit loss adjustment – through opening balance	**-**	**N/A**
Balance at 1 July	**31**	**31**
Additional provisions made during the year	11	-
Receivables written off during the year	(25)	-
Balance at 30 June	**17**	**31**

Note 9: Work in progress

Accounting policy

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

Critical accounting estimates and assumptions

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

Note 10: Property, plant, and equipment

Accounting policy

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

Additions

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

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

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

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

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

Impairment of property, plant, and equipment

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

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

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

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

Critical accounting estimates and assumptions

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

Breakdown of property, plant, and equipment and further information

	Furniture and fittings $000	Office equipment $000	Leasehold improvements $000	IT hardware $000	Motor vehicles $000	Total $000
Cost						
Balance at 1 July 2017	**1,610**	**449**	**3,154**	**2,719**	**1,070**	**9,002**
Additions	42	49	15	488	60	654
Disposals	(58)	(3)	-	(818)	(37)	(916)
Balance at 30 June 2018	***1,594***	***495***	***3,169***	***2,389***	***1,093***	***8,740***
Additions	45	8	-	456	339	848
Disposals	(6)	-	-	-	(404)	(410)
Balance at 30 June 2019	**1,633**	**503**	**3,169**	**2,845**	**1,028**	**9,178**
Accumulated depreciation and impairment losses						
Balance at 1 July 2017	**1,494**	**378**	**946**	**2,125**	**377**	**5,320**
Depreciation expense	43	37	230	342	124	776
Elimination on disposal	(58)	(3)	-	(817)	(25)	(903)
Balance at 30 June 2018	***1,479***	***412***	***1,176***	***1,650***	***476***	***5,193***
Depreciation expense	54	42	228	441	129	894
Elimination on disposal	(6)	-	-	-	(249)	(255)
Balance at 30 June 2019	**1,527**	**454**	**1,404**	**2,091**	**356**	**5,832**
Carrying amounts						
Balance at 1 July 2017	116	71	2,208	594	693	3,682
Balance at 30 June 2018	115	83	1,993	739	617	3,547
Balance at 30 June 2019	**106**	**49**	**1,765**	**754**	**672**	**3,346**

Note 11: Intangible assets

Accounting policy

Software acquisition and development

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

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

Direct costs include the software development and employee costs.

Staff training costs are recognised as an expense when incurred.

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

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

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised.

The amortisation charge for each year is recognised in the surplus or deficit.

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

Critical accounting estimates and assumptions

Determining the amortisation rates for intangible assets requires judgement as to the likely period of use of the assets.

Different assessments of useful lives would result in different values being determined for amortisation costs, accumulated amortisation and net book values.

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2017	**4,667**	**392**	**5,059**
Additions	-	313	313
Disposals	-	-	-
Reclassification	(80)	80	-
Balance at 30 June 2018	***4,587***	***785***	***5,372***
Additions	-	242	242
Disposals	(406)	-	(406)
Balance at 30 June 2019	***4,181***	***1,027***	***5,208***
Accumulated amortisation and impairment losses			
Balance at 1 July 2017	**4,001**	**120**	**4,121**
Amortisation expense	298	31	329
Reclassification	(56)	56	-
Balance at 30 June 2018	**4,243**	**207**	**4,450**
Amortisation expense	116	31	147
Disposals	(406)	-	(406)
Balance at 30 June 2019	***3,953***	***238***	***4,191***
Carrying amounts			
Balance at 1 July 2017	666	272	938
Balance at 30 June 2018	344	578	922
Balance at 30 June 2019	**228**	**789**	**1,017**

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

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at their face value.

