



B.28AP(06)

Parliamentary paper

Annual Plan 2006-07





Office of the Auditor-General
Private Box 3928, Wellington

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

E-mail: reports@oag.govt.nz
www.oag.govt.nz

Annual plan for the year ending 30 June 2007

Prepared in accordance with section
36(4) of the Public Audit Act 2001

May 2006

ISSN 1175-8258

Speaker's foreword

In my capacity as Speaker, I am responsible for Vote Audit under the Public Finance Act 1989. I am therefore pleased to introduce the Controller and Auditor-General's Annual Plan for the financial year 2006-07. The document includes a statement of future operating intentions (Statement of Intent) under sections 38(1) and 45G of the Public Finance Act 1989.

The Controller and Auditor-General is an Officer of Parliament whose role is to assist Parliament in its scrutiny of executive government, to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

This Annual Plan 2006-07, and its Statement of Intent, indicate how the Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Auditor-General to account for the performance of his Office during

A handwritten signature in blue ink, appearing to read 'Margaret Wilson', is positioned above the typed name.

Hon Margaret Wilson MP

Speaker of the House of Representatives

4 May 2006

Contents

Introduction by the Controller and Auditor-General	4
Statement of responsibility	5
Part 1 – Statement of Intent	6
What the Office does	6
Outcomes and impacts	9
Our operating intentions	10
Performance measures and standards	15
Part 2 – Our proposed annual work programme	20
Our work programme	21
Deciding the annual work programme	22
Proposed work programme	27
Proposed research and development programme	31
Feedback from Parliamentary consultation	33
Part 3 – Forecast financial statements	34
Introduction	35
Statement of significant underlying assumptions	36
Statement of forecast service performance	37
Statement of accounting policies	43
Statement of prospective financial performance	47
Statement of prospective movements in taxpayers' funds (equity)	48
Statement of prospective financial position	49
Statement of prospective cash flows	50
Reconciliation of surplus in the statement of prospective financial performance to the prospective net cash flow from operating activities	51
Statement of forecast capital expenditure	52
Forecast details of physical assets by category	53
Prospective appropriation statement	54
Forecast output class operating statements	55
Forecast financial indicators	56

Introduction by the Controller and Auditor-General

My key objectives for 2006-07 are to continue to strengthen the capabilities of the people who work for and with my Office, and to make further progress in advancing my 5-year strategy.

*My Five-year Strategic Plan: 1 July 2004 to 30 June 2009*¹ was designed to position my Office to actively anticipate and respond to issues in our environment and to the needs of our stakeholders.

We have made much progress to put in place the infrastructure to support the implementation of the Strategic Plan, and in completing the significant amount of work needed to respond to the legislative and professional changes arising from the Local Government Act 2002, the new public sector management legislation, and the adoption of International Financial Reporting Standards. We have also taken initial steps to enhance the professional and leadership capabilities of our people and to adapt our organisational culture.

There is still further work to be done. I am committed to real change and improvement in the public sector, and this *Annual Plan 2006-07* reflects the areas of focus that will help my Office to achieve this goal.

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke, set against a light blue background.

Kevin Brady

Controller and Auditor-General

5 April 2006

¹ See www.oag.govt.nz – Corporate documents.

Statement of responsibility

The information on future operating intentions of the Controller and Auditor-General for the year ending 30 June 2007 contained in this Annual Plan 2006-07 has been prepared in accordance with section 36(1)(a) of the Public Audit Act 2001 and section 45G of the Public Finance Act 1989.

As Controller and Auditor-General, I acknowledge that, in signing this statement, I am responsible for the information contained in this Annual Plan 2006-07.

The forecast financial statements, which include the service performance forecast for each class of outputs, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2006-07 budgetary estimates for the Auditor-General submitted under section 45G of the Public Finance Act 1989.

I certify that the information contained in the Annual Plan 2006-07 is consistent with existing appropriations and with the appropriations set out in the Appropriation (2006/07 Estimates) Bill.



K B Brady
Controller and Auditor-General

5 April 2006



(countersigned)
D E Atkin
Finance Manager

5 April 2006

Part 1

Statement of intent

What the Office does

Role and functions of the Auditor-General

The Controller and Auditor-General (Auditor-General) is an Officer of Parliament. His mandate and responsibilities are set out in the Public Audit Act 2001.

The Auditor-General is independent of executive government¹ and Parliament in discharging the functions of the statutory office, but is answerable to Parliament for his stewardship of the public resources entrusted to him.

Parliament seeks independent assurance that public sector organisations are operating, and accounting for their performance in accordance with Parliament's intentions. There is also a need for independent assurance of local government – local authorities are accountable to the public for the activities they fund through locally raised revenue. As an Officer of Parliament, the Auditor-General provides this independent assurance to both Parliament and the public.

Our operating model

The Auditor-General's staff are organised into 2 business units – the Office of the Auditor-General and Audit New Zealand.

The Office of the Auditor-General undertakes strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and undertakes inquiries and other special studies.

Audit New Zealand is the operating arm, and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities, within the Auditor-General's mandate and in accordance with the Auditor-General's Auditing Standard relating to the independence of auditors.

The Auditor-General also engages private sector auditing firms (audit service providers) to carry out his statutory functions in relation to public entities.

For the majority of public entities (other than schools), the Auditor-General allocates annual audits to auditors. He chooses from a pool of audit service providers – which includes Audit New Zealand, the 4 major chartered accountancy firms, and a range of smaller firms. The appointments of auditors of schools and some public entities that have a strong commercial focus are subject to a contestable regime.

¹ The term "executive government" means the Government comprising the Prime Minister and other Ministers. In the local government context it means, for example, the council as governing body of a local authority.

Size and scale of our operations

The Auditor-General has a statutory duty to conduct an annual audit of the financial reports of about 4000 public entities,² of which 3000 are schools and other very small enterprises.

The Office of the Auditor-General undertakes between 17 and 21 performance audits each year, and responds to between 150 and 300 requests for inquiries each year from taxpayers, ratepayers, and members of Parliament. A few of these requests lead to the Auditor-General undertaking a major inquiry.

The Office of the Auditor-General provides reports and advice to Select Committees and portfolio Ministers. There are about 140 reports prepared for financial reviews of public entities and Estimates examinations, and about 120 reports on the results of annual financial audits.

The Office of the Auditor-General also administers the provisions of the Local Authorities (Members' Interests) Act 1968. There are 80-100 enquiries each year in relation to this Act.

Our current staff and contracted resource base

The Office employs about 250 staff in 8 locations throughout New Zealand. We also engage about 70 audit service providers as well as Audit New Zealand staff to carry out annual audits of public entities.

Our strategic direction

Our Strategic Plan states the Auditor-General's vision to "set the benchmark for design and delivery of independent assurance services". This means we want the Office to be acknowledged as the innovator in designing independent assurance services for the public sector, and to be a high quality deliverer of such services.