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

Critical accounting estimates and assumptions

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

Breakdown of payables and deferred revenue

	Actual 2018/19 $000	Actual 2017/18 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,117	1,092
Income in advance	3,473	3,333
Accrued expenses	435	328
Total payables under exchange transactions	*5,025*	*4,753*
Current payables and deferred revenue under non-exchange transactions		
GST payable	858	942
Total payables and deferred revenue under non-exchange transactions	*858*	*942*
Total current payables and deferred revenue	**5,883**	**5,695**
Non-current payables and deferred revenue under exchange transactions		
Other payables	6	10
Total non-current payables and deferred revenue	**6**	**10**

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

Note 13: Surplus repayment due to the Crown

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

	Note	Actual 2018/19 $000	Actual 2017/18 $000
Surplus/(Deficit) current year		253	1,482
Less: Surplus/(Deficit) transferred to/from memorandum account	15	32	882
Total provision for payment to the Crown		**221**	**600**

Note 14: Employee entitlements

Accounting policy

Short-term employee entitlements

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

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

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

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

Long-term employee entitlements

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

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

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

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

The discount rate is based on New Zealand Government bond data at 30 June 2019. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $36,634 lower and $40,297 higher respectively.

If the salary inflation factor were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $52,195 higher and $48,008 lower respectively.

Breakdown of employee entitlements

	Actual 2018/19 $000	Actual 2017/18 $000
Current employee entitlements		
Salary and other accruals	1,306	1,548
Annual leave	2,751	2,981
Time off in lieu of overtime worked	203	285
Retiring leave	178	171
Sick leave	110	106
Total current employee entitlements	*4,548*	*5,091*
Non-current employee entitlements comprise:		
Retiring leave	600	570
Total non-current employee entitlements	*600*	*570*
Total employee entitlements	**5,148**	**5,661**

Note 15: Memorandum account

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

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

	Actual 2018/19 $000	Actual 2017/18 $000
Audit and assurance services		
Balance at 1 July	**1,794**	**912**
Revenue	82,752	84,646
Expenses	(82,720)	(83,764)
Surplus/(deficit) for the year	**32**	**882**
Balance at 30 June	**1,826**	**1,794**

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

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of comprehensive revenue and expense on page 36 to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 39.

	Actual 2018/19 $000	Actual 2017/18 $000
Net Surplus/(deficit)	**253**	**1,482**
Add/(Less) non-cash items		
Depreciation and amortisation	1,041	1,107
Total non-cash Items	*1,041*	*1,107*
Add/(Less) movements in statement of financial position items		
(Increase)/decrease in prepayments	172	(28)
(Increase)/decrease in receivables	764	(1,224)
(Increase)/decrease in work in progress	(267)	1,309
(Decrease)/increase in payables	23	158
(Decrease)/increase in employee entitlements	(495)	977
Total movements in working capital items	*197*	*1,192*
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	43	5
Total items classified as investing activities	*43*	*5*
Net cash flow from operating activities	**1,534**	**3,786**

Note 17: Related party transactions

The Office is a wholly owned entity of the Crown.

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

Key management personnel compensation

	Actual 2018/19	Actual 2017/18
Key management personnel remuneration ($000)	3,792	3,450
Full-time equivalent key management personnel	12	11

Key management personnel at 30 June 2019 comprised the Auditor-General, Deputy Auditor-General and the 10 members of the OAG and Audit New Zealand Leadership Teams.

Note 18: Financial instruments

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

Market risk

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

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2018: Nil).

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

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

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

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

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

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

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

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

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

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

Categories of financial instruments

The carrying amounts of financial instruments are as follows:

	Notes	Actual 2018/19 $000	Actual 2017/18 $000
Loans and receivables			
Cash and cash equivalents	7	5,209	5,254
Receivables	8	7,597	8,344
Total loans and receivables		**12,806**	**13,598**
Financial liabilities measured at amortised cost			
Payables		5,883	5,695
Total creditors and other payables	**12**	**5,883**	**5,695**

Note 19: Capital management

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

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

Note 20: Explanations of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2018/19 budget figures (2018/19 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The overall surplus for 2018/19 was $0.25 million, compared to a deficit of $0.83 million budgeted in the Main Estimates. The main reason for this variance is the surplus achieved in the Audit and Assurance Services RDA, which was originally forecast to be in deficit for the year. This more favourable outcome was a result of approximately $2 million higher audit fee revenue, due to additional work completed up to balance date and improved cost recovery on audits. This was partly offset by associated operating costs of approximately $1 million.

Statement of financial position

The Office's cash balance at 30 June 2019 was $1.9 million higher than forecast in the Main Estimates. Of this, approximately $1 million relates to the small surplus achieved compared to the forecast deficit in the Audit and Assurance Services RDA. This is also reflected in the higher Memorandum Account balance.

Note 21: Events after the balance date

There were no significant events after the balance date (2018: Nil).

Independent auditor's report

PKF Goldsmith Fox Audit
Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

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

- the financial statements of the Controller and Auditor-General (the Auditor-General) on pages 36 to 54 that comprise the statement of financial position, statement of commitments, and statement of contingent liabilities and contingent assets as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in equity, and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2019 on pages 8 to 12; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2019 on pages 14 to 29.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
  - present fairly, in all material respects, the:
    - financial position as at 30 June 2019;
    - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General;
  - complies with generally accepted accounting practice in New Zealand;
  - presents fairly, in all material respects, for the year ended 30 June 2019:
    - what has been achieved with each appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the appropriation statements of the Auditor-General for the year ended 30 June 2019, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 27 September 2019. This is the date at which our opinion is expressed.

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

Basis for our Opinion

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

PKF Goldsmith Fox Audit
Chartered Accountants

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

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

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

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

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

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

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

Responsibilities of the Auditor

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

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

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

PKF Goldsmith Fox Audit
Chartered Accountants

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

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

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

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

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

Other information

The Auditor-General is responsible for the other information. The other information comprises the information included on pages 3 to 7, 13, 30 to 35, and 59 to 71, but does not include the information we audited, and our auditor's report thereon.

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

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

PKF Goldsmith Fox Audit
Chartered Accountants

Independence

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

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

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

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit
Christchurch, New Zealand

Dated: 27 September 2019

Appendix 1

Report of the Audit and Risk Committee for the year ended 30 June 2019

Members

- Fred Hutchings BBS, FCA, *Director*, Chair (term ended 31 December 2018)
- Simon Murdoch MA, CNZM (term ended 31 December 2018)
- Susie Johnstone BComm, FCA, CFInstD, CPP
- Warren Allen FCA, FCIS, MInstD, CEO External Reporting Board, Chair (from 1 January 2019)
- Geoff Dangerfield QSO, MSc, FCILT, CMInstD (from 1 January 2019)
- Greg Schollum, BMS, FCA *Deputy Controller and Auditor-General*

The Audit and Risk Committee is established by, and reports directly to, the Auditor-General. It comprises three independent members and the Deputy Controller and Auditor-General. The purpose of the Committee is to oversee and provide advice to the Auditor-General on:

- risk management and internal control;
- audit functions (internal and external) for the Office;
- financial and other external corporate reporting;
- the governance framework and processes; and
- compliance with legislation, policies, and procedures.

The Committee has no management functions. During the past year, the Committee:

- met on four occasions to fulfil its duties and responsibilities;
- received briefings on the Office's key business activities, as a basis for ensuring that risks facing the Office are being appropriately addressed;
- reviewed the Office's strategic risks with the Auditor-General;
- discussed with the external auditors their audit plans and findings;
- oversaw the internal audit programme;
- monitored the implementation of recommendations made by both the external auditors and internal auditors;
- reviewed the annual report and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major areas of judgement, and compliance with legislation and relevant standards; and
- reviewed the Auditor-General's strategic priorities to the end of 2019, the *Draft annual plan 2019/20*, and the budget bid document "Investing in Integrity."

The Committee has reported to the Auditor-General on the above, and on other relevant matters. There are no outstanding or unresolved concerns that the Committee has brought to the attention of the Auditor-General.

Warren Allen
Chair, Audit and Risk Committee

13 September 2019

Appendix 2
Report from the independent reviewer

30 July 2019.

Mr John Ryan

Controller and Auditor- General

P O Box 3928

Wellington 6140

John R Strahl

P O Box 33141

Petone Post Shop

Lower Hutt

Dear Mr Ryan

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSESS 2019

Background and instructions

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

Audit New Zealand, a business unit of your Office, has a large and competent staff. However, with approximately 3,900 public entities in New Zealand, of which approximately 3500 must be separately audited, it is impractical for Audit New Zealand itself to carry out all these audits. You thus contract auditors from the private sector to carry out many of these on your behalf. However, Audit New Zealand remains by far the largest single provider, carrying out close to half of all public sectors audits (as measured by audit hours).