We have 3 key business strategies to advance our vision:

- shaping our services to anticipate and respond to Parliament's and other stakeholders' needs and our changing environment;
- building our capability to create and deliver our services; and
- fostering relationships and ways of working that support our Strategic Plan.

² Under the Public Audit Act 2001, the Auditor-General is the auditor of every public entity, and the entities they control.

Outcome and impacts

Our desired outcome

Through our work, we seek to “maintain and enhance trust in an effective and efficient public sector”.

We define our desired outcome further, as:

“Trust” is where Parliament and the public know whether public entities (including central and local government entities are –

- carrying out their activities effectively, efficiently, and appropriately;
- using public funds wisely; and
- reporting their performance accurately –

and know that if this is not the case we will tell them.

“An effective and efficient public sector” is one in which public entities operate effectively and efficiently, and with a focus on continual improvement and innovation.

Our impacts

To contribute to achieving our desired outcome, we seek to directly create the following impacts:

- independent assurance that public entities are acting legally and with probity; and
- advice that improves public entity operations.
- We do this through 3 outputs:
- parliamentary services;
- performance audits and inquiries; and
- provision of audit and other assurance services.

Our outputs are defined further in Part 3.

We undertake the following activities within these 3 outputs:

- annual audits;
- the Controller function and the appropriation audit;
- advice to Parliament;
- inquiries;
- advice and liaison;
- working with the accounting and auditing profession;
- wider assurance work;
- performance audits and other studies; and
- international liaison and involvement.

Our operating intentions

Major changes influencing our work in the next 3 years

Our Strategic Plan discusses the significant and ongoing changes occurring in the accounting and auditing profession, in the legislative and operating environments of public entities, and in information and reporting requirements and methods.

Key changes

We see the following key changes as continuing to have a major effect on our work, primarily in relation to annual audits:

- The adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the public sector for periods starting on or after 1 January 2007. The local government sector has decided to comply earlier, for the year starting 1 July 2006, which means 1 July 2005 marked the start of the comparative year in which opening balances need to be re-stated using NZ IFRS.
- The new public sector management legislation passed by Parliament in December 2004 – with the most significant implications being that all the provisions under the Public Finance Amendment Act 2004 (including reforms to the Controller function) have taken effect from the 2005-06 financial year. The provisions relating to Crown entities' financial powers under the Crown Entities Act 2004 took effect from 1 April 2005, and the new accountability arrangements take effect from the 2006-07 financial year.
- The audits of Long-Term Council Community Plans (LTCCPs) and summary reports in the local government sector.
- The adoption of New Zealand equivalents to International Standards on Auditing, which may necessitate a complete review and update of the Auditor-General's Auditing Standards.

Our progress to prepare our auditors and support sector readiness to respond to these changes is outlined in our *Annual Report 2004-05*³ on pages 27-29.

In addition, we are starting to enhance annual audits to include stronger emphasis on non-financial, waste, probity, and accountability matters. This will have an effect on how audits are carried out.

Other changes

The Public Finance Amendment Act 2004 made a number of significant changes to the Controller function which took effect from 1 July 2005 (see our article *Changes to the Controller Function*⁴). The changes have introduced a significant new level of discipline in the management of appropriations. We will continue to

³ Available on www.oag.govt.nz.

⁴ *Central Government: Results of the 2003-04 audits*, parliamentary paper B.29[05a], pages 51-57.

refine our processes for managing the Controller function and appropriation audit during 2006-07.

We have experienced significant increases in the volume and complexity of requests for inquiries from Parliament and the public (ratepayers and taxpayers) during the past few years. We expect these high levels to continue during 2006-07.

Strategic risks

We have recently completed our annual review of the key strategic risks facing the Office. In this review, we considered the ongoing relevance and completeness of our identified strategic risks. We also reassessed the likelihood of occurrence, and the significance if realised, of each strategic risk.

We consider the following to be key strategic risks to the achievement of our Strategy and our desired outcome:

- serious product failure;
- not maintaining our credibility and reputation;
- not meeting our stakeholders' expectations;
- not maintaining and building our capability;
- failure to successfully implement our Strategic Plan; and
- not maintaining our independence.

Serious product failure

This is the risk that the Office issues an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process.

Our existing key mitigation practices include:

- professional standards and policies;
- quality assurance regimes;
- audit methodologies;
- the quality and training of our people;
- peer review and substantiation; and
- professional indemnity insurance and related audit engagement agreement indemnities with audit service providers.

We propose to take the following actions to further mitigate this risk:

- research and development into enhancing our annual audits in non-financial and other probity areas; and

- implementation throughout the Office (and all our audit service providers) of the New Zealand Institute of Chartered Accountants' revised quality control standards.

Not maintaining our credibility and reputation

Our existing key mitigation actions include:

- our internal audit activity; and
- Office-wide corporate policies and procedures, including those relating to employee fraud.

Not meeting our stakeholders' expectations

We mitigate this risk currently by:

- ongoing stakeholder communication and relationship management activity; and
- stakeholder feedback studies.

Not maintaining and building our capability

Our existing mitigation actions include:

- talent/capability management;
- professional development programmes;
- leadership development initiatives; and
- recruitment strategies and processes, including for graduates and technical specialist positions.

Failure to successfully implement our Strategic Plan

We intend to continue to mitigate this risk by:

- our governance of the Strategic Plan and related accountability processes;
- our project management disciplines; and
- our annual and business planning processes.

Another action we propose to take to further mitigate this risk is:

- the design and implementation of an evaluation framework (to be agreed by the Officers of Parliament Committee) for assessing the implementation of our Strategic Plan.

Not maintaining our independence

We intend to continue to mitigate this risk through:

- the Auditor-General's independence standards;
- monitoring independence of statutory officers, employees, and audit service providers;

- our internal independence review committee; and
- the Office of the Auditor-General and Audit New Zealand's audit independence processes and procedures.

Major evaluation activity – planned or undertaken

We regularly seek assessment and validation of our activities and outcomes – using both internal and external reviewers. This includes:

- our evaluation framework agreed with the Officers of Parliament Committee for assessing the impact of performance audits;
- an annual independent evaluation of our audit tendering and allocation processes;
- our Audit and Risk Management Committee, comprising 3 external members and the Deputy Controller and Auditor-General;
- the independent external review of 2 performance audits each year;
- stakeholder feedback studies; and
- our internal processes of quality assurance, review committees, peer review, and substantiation.

From this evaluation activity, we have learnt that:

- there is still further work required to be done to ensure that our Strategic Audit Planning process identifies the “right” topics for further examination by the Office by way of performance audits, and to ensure that we deploy the full range of our assurance interventions around the key issues and risks facing public entities;
- we need to continue to improve our timeliness of performance audits and inquiries;
- although we have made significant gains in terms of research and development, and product development in relation to major legislative and professional changes, our stakeholders are looking for more; and
- while independent evaluation of our audit tendering and allocation processes confirms the strength and integrity of these processes, there is a need to provide a more strategic independent assessment of the impact, effectiveness, and efficiency of the Auditor-General's audit resourcing model.

Planned evaluation activity

During the next 3 years, we intend to carry out additional evaluation activities:

- an independent assessment of the impact, effectiveness, and efficiency of the Auditor-General's audit resourcing model.

- an external peer review of the Office conducted by a team of our international counterparts. We would also undertake our own internal review in preparation for this.
- the design and implementation of an evaluation framework (to be agreed by the Officers of Parliament Committee) for assessing the implementation of our Strategic Plan.

Responding to issues in our environment

In our Strategic Plan, we set out how we intend to respond to the significant and ongoing changes in our environment.

For the next 3 years, our key internal operating strategic areas of focus remain as:

- ongoing research and development, product development, and innovation;
- changes to the breadth and depth of our assurance services;
- enhancement of our Strategic Audit Planning process and deployment of the full range of our assurance interventions around key issues and risks; and
- continual adaptation of our organisation.

Performance measures and standards

Outcome and impacts

We intend to measure how, as a result of our work, we are contributing to our desired outcome of “maintaining and enhancing trust in an effective and efficient public sector”. We will do this by considering improvements over time in Parliament’s and the public’s perceptions of public sector performance and trustworthiness.

The key performance measures and standards we will use are:

- over time, an increase, or no reduction, in Parliament’s and other key stakeholders’ perceptions of any change to the trustworthiness of public entities, and their effectiveness and efficiency (as measured through our stakeholder feedback study); and
- New Zealand maintaining or improving its Transparency International ranking.

We intend to measure the impact of our specific outputs of:

- parliamentary services;
- performance audits and inquiries; and
- provision of audit and other assurance services.

We will do this by considering whether:

- Parliament and other key stakeholders perceive the reports and advice provided by the Auditor-General as being relevant and timely, and adding value; and
- there are improvements over time in public entity operations.

The key performance measures and standards we will use are:

- over time, an increase, or no reduction, in Parliament’s and other key stakeholders’ perceptions of the relevance of, and value added by, our reports and advice, and their timeliness (as measured through our stakeholder feedback study);
- improvements over time in aspects of public entity management (as measured by our assessments); and
- the trends in types of non-standard audit reports issued.

In addition, we will continue to measure and report using the evaluation framework agreed with the Officers of Parliament Committee to assess the impact of our performance audits.

Cost effectiveness of interventions

In determining how to measure the cost effectiveness of our interventions, we have considered how to demonstrate, over the medium to long term, whether the Auditor-General is doing the “right work” at the “right time”, and for the “right price”.

The inclusion of measures of cost-effectiveness of interventions is a requirement under the new public sector management legislation passed by Parliament in 2004. We intend to do further work in this area during 2006-07.

Demonstrating that we do the “right work” at the “right time”

The Auditor-General uses his Strategic Audit Planning (SAP) process to determine what discretionary work should be done, its priority, and the relative mix between his range of assurance interventions.

We already have an agreed evaluation framework for measuring the impact of performance audits. This includes independently acquired, qualitative feedback from Parliament on the relevance, timeliness and quality of our performance audits and studies.

In addition to this, to demonstrate cost effectiveness, we propose to measure:

- the transparency of our SAP process; and
- the efficiency of our interventions.

The intervention logic we apply to assess the transparency of our SAP process is:

If Parliament endorses the Auditor-General’s proposed work programme, *then* it is more likely that the performance audits and studies completed by the Office will be relevant and timely, and perceived as the “right” issues to address.

The measure we will use to assess this is:

- Number of changes requested by Select Committees/members of Parliament to the proposed work programme is less than 5%.

We apply the following intervention logic to assess the efficiency of our interventions:

If the Office has a similar ratio of parliamentary services to performance audits and inquiries to financial audits and other assurance services as our international counterparts (for example, the United Kingdom, Australia and Canada), *then* it is more likely that our product mix is cost-effective.

The measure we will use to assess this is:

- We will investigate whether international benchmarks of product mix can be established.

Demonstrating that we do our work at the “right price”

We already measure the efficiency of the core outputs of the Office, that is, annual audits, performance audits and inquiries, and parliamentary services.

Annual Audits

Fees for annual audits are negotiated with public sector entities. Audit New Zealand and other audit service providers therefore need to deliver their work efficiently and to the standards required within the negotiated fee.

Audit New Zealand has other internal measures of efficiency, for example, productivity, and the ratio of senior to junior staff hours.

The Officers of Parliament Committee has also asked the Office to consider measures of efficiency such as:

- average time taken to complete an annual audit; and
- average cost for each audit.

We will investigate these measures further during 2006-07.

Performance Audits and Inquiries

We monitor the cost and time taken to complete performance audits and inquiries. Over the past 2 years, we have been establishing internal benchmarks for these products. We intend to continue enhancing these measures.

In addition, we may look at establishing international and/or industry benchmarks.

The draft intervention logic is:

If the Office spends similar hours and costs on delivering its key outputs as its international counterparts or industry peers (for example, the United Kingdom, Australia and Canada, and chartered accountancy firms) *then* it is more likely that the services of the Office are delivered for the right price.

The measure we will use to assess this is:

- We will investigate whether benchmarks of efficiency of our core outputs can be established with our international counterparts and/or industry peers.

Parliamentary Services

Measures of efficiency are included in our statement of service performance for the services we deliver to Parliament. Again, we may establish international benchmarks to assess the efficiency of these services.

Organisational health

Our current capability to respond

Since receiving Parliament's support in 2004 to increase the Office's capability, we have applied this additional funding to create better access to the people, resources, and systems we need to deliver our Strategic Plan and reach our desired outcome.

We have made good gains in relation to:

- building up our capability to undertake performance audits;
- implementing our project office approach;
- addressing the backlog of research and development around our 3 major projects; and
- Improving the management and conduct of inquiries.

However, we continue to face capability challenges, specifically:

- We experience ongoing difficulties in recruiting suitably qualified staff because of industry and labour market shortages, particularly for Audit New Zealand and technical roles.
- There are further opportunities for operational and corporate efficiencies.
- We need to continue to invest in staff development.

We propose the following areas of emphasis in relation to capability during 2006-07:

- ongoing leadership and capability development of our people;
- embedding our shared services model for corporate services; and
- implementing Audit New Zealand's national practice and its professional practices group.

Measuring capability

We already have an extensive framework to measure our capability. The framework looks at:

- trends in the size and distribution (function, gender, and ethnicity) of our staff resources;
- trends in our ability to attract, develop, and retain suitably qualified staff; and
- trends in staff perceptions about the way we work, the implementation of our Strategic Plan, and the usefulness and accessibility of our systems and processes.

In addition, for the past few years, we have sought to draw conclusions from this data on the adequacy, effectiveness, and quality of our capability. We propose to continue to use a similar framework to measure and report on capability.