The Office of the Auditor-General (OAG), sets strategy, policy, and standards, and appoints and oversees auditors, both from Audit New Zealand and auditors contracted from the private sector, who carry out audits on your behalf.

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

This is my report on that review for the year ended 30 June 2019.

I am a former partner and chairman of law firm DLA Piper New Zealand, and currently am a director of various entities, one of which is audited by Audit New Zealand, and one of which is audited by one of your private sector audit providers. I confirm that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit firms.

My instructions are;

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

Allocate and tender audits

Monitor the reasonableness of audit fees; and

Anything else that impacts on those activities'

There has been no limitation placed on the manner in which I may carry out my work and I have been free to inspect any documents or files that I considered appropriate to the review and to discuss matters arising with staff of your office. I confirm that in the conduct of my review I have been given free access to all matters I have requested and have received full co-operation from your Office. I have also discussed the allocation of audits and the processes of fixing fees and your Office's involvement in resolving disputes with two private sector audit providers used by your Office.

Types of Auditor Appointments

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

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

Appointments for new entities

In the last financial year, the Auditor-General appointed auditors for 38 new entities which included 19 new and ex-partnership schools.

All of these appointments were made following the principles set out in the 'Allocation Model' on which I will comment later. I observed no dissatisfaction by any of those entities to either the appointment made, the terms of appointment, or the proposed audit fee.

Re-appointments (other than for schools)

Existing auditors were re-appointed during the last financial year to audit 283 public entities and their subsidiaries for a further term. In respect of all the appointments covered by this paragraph, I observed no dissatisfaction from any of the entities and an appropriate process appeared to be followed and in accordance with the principles set out in the Allocation Model.

New appointments for existing entities

There were no new appointments made for existing entities other than schools and school related entities.

Appointment of school auditors

The appointment of auditors of all schools and school related entities arises on a 3 year cycle and this was completed during this year. This is a very major exercise with 2445 schools and school related entities involved.

I reviewed the process and outcomes of these appointments, including the resulting audit fees, with some care as there has been some historical tension in this sector, especially in some regions over the level of audit fees. As a result of that historical concern over fees, some careful analysis of existing audit fees in the sector was completed by your Office, both across the whole country and on a more selected regional basis, to better inform what appropriate fees would be for the future.

As part of the process every school was given the opportunity for some input. 64 schools in total expressed some degree of dissatisfaction with either the current auditor and/or level of audit fee, or both. This in part resulted in 19 changes of auditor in respect of those schools.

All existing auditors were also consulted. At the beginning of the process, several current auditors withdrew and some more did so during the process. This was for various reasons including retirement, quality concerns by your Office, and some for financial/fee concerns.

As a result it was considered appropriate that a greater than usual number of school audits be bundled in groups and auditors then selected via a competitive tender process, where often (but not always), the incumbent auditor took part. In total, auditors were appointed to 300 schools using a tender process. The outcome of the fees resulting from that tender process was then able to be taken into account as one factor in assessing reasonable fees for other school auditor appointments.

I reviewed the tender process undertaken and concluded that it was reasonable.

The balance of appointments and reappointments in the school sector, (still the vast majority), were completed by following the principles of the Allocation Model.

The overall outcome of the review process resulted in the re-appointment of 2119 incumbent audit service providers, the appointment of 307 new providers, (mostly via tender), and the appointment of new audit service providers to the 19 new and ex-partnership schools. Across the sector there was a very modest increase in audit fee levels – although more for some schools than for others.

I was impressed with the care, background preparation, and flexibility of approach taken in the carrying out of this review. Because of the generally small size, the need for a minimum level of work on any sized audit to achieve reasonable quality, and the varying level of financial reporting expertise in individual schools, both at an operating and governance level, the amount of the audit fee under the current school governance structure is going to provide tension. For some schools, the cost of audit represents a big portion of their operating budget and for some the audit cost exceeds the cost of preparing the accounts.