The key measures we will use for 2006-07 in relation to our capability are:

Trends in the size and distribution (function, gender, and ethnicity) of our staff resources:

- staff numbers (permanent and contracted), including changes from previous years; and
- distribution of staff resources by function, gender, and ethnicity, including changes from previous years.

Trends in our ability to attract, develop, and retain suitably qualified staff:

- average numbers of applicants for operationally important positions, including changes from previous years;
- actual number of internal promotions to senior positions, including changes from previous years;
- average time and money spent for each employee on training and development, including changes from previous years;
- data on staff tenure, experience levels, and qualifications, including changes from previous years;
- staff turnover, including changes from previous years;
- average sick leave taken by each employee, including changes from previous years; and
- progress in the implementation of our Equal Employment Opportunities and Effectiveness for Māori initiatives.

Trends in staff perceptions:

- staff satisfaction, including changes from previous years;
- staff assessment of the implementation of our Strategy, including changes from previous years; and
- staff assessment of the quality and usefulness of business processes and systems.

Part 2

Our proposed annual work programme

Our work

The majority of our work (about 80%) relates to the conduct of annual audits of the financial reports of public entities. About 4000 audits are carried out each year. This work is non-discretionary. The Auditor-General is also required to perform the Controller function and an appropriation audit in respect of each government department.

The rest of our work involves:

- advice to Parliament;
- inquiries;
- approvals under the Local Authorities (Members' Interests) Act 1968;
- advice and liaison;
- working with the accounting and auditing profession;
- wider assurance work;
- performance audits and other studies; and
- international liaison and involvement.

Although in some respects this work is discretionary, much of it is demand-driven. This means that the Auditor-General must decide how to best use the funding available to meet demand. This is particularly important for inquiries because the volume and complexity of requests for inquiries has increased significantly in recent years. In some cases, the Auditor-General will decide not to carry out an inquiry.

Deciding the annual work programme

The Auditor-General's proposed annual work programme relates primarily to performance audits and other studies, which tend to be major audits covering issues of effectiveness and efficiency.

In deciding the annual work programme, the Auditor-General considers that – regardless of any other work he might do – he has a responsibility to Parliament and the public to regularly provide assurance about the activities of public entities that are large and complex, and/or where it is difficult to assess their performance.

Core areas of interest for the Auditor-General include:

- major public investment or liability management;
- major public revenue management or generation;
- major asset management or infrastructure spending or management;
- major expenditure (including service delivery expenditure); and
- local government.

On the basis of an assessment of the size and complexity of public entities, and the inherent significance of the associated risks, the Auditor-General has decided that he will regularly perform some form of assurance work (in addition to annual audits) in the following public entities or sectors:

Areas of major public investment and liability management

- the Accident Compensation Corporation;
- the New Zealand Debt Management Office;
- the Earthquake Commission;
- the Government Superannuation Fund Authority;
- the New Zealand Superannuation Fund; and
- the Student Loan Scheme.

Areas of major public revenue management or generation

- the Inland Revenue Department; and
- the New Zealand Customs Service.

Areas of major asset management or infrastructure spending and management

- aircraft (non-military);
- conservation;
- corrections;
- defence;
- education;

- energy;
- health;
- highways;
- housing; and
- rail.

Areas of major expenditure (including service delivery expenditure)

- health;
- education; and
- social welfare.

Local government

The Auditor-General will also regularly perform similar assurance work in the local government sector, which falls into all 4 of the above areas.

Other areas of interest

In addition to these core areas of interest, the Auditor-General's annual work programme is determined by using:

- strategic areas of focus; and
- entity- or sector-specific areas of focus.

Strategic areas of focus

The Auditor-General intends to establish an integrated programme of assurance work for the next 3 to 5 years on up to 3 significant and "hard" issues/risks affecting the public sector. These are likely to be studies that consider multiple agencies and/or central and local government collaboration. They may also include areas where the Auditor-General wants to "lift the bar" in terms of public sector performance, or may be emerging areas where the Auditor-General wants to take a lead.

During 2006-07, the Auditor-General proposes to:

- identify specific topic(s);
- put in place detailed project management plans, which will include impact evaluation assessments; and
- start assurance work.

Entity- or sector-specific areas of focus

Our environmental scanning and Strategic Audit Planning processes (see pages 24 to 26), identify areas within or across entities or sectors that warrant further examination by the Auditor-General.

Our Strategic Audit Planning process

We undertake a comprehensive Strategic Audit Planning process to decide our proposed annual work programme.

Sector groupings

To assist in the management of our work, we sort public entities by sector, within 2 groups – Parliamentary and Local Government. Within each group, public entities are categorised along the same subject lines as Parliamentary Select Committees. We give our Sector Managers responsibility for monitoring all significant activities within their assigned sectors, and for consulting with relevant stakeholders. Audit New Zealand and some of the other audit service providers who are contracted by the Auditor-General also have sector specialists.

The Strategic Audit Planning cycle

We carry out our Strategic Audit Planning process twice a year – the first time to build a deep understanding of the key issues and risks in our environment, and the second to validate and/or update our proposed work programme before issuing it for consultation.

The process incorporates 5 key actions:

- environmental analysis;
- consultation;
- identification of major areas of audit interest;
- development of assurance responses; and
- prioritisation.

These actions are iterative and may occur more than once during the planning cycle (refer to the diagram on the following page). Each action is described more fully on the following pages.

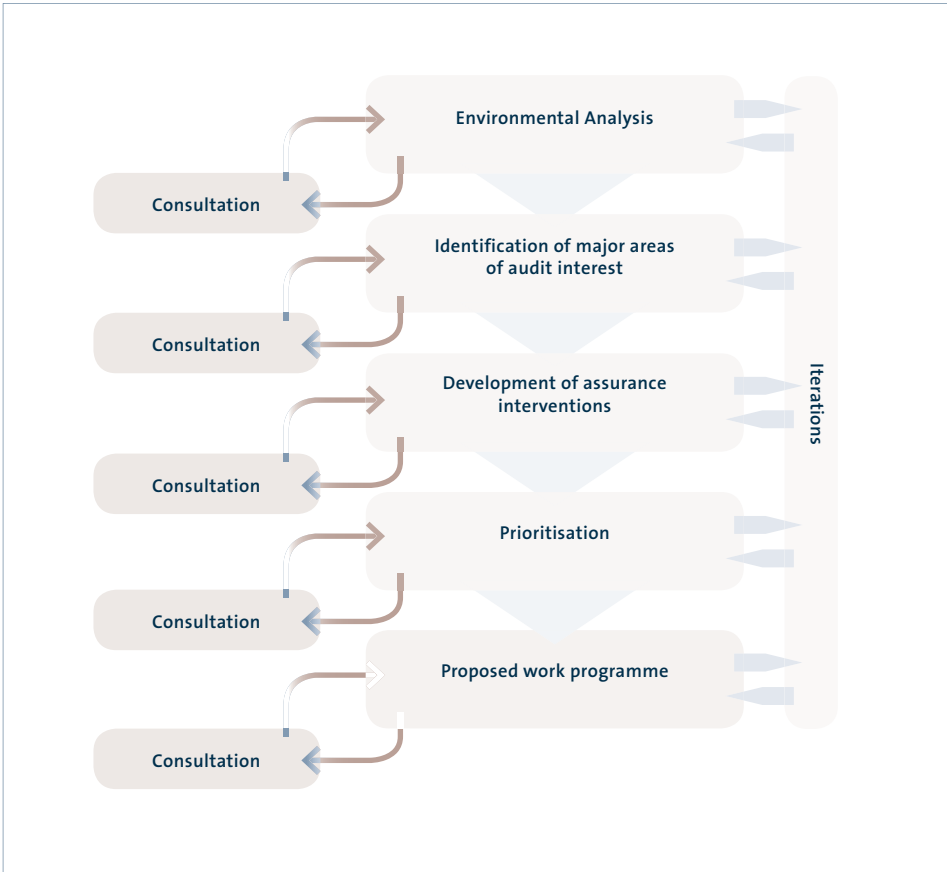
Environmental analysis

Each year, we review changes in our stakeholders' needs, the accounting and auditing profession, and the legislative and operating environments of public entities. Our Sector Managers also survey current and forecast activities of all public entities within each sector, and identify what other relevant work is being, or has been, done by the Office and/or other agencies.

Consultation

At a number of stages throughout the Strategic Audit Planning process, we seek input from others, including:

- members of Parliament;



- Audit New Zealand;
- other audit service providers, including KPMG, PricewaterhouseCoopers, Deloitte, and Ernst & Young;
- central agencies (the State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet); and
- our Local Government Advisory Group.

Feedback from these sources is important to ensure that our work remains relevant and is focussed on the right issues. We review, and may amend, our Strategic Audit Planning process or proposed work programme based on this feedback.

Identification of major areas of audit interest

This year, 2 main inputs have been used to decide the major areas of audit interest that require a response from the Auditor-General.

The first was the in-depth consideration of public entities and sectors by our Sector Managers. The second was the direct guidance of the Auditor-General in setting a high-level agenda to ensure that the Strategic Audit Planning process addressed key issues and risks.

Development of assurance interventions

Once preliminary views have been established about the major areas of audit interest, we plan possible assurance interventions.

As identified in our Strategic Plan, we want to use the full range of assurance interventions to address issues or risks in the major areas of audit interest. This may include:

- additional work as part of the annual audit;
- performance audits or studies;
- “best practice” advice;
- articles in our reports on the annual audits of central and local government;
- research and development; and
- other scoping work.

Prioritisation

In order to assign priorities to the assurance interventions that emerge throughout the Strategic Audit Planning process, we consider:

- legislative audit model implications – the severity of the issue in respect of the elements of the Auditor-General’s legislative audit model;
- public benefit – the benefit to the public from addressing the issue or carrying out the assurance intervention;
- performance improvement – the extent to which the performance of the public entity or sector could be improved by addressing the issue or carrying out an assurance intervention;
- significance – the significance of the issue or assurance intervention (from the aspect of materiality as well as public profile); and
- role fit – the extent to which the issue or assurance intervention relates to the Auditor-General’s role.

After we set priorities, we consider the most appropriate phasing and sequencing of assurance interventions, which usually take place in a 3-year period. From this, we can decide our annual work programme.

Proposed work programme

The Auditor-General's proposed work programme for 2006-07 has been determined as described on the previous pages. For context, we also list work due to be completed and work about to start in the remainder of 2005-06.

Due to be completed by 30 June 2006

- Audit of a selected grants programme – Foundation for Research, Science and Technology
- Department of Conservation – land holding and purchasing policies
- Economic development funding – West Coast
- E-government – review against progress and targets
- Expectations for managing public funding to non-government organisations
- Hazardous waste management
- Health funding package
- Heritage collections
- Housing New Zealand Corporation – acquisitions management
- Local government – codes of conduct
- Ministry of Education – school property portfolio
- Sea container surveillance

Due to start by 30 June 2006

- Effectiveness and efficiency of quality assurance arrangements in the tertiary education sector
- Inland Revenue Department – taxpayer audit follow-up
- Local government – decision making and consultation
- Ministry of Defence – major acquisitions projects
- Ministry of Social Development – performance of the Work and Income contact centre
- Procurement guidelines update
- Rates postponement - reverse mortgages
- Resource Management Act 1991 – consultation in relation to major Crown capital developments
- Expectations in relation to sensitive expenditure

Proposed to start in 2006-07

- Annual audit of a selected grants programme – Te Puni Kōkiri
- Audit of selected agencies' management of public funding to non-government organisations

- Collaboration in roading
- Combating immigration fraud
- Land information management systems
- Local government – asset management, business planning, and risk integration
- Management of diabetes
- Ministry of Foreign Affairs and Trade – NZAID
- Ministry of Social Development – benefit fraud
- Ministry of Health – review of the Ministry’s evaluation of the Primary Health Care Strategy implementation
- Monitoring non-casino gambling
- New Zealand Debt Management Office
- New Zealand Customs Service – revenue collection
- Revitalisation of Te Reo Māori
- Sustainable development – implementation of programme of action
- Waste management

Six of these proposed performance audits and studies have not been described in our previous Annual Plans. A brief background to each is provided below.

Background to proposed performance audits and studies not previously described

Collaboration in roading

The Land Transport Management Act 2004 provides scope for shared services and public-private partnerships. We propose to review some early forerunners of public-private partnerships for learning that may assist other initiatives that could emerge.

We propose a performance audit to examine the effectiveness of collaborative approaches (between local authorities and Transit New Zealand) to provide roading.

Land information management systems

Land Information Memoranda (LIMs) are the main method for property owners to get information about risks that might affect their property. Anecdotally, there have been concerns about the approaches to, and the quality of, recording land information on LIMs. We consider that there is potential for a review based on the Society of Local Government Managers’ legislative compliance modules and relevant case law.

We propose a performance audit to review the systems, policies, and procedures in relation to the recording of land information in LIMs.

Monitoring non-casino gambling

Aspects of the Gambling Act 2003 continue to be implemented. The Act resulted in significant changes to the non-casino gambling industry, including how the monitoring of gaming machines is to be carried out (a subject of concern in the past). We have examined this area previously, and a further audit appears justified to examine implementation of the Act by the Department of Internal Affairs.

We propose a performance audit to examine the effectiveness of the systems, policies, and procedures that are in place to ensure compliance with the Act.

Ministry of Social Development – benefit fraud

The Ministry of Social Development is forecasting to pay out more than \$12 billion in benefits during 2005-06. It is also forecasting to spend more than \$31 million on benefit control to prevent, detect, deter, and penalise benefit fraud in 2005-06. The risk is that benefit control efforts are ineffective, not optimally focussed, or insufficient to prevent substantial losses through fraud.