Given this background, overall I was entirely satisfied with the approach taken, the process used and the resulting outcomes of both the appointments and the level of fees determined. Auditors are now in place for all schools, and all appointments and the fee levels agreed. The overall response from schools has been good with remarkably little concerned feedback over the new fee levels.

Audit Allocation Model

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

auditor independence

auditor knowledge about public entities and public sector audits

the particular audit skills required

the audit's quality and cost; and

The need for the Auditor-General to always have access to enough audit capacity and capability

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

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

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

The Allocation Model has operated well since last reviewed in 2010. I have been informed that the Office proposes to undertake a review of the Model in the current year. I welcome that review but do not necessarily expect that there will be major change. I would suggest as part of that review, consideration be given to making more transparent, the principles adopted and reasons for them.

Audit fees

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

This year your Office provided advance guidance to all auditors serving both Crown Government entities and local authorities, of your approach to, and factors that would be acceptable and unacceptable, for any movement in audit fees. Similar guidance was provided to public entities including a request that they participate in good faith discussions with the proposed audit service provider when consulting to agree suggested fees.

In respect of the school round of appointments, the OAG provided to all audit service providers involved at the beginning of the process, a detailed brief of its expectations around fee levels and any movements from previous years.

I consider it good practice to provide in advance this guidance to both entities and auditors.

In practice at an individual entity level, at the commencement of every audit appointment, the fee proposed by the auditor, which is expected to be based on the guidelines previously provided, is first referred to the OAG by the auditor for review to ensure its reasonableness. Considerable detail including a clear breakdown of appropriate team mix and rates is expected. Once the OAG has approved the draft, it is then provided to the entity for the auditor and entity to agree. The OAG will assist in that process and has available a comprehensive data basis of fees in the sector. It is the strong preference of the Auditor-General that the entity and the appointed auditor be able to reach agreement and that is almost always the case, although the fees finally agreed are sometimes lower than what your office considered reasonable when reviewing the auditor's fee proposal.

One important factor in helping your Office consider what is a reasonable fee for the public sector audits is the benchmark provided by the fees used by Audit New Zealand. While Audit New Zealand's objective is to break even and it does not have a profit component, it is required to be financially viable and self sustaining. However, the integrity of using its fee levels as a benchmark is subject to it operating in an efficient and effective manner.

To provide assurance that Audit New Zealand does provide the public value for money and that the benchmark it provides remains appropriate, an independent review is completed from time to time of its operations. The most recent review was completed in the last year. That review found Audit New Zealand to be operating in an efficient and effective manner.

In addition to the audit fee paid to the audit service provider, every entity that is audited also pays a modest surcharge to cover the actual costs of your office in supporting and overseeing the public sector annual audit process. This is referred to as the OAG Overhead charge. Because that forms part of the overall audit fee I reviewed both its composition and allocation to ensure that it was reasonable. I was satisfied that it was.

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

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

Most issues which arise over fees are during or at the end of an audit. Some arise due to the constrained financial position of particularly small entities. Some arise due to misunderstandings about what is required, some in respect of additional work not covered in the original scope of works being necessary, and sometimes the quality of information provided by the entity and rework by the auditor as a result leads to tension. In all cases reviewed, the OAG has shown consistency and care in helping to resolve these issues.

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

Issues arising after appointment

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

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

Other issues

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

Conclusions

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

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

Yours sincerely

John R Strahl.

Appendix 3

Entities audited under section 19 of the Public Audit Act 2001

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

At 30 June 2019, arrangements had been entered into for audits of the following entities:

- The New Zealand Sports Foundation Charitable Trust; and
- Te Awa Tupua (including Te Korotete).