We propose a performance audit to examine the systems, policies, and procedures used by the Ministry. Parliament's Social Services Committee will be offered a briefing on the outcomes of the audit.

New Zealand Customs Service – revenue collection

The New Zealand Customs Service expects to collect \$8.2 billion in revenue in 2006-07 through customs duties, GST on imports, and excise on alcoholic beverages, tobacco, and petroleum products. There is a risk that, if Customs does not have adequate controls and systems in place, less revenue will be collected than expected. There is also a risk that Customs is not collecting all of the revenue that is due.

We propose a performance audit to examine the controls and systems in place for revenue collection. Parliament's Foreign Affairs, Defence and Trade Committee will be offered a briefing on the outcomes of the audit.

Waste management

The Local Government Act 2002 requires local authorities to adopt a waste management plan. Concerns have been raised about the usefulness of these plans. The life cycle management of waste is a key issue for environmental sustainability, and also has major financial impacts for local authorities.

Parliament's Local Government and Environment Committee has had a general interest in waste management policies and has previously asked us to review the policies. Our review of one council's Long-term Financial Strategy showed potential for council policies to be disconnected in this area – such as for “zero waste” versus the content of plans to give effect to such policies.

We propose a performance audit to examine the effect of waste management plans, possibly taking a case study approach and considering some local authorities with zero waste policies.

Proposed research and development programme

In our Strategic Plan, we undertook to include our proposed research and development programme as part of our Annual Plan each year.

For 2006-07, we will continue our ongoing research and development in relation to NZ IFRS. We will also continue to give consideration to the audit implications arising from general guidance issued by the Office, for example, our work on expectations relating to sensitive expenditure, and the management of public funding to non-government organisations.

In addition, we propose to start work on:

- the 5 management aspects;
- enhancements to the annual audit; and
- the evaluation of local authorities' responses to Local Government Act planning and reporting requirements.

Five management aspects

In the course of carrying out annual audits of major public entities, our auditors make assessments of how public entities are performing in respect of 5 aspects of financial and service performance management. Select Committees place high value on our assessments of the 5 management aspects.

We need to refresh our assessment of the 5 management aspects, and consider the possibility of applying them in other sectors.

We propose to carry out a review of the 5 management aspects, and to develop the audit approach and guidance for auditors for our revised assessment process.

Enhanced annual audits

Our Strategic Plan sets out the Auditor-General's intention that we extend our work in the annual audit in areas of waste, probity, governance, and to some extent, accountability.

We propose to review the current breadth of application of the Legislative Audit Model, and as a result to initiate practical audit approaches to areas identified as potentially requiring strengthening.

Evaluation of local authorities' responses to Local Government Act planning and reporting requirements

We intend to evaluate our LTCCP audit methodology at the completion of the 2006 LTCCP audits. We also intend to report to Parliament on our observations and learning.

In addition, the Local Government Act 2002 requires a review to be undertaken of the Act as soon as possible after the 2007 triennial election. We expect our advice to be sought as part of this review. In preparation for that, we intend to start planning and information gathering, with an initial emphasis on the specific requirements affecting and of interest to the Office.

Feedback from Parliamentary consultation

Under section 36(1) of the Public Audit Act 2001, our proposed work programme is subject to Parliamentary consultation. This is an important way in which the Auditor-General can continue to ensure that his work remains relevant and responsive.

We sought feedback on 2 occasions — once on a preliminary early draft and again on the statutory *Draft Annual Plan*.

This feedback:

- mainly supported the approach the Auditor-General has taken to determining his work programme, and
- gave us guidance as to the scope and relative emphasis we should place on one or 2 key studies.

We thank Parliament for this feedback, and will ensure that it is incorporated into our scoping of the respective studies.

Having regard to the requirements of section 36(3) of the Public Audit Act, we acknowledge that the Finance and Expenditure Committee provided a written response to the statutory *Draft Annual Plan*, and note that neither the Speaker nor any committee of the House requested any change to our work programme priorities.

Part 3

Forecast financial statements

Introduction

The Auditor-General's forecast financial statements have been prepared in accordance with sections 38, 41(1) and 45G of the Public Finance Act 1989, and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Auditor-General. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here, and that the variations may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Auditor-General reasonably expects to occur, associated with the actions he reasonably expects to take, as at the date that this information was prepared.

These statements have been prepared also in the context of the budgetary process.

It is not intended that this published material will be updated.

Forecasts should be contrasted with projections. Projections are based on one or more hypothetical assumptions.

Statement of significant underlying assumptions

The forecast financial statements on pages 37-56 have been compiled on the basis of existing Government policies and after consultation by the Auditor-General with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Auditor-General's *portfolio of entities* will remain substantially the same as for the previous year.
- The Auditor-General will continue to deliver the *range of products* currently provided, and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of *annual audits* will remain substantially the same.
- The balance of activity associated with *advice to Parliament and others, and inquiries* will continue to be variable because of increases in demand and the effects of the Public Audit Act 2001.
- The Auditor-General will continue to use audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 5 April 2006.

Statement of forecast service performance

Output Class: Parliamentary services

Description

Output Class: Parliamentary services includes the following products and services of the Auditor-General.

Reports to Parliament and other constituencies on matters arising from annual audits

Results of annual audits:

- for central government, local government, and selected other sectors; and
- specific issues arising from particular audits or in relation to sectors generally.

Reports and advice to Select Committees and Ministers to assist in their reviews of performance, Estimates examinations, or other inquiries for which the Auditor-General's assistance is sought

Advice to Select Committees and Ministers to assist their financial reviews of:

- government departments and Offices of Parliament;
- State-owned enterprises and Crown entities; and
- reports to portfolio Ministers on the results of annual financial report audits.

Advice to Select Committees to assist in their examination of the Estimates.

Advice or assistance (as requested) for other inquiries conducted by Select Committees.

The Controller function and appropriation audit

Carrying out the Controller function and conducting the appropriation audit.

Advice to government bodies and other agencies on auditing, accountability, and financial management in the public sector

Responding to specific requests from, and taking part in working parties on matters related to financial management and accountability with:

- central agencies;
- government departments, local authorities, and other public entities;
- professional bodies, such as the New Zealand Institute of Chartered Accountants;
- sector organisations, such as Local Government New Zealand and the Society of Local Government Managers;
- foreign delegations; and
- other audit institutions and related organisations, such as the International Organisation of Supreme Audit Institutions (INTOSAI).

Development of a written history of the Audit Office

Development of a written history of the Audit Office in conjunction with the Ministry for Culture and Heritage.

Performance measures and targets**Output Class: Parliamentary services**

Output	Quantity	Cost \$000	Timeliness	Quality
Reports to Parliament and other constituencies on matters arising from annual audits	2 reports on the results of annual audits	160	By 30 June 2007.	Stakeholder study assessing quality of our reports.
Reports and advice to Select Committees and Ministers on:	(As below)	1,000	At least 2 days before an examination, unless otherwise agreed.	Stakeholder study assessing quality of our reports.
• Financial reviews	80-90 reports			
• Estimates examinations	40-50 reports			
• Reports to portfolio Ministers on the results of annual financial report audits	120-130 reports			
• Other reports, as requested	5-10 reports		According to the terms of reference for other reports.	
Controller function and appropriation audit	Monthly statements provided by the Treasury examined for the period September-May	91	Reviewed and response provided to the Treasury within 5 working days of receipt of statement. Reviewed and provided to the appointed auditor within 5 working days of receipt of statement. Where a breach has occurred or may occur, the relevant Minister is informed in accordance with the Memorandum of Understanding with the Treasury.	Where there is a breach or suspected breach of appropriation, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury. Internal quality assurance undertaken to gain assurance that the Office's policies, procedures, and standards in relation to the controller function and appropriation audits have been applied appropriately.
Advice to government bodies and other agencies	As requested	1,543	According to any terms of reference agreed.	Stakeholder study assessing quality of our reports.
Audit Office history	1 written history (delivered over 4 years)	54	The agreed project milestone will be achieved by 30 June 2007.	Ministry of Culture and Heritage confirm use of skilled personnel.

Output Class: Performance audits and inquiries

Description

Output Class: Undertaking and reporting on performance audits and inquiries relating to central and local government entities:

Reports to Parliament and other constituencies on matters arising from performance audits and special studies, and inquiries

- Results of performance audits and special studies.
- Matters arising from inquiries initiated in response to particular concerns brought to the Auditor-General's attention.

Responses to requests for inquiries from taxpayers, ratepayers and Members of Parliament, and completion of inquiries deemed warranted by the Auditor-General

Acknowledgement of, and response to, requests for inquiries received from:

- Taxpayers;
- Ratepayers; and/or
- Members of Parliament.

Completion of investigations arising from such enquiries (if considered warranted) and reporting of such investigations.

Administration of the provisions of the Local Authorities (Members' Interests) Act 1968

Responding to specific requests in relation to the Auditor-General's powers to:

- approve increased limits for contract payments;
- grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest; and
- consider alleged breaches of the Act.

Performance measures and targets**Output Class: Performance audits and inquiries**

Output	Quantity	Cost \$000	Timeliness	Quality
Reports to Parliament and other constituencies on matters arising from performance audits and special studies, and inquiries	19-21 reports	4,910	Within the timelines agreed in each project proposal.	Stakeholder study assessing quality of our reports. Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures and standards in relation to performance audits and special studies have been applied appropriately.
Responses to requests for inquiries from: • Taxpayers • Ratepayers • Members of Parliament	• Taxpayers – 50-60 requests • Ratepayers – 150-180 requests • Members of Parliament – 10-20 requests	1,300	Receipt acknowledged within 5 working days. We will advise 80% within 15 working days of receipt of our decision whether to initiate an inquiry or undertake preliminary work that may result in an inquiry.	Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures and standards in relation to responses to requests for inquiries have been applied appropriately.
Completion and reporting of inquiries under section 18 of the Public Audit Act 2001*		Included above	Complete 80% of "routine" inquiries within 3 months. Complete 80% of "sensitive" inquiries within 6 months of initiation. Complete 80% of "major" inquiries within 12 months of initiation.	Independent review of 2 major inquiries. Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures and standards in relation to inquiries have been applied appropriately.
Administration of the provisions of the Local Authorities (Members' Interests) Act 1968	80 investigations	85	Receipt acknowledged within 5 working days. 80% completed within 30 working days. 100% advised if enquiry will take longer than 30 working days.	Internal quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures and standards in relation to administration of the Local Authorities (Members' Interests) Act 1968 have been applied appropriately.

*Note: As this is the first year of classifying and measuring inquiries in this way, we have not set quantity targets. We propose to start tracking quantities over the 2006-07 year, which will become our benchmark data for future years.

Output Class: Provision of audit and other assurance services

Description

Output Class: Provision of audit and other assurance services relates to the conduct of annual audits of public entity financial reports. The Auditor-General is the statutory auditor of about 4000 public entities. These audits are undertaken either by Audit New Zealand or private sector auditors.

This Output Class is funded mainly by fees paid by the public entities being audited or to which other assurance services are being provided.

Annual audits result in:

- audit reports on whether the financial statements fairly reflect the financial and non-financial performance of these public entities; and
- management reports to the management and governing bodies of these public entities, on issues arising from the audit.

Performance measures and targets

Output Class: Provision of audit and other assurance services

Output	Quantity	Cost \$000	Timeliness	Quality
Annual audits conducted and audit reports issued (see note 1)	Planned total audit completions – 3865 Estimated total number of audits in arrears as at 30/6/07 – 310 (see note 2)	42,058	Audits will be completed and audited financial statements available within the statutory deadline or within 5 months of balance date. 100% target completion rate for all entities except for: Miscellaneous public bodies and audits for which no fee is charged, where the target is 75%; and School boards of trustees, where the target is 75%.	Quality assurance review undertaken to gain sufficient assurance that the Office's policies, procedures and standards in relation to annual audits have been applied appropriately (see note 3). Audit New Zealand client satisfaction survey.
Management reports issued		(included in above costs)	100% of management reports will be issued within 6 weeks of issuing the audit report.	(included in above quality assessments)

Note 1: We will continue to report our performance in this Output Class at a group level as well as at an overall level. The groups of entities we report on are: Government departments and offices of Parliament; major statutory bodies (comprising State-owned enterprises, tertiary education institutions, producer boards, district health boards, Crown research institutes, and major crown entities); regional, city, and district Councils; other local authorities (comprising licensing trusts, airports, LATEs, energy companies, port companies and sinking fund commissioners); school boards of trustees; miscellaneous public bodies (mainly comprising Maori trust boards, smaller Crown entities, and subsidiaries of major Crown entities); and those entities for which fees are not directly charged (i.e. those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities include cemetery trustees, hall and reserve boards, racecourse trustees and patriotic funds).

Note 2: Audits in arrears – the number of audits to be completed during the year will fluctuate according to the readiness of each entity to present its financial statements for audit. The number of audits actually finished during the year will relate mainly to those financial statements due in the year, plus some presented for audit that relate to earlier years. Where entities have not presented their financial statements for audit in previous years, the term “audit arrears” is used to describe the outstanding audits. Most arrears are from small bodies such as school boards of trustees, cemetery trustees, or minor subsidiaries of a parent body. Because an entity might have arrears for a number of years, the number of audit entities with arrears is lower than the arrears numbers shown.

Note 3: Quality Assurance Reviews – we seek to review every approved auditor at least once during their 3-year contract period.