Appendix 4

Reports and other work published or completed in 2018/19

Performance audits
Accident Compensation Corporation: How it deals with complaints – Progress in responding to the Auditor-General's recommendations
Reflecting on our work about information
Managing the supply of and demand for drinking water
Introducing our work about procurement
Effectiveness of Auckland Council's post-implementation review process
Sea Change – Tai Timu Tai Pari: Creating a marine spatial plan for the Hauraki Gulf
Managing stormwater systems to reduce the risk of flooding
Panels of suppliers (survey results)
Management, monitoring, and evaluation of the Provincial Growth Fund (statement of planned work)
Our intentions: Reviewing Auckland Council's work on disaster preparedness and resilient communities (progress statement)
Using different processes to protect marine environments
Review of Defence Major Projects Report 2018
Inquiries
Implementation of the new bus network and services in Wellington City (letter to the Chairman of Greater Wellington Regional Council)
Complaints of conflicts of interest against Cr Sue Brown and Cr Kit Maling (letter to the Chief Executive of Tasman District Council)
Further information alleging conflicts of interest (letter to the Chief Executive of Tasman District Council)
Report to the Council [of Waikato Institute of Technology]: Additional assurance work on travel expenses, redundancy and severance payments
Inquiry into procurement of work by Westland District Council at Franz Josef
Incentive payments made by Te Puni Kōkiri to Whānau Ora commissioning agencies (letter to the Chief Executive of Te Puni Kōkiri)
Other reports and studies
Long-term plans: Our audits of councils' consultation documents
Review of Defence Major Projects Report 2017
Tertiary education institutions: Results of the 2017 audits
Results of the 2017 school audits
Central government: Results of the 2017/18 audits
Matters arising from our audits of the 2018-28 long-term plans
Controller update: July to December 2018
Insights and reflections: Our 2017/18 central government audit work (letter to state sector chief executives)

Our 2018 work about local government
Main matters arising from the 2017/18 audits of district health boards (letter sent to chief executives and board chairs of district health boards)
Update on the follow-up of our 2013 discussion paper, Insuring public assets (letter to Finance and Expenditure Committee)
Other work published
Model financial statements for district health boards 2017/18
Summary of fraud findings 2017/18
Annual report 2017/18
Timeliness of reporting by public entities (letter to Finance and Expenditure Committee)
Proposed reform of the State Sector Act 1988 (submission to the State Services Commission)
Embedding wellbeing in the Public Finance Act 1989 (submission to the Treasury)
Establishing an Independent Fiscal Institution (submission to the Treasury)
Submission on establishing an independent infrastructure body (letter to the Treasury)
Concerns about aspects of Tasman District Council's Waimea community dam (letter to the Chief Executive of Tasman District Council)
Request to inquire into Mudtopia (letter to the Chief Executive of Rotorua Lakes Council)
Submission on the review of Tomorrow's Schools (letter to the Tomorrow's Schools Independent Taskforce)
Kāpiti Coast District Council's proposal to invest funds (letter to the Chief Executive of Kāpiti Coast District Council)
Tertiary Education Institutions: Changes to the requirements for performance reporting in annual reports (letter to Chairs/Chancellors and Chief Executives/Vice-Chancellors)
Submission on safeguarding the future of our financial system: The role of the Reserve Bank and how it should be governed (letter to the Treasury)
Comments on local government funding and financing issues paper (letter to the Productivity Commission)
Allegations concerning possible misuse of party and member support funding (letter to the General Manager of Parliamentary Service)
Submission on Report by the Tomorrow's Schools Independent Taskforce (letter to the Chairman of the Tomorrow's Schools Independent Taskforce)
Submission on the Reform of Vocational Education proposals (letter to the Minister of Education)
Submission to the Public Inquiry into the Earthquake Commission
Draft annual plan 2019/20
Annual plan 2019/20
Severance payments: A guide for the public sector (revised edition)
MPs' guide to the Auditor-General (revised edition)
About the Controller and Auditor-General (revised edition)

Appendix 5

Progress against our proposed work programme for 2018/19 as described in Appendix 2 to our *Annual plan 2018/19*

Work we planned for 2018/19	Published title or current state	Date
Reflections report on *Information*	*Reflecting on our work about information*	4/9/18
Progress on freshwater quality management since 2011	Expected to be finished in 2019/20	
Effectiveness of processes for considering marine reserve proposals	*Using different processes to protect marine environments*	26/6/19
Marine spatial planning for the Hauraki Gulf	*Sea Change – Tai Timu Tai Pari: Creating a marine spatial plan for the Hauraki Gulf*	12/12/18
Management of stormwater networks to reduce the effect of flooding	*Managing stormwater systems to reduce the risk of flooding*	13/12/18
Optimising the demand for and the supply of drinking water	*Managing the supply of and demand for drinking water*	20/9/18
Clean-up of significant water bodies	Expected to be finished in 2019/20	
Procurement foundation report	*Introducing our work about procurement*	27/9/18
MBIE's procurement functional leadership: Driving efficiencies and improving services and service delivery	Merged into a single project, and expected to be finished in 2019/20	
MBIE's functional leadership: Developing procurement workforce expertise and capability in central government		
Panels of suppliers	*Use of panel of suppliers for procurement*	11/4/19
Management of MBIE's grant programmes	Re-planned to be part of annual audit work	
Auckland Council: Effectiveness of post-implementation reviews of projects	*Effectiveness of Auckland Council's post-implementation review process*	30/11/18
Review of *Defence Major Projects Report 2017*	Published by the Ministry of Defence	5/11/18
Review of *Defence Major Projects Report 2018*	Published by the Ministry of Defence	28/6/19
Updating *Severance payments: A guide for the public sector*	*Severance payments: A guide for the public sector*	28/6/19
Insuring public assets follow-up	*Update on follow-up of our 2013 discussion paper, Insuring public assets* (letter to Finance and Expenditure Committee)	28/6/19
Central government: Results of the 2017/18 audits	*Central government: Results of the 2017/18 audits*	11/12/18
Summary of results of the 2017/18 central government audits for chief executives	*Insights and reflections: Our 2017/18 central government audit work*	9/5/19
Local government: Results of the 2017/18 audits	*Our 2018 work about local government*	29/5/19

Progress against our proposed work programme for 2018/19 as described in Appendix 2 to our *Annual Plan 2018/19*

Work we planned for 2018/19	Published title or current state	Date
Consulting the community about local authorities' 10-year plans	*Long-term plans: Our audits of councils' consultation documents*	9/8/18
Matters arising from the 2018-28 local authority long-term plans	*Matters arising from our audits of the 2018-28 long-term plans*	14/2/19
Results of the 2017 school audits	*Results of the 2017 school audits*	5/12/18
Results of the 2017 audits of tertiary education institutions	*Tertiary education institutions: Results of the 2017 audits*	29/11/19
Results of the 2017/18 district health board audits	*Main matters arising from the 2017/18 audits of district health boards*	28/6/19
Influencing improvements in the public sector accountability system: The state of the public sector accountability system	Expected to be finished in 2019/20	
Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports	Individual follow-up or progress reports published during the year as planned	

Appendix 6
Progress with work carried forward from 2017/18

Work we planned for 2017/18	Published title or current state	Date
Reflections report on *Information* theme	*Reflecting on our work about information*	4/9/18
Review of *Defence Major Projects Report 2017*	Published by the Ministry of Defence	5/11/18
Auckland Council – topic to be determined	*Effectiveness of Auckland Council's post-implementation review process*	30/11/18
Management of stormwater networks to reduce the effect of flooding	*Managing stormwater systems to reduce the risk of flooding*	13/12/18
Marine spatial planning for the Hauraki Gulf	*Sea Change – Tai Timu Tai Pari: Creating a marine spatial plan for the Hauraki Gulf*	12/12/18
How effective are the processes used to consider marine reserve proposals?	*Using different processes to protect marine environments*	26/6/19
Optimising the demand for and the supply of drinking water	*Managing the supply of and demand for drinking water*	20/9/18
Progress on freshwater quality management since 2011	Expected to be finished in 2019/20	
Spending on clean-up of significant water bodies	Expected to be finished in 2019/20	

About our publications

All available on our website

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

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

Notification of new reports

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

Sustainable publishing

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

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

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