Statement of accounting policies

Reporting entity

These are the prospective financial statements of the Auditor-General, prepared in accordance with sections 41(1) and 45F of the Public Finance Act 1989.

The Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purpose of the Public Finance Act 1989.

The Auditor-General's activities include work undertaken by the Office of the Auditor-General, Audit New Zealand, and contracted audit service providers.

Measurement base

The prospective financial statements have been prepared on a historical cost basis.

Accounting policies

Revenue

The Office derives revenue from the Crown for outputs provided to Parliament, from audit fees for the audit of public entities' financial statements, and from other assurance work carried out by Audit New Zealand at the request of public entities.

Crown revenue is recognised in the period to which it relates. Audit fee and other assurance revenue earned by the Office of the Auditor-General and Audit New Zealand is recognised as the work progresses and time is allocated within work in progress to public entities.

Audit fee revenue from audits carried out by contracted Audit Service Providers is recognised in the period that the Office of the Auditor-General is notified of the audits' completion. Contracted Audit Service Providers invoice and collect audit fees directly from public entities.

Expenses

Fees paid to contracted Audit Service Providers are recognised in the period that the Office of the Auditor-General was notified of the audit completion. Contracted Audit Service invoice and collect audit fees directly from public entities.

Revenue in advance

Revenue in advance is recognised where invoiced audit fees exceed the value of time allocated within work in progress to public entities.

Output cost allocation

Definitions

Direct costs are those costs that are 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: Provision of Audit and Assurance Services.

Indirect costs are all other costs. These costs include: payroll 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.

Receivables and Work in Progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.

Leases

Leases which effectively transfer to the organisation substantially all the risks and benefits incidental to ownership of the leased items are classified as **finance leases**. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the statement of prospective financial position. Each lease payment is allocated between the liability and finance expense, and the leased assets are depreciated on the same basis as other assets.

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as **operating leases**. Operating lease costs are expensed on a systematic basis over the period of the lease.

Physical assets

Physical assets are recorded at cost, which is the value of the consideration given to acquire or create the asset, plus any directly attributable costs of bringing the asset into working condition for its intended use.

All physical assets costing more than \$1,000 are capitalised.

Depreciation

Depreciation of physical assets is provided on a straight-line basis to allocate the cost of the assets, less their residual value, over their expected useful lives.

The estimated useful lives are:

- Furniture and fittings 4 years
- Office equipment 2.5 – 5 years
- IT hardware 2.5 – 5 years
- IT software 2.5 – 5 years
- Motor vehicles 3 – 4 years

Provision for employee entitlements

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees, based on current rates of pay. Long service leave and retiring or resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

Foreign currency

Foreign currency transactions, relating primarily to subscriptions and travel, are recorded at the New Zealand dollar exchange rate at the date of the transaction.

Financial instruments

Financial instruments primarily comprise bank balances, receivables and payables which are recognised in the Statement of Prospective Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Prospective Financial Performance.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST, except for:

- Payables and Receivables in the Statement of Prospective Financial Position, which are GST-inclusive.
- Figures in the Prospective Appropriations Statement, which include GST unless noted.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in payables or receivables (as appropriate).

Income tax

The organisation is exempt from paying income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

Commitments

Future payments are disclosed as commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts

are not disclosed unless they had vested at balance date, in which case they are reflected in the item “Provision for employee entitlements” in the Statement of Prospective Financial Position.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Changes in accounting policies

There have been no changes in accounting policies from those contained in the last audited financial statements.

Statement of prospective financial performance for the year ending 30 June 2007

This statement reports the revenue and expenses relating to all outputs (goods and services) produced by the Office. A supporting statement showing the revenue and expenditure of each output class is on page 54.

	2005-06		2006-07
	Budgeted* \$000	Estimated Actual** \$000	Forecast \$000
Continuing Activities			
Revenue			
Crown	9,103	9,103	9,294
Departments	6,947	6,947	6,947
Other	37,168	37,168	35,215
Total Revenue	53,218	53,218	51,456
Expenses			
Personnel costs	26,409	26,409	25,428
Operating costs	25,242	25,242	24,424
Depreciation	1,213	1,213	1,227
Capital charge	110	110	122
Total expenses	52,974	52,974	51,201
Surplus	244	244	255

* Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 2005-06.

** The amounts in this column reflect actual results to 28 February 2006 and the forecast results for the remaining 4 months to 30 June 2006.

Statement of prospective movements in taxpayers' funds (equity) for the year ending 30 June 2007

This statement combines information about the surplus with other aspects of the financial performance of the Office to give a measure of comprehensive income.

	2005-06		2006-07
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Taxpayers' Funds brought forward at 1 July	3,586	3,586	3,586
Movements during the year			
Surplus	<u>244</u>	<u>244</u>	<u>255</u>
<i>Total Recognised Revenues and Expenses for the Year</i>	<u>244</u>	<u>244</u>	<u>255</u>
Flows to and from the Crown			
Provision for payment to the Crown	(244)	(244)	(255)
Taxpayers' Funds at 30 June	3,586	3,586	3,586

Statement of prospective financial position as at 30 June 2007

This statement reports the total assets and liabilities. The difference between the assets and liabilities is called Taxpayers' Funds.

	Budgeted Financial Position as at 30/6/06 \$000	Estimated Actual Financial Position as at 30/6/06 \$000	Forecast Financial Position as at 30/6/07 \$000
Taxpayers' Funds			
General funds	3,586	3,586	3,586
Total Taxpayers' Funds	3,586	3,586	3,586
Represented by:			
Current Assets			
Cash and bank balances	3,236	3,236	3,289
Prepayments	290	290	290
Work in progress	550	550	550
Receivables	3,650	3,650	3,650
Total Current Assets	7,726	7,726	7,726
Non-current Assets			
Physical assets	2,304	2,304	2,262
Total Non-current Assets	2,304	2,304	2,262
Total Assets	10,030	10,030	10,041
Current Liabilities			
Payables and provisions	3,200	3,200	3,200
Provision for payment to the Crown	244	244	255
Provision for employee entitlements	2,500	2,500	2,500
Total Current Liabilities	5,944	5,944	5,955
Term Liabilities			
Provision for employee entitlements	500	500	500
Total Term Liabilities	500	500	500
Total Liabilities	6,444	6,444	6,455
Net Assets	3,586	3,586	3,586

Statement of prospective cash flows for the year ending 30 June 2007

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 Prospective Financial Performance.

	2005-06		2006-07
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Operating Activities			
Cash received from:			
The Crown	9,063	9,063	9,294
Departments	6,947	6,947	6,947
Others	21,599	21,599	20,426
Cash disbursed on:			
Production of outputs*	(36,630)	(36,630)	(35,063)
Capital charge	(110)	(110)	(122)
Net Cash Flow from Operating Activities	869	869	1,482
Investing Activities			
Cash received from:			
Sale of physical assets	170	170	180
Cash disbursed on:			
Purchase of physical assets	(1,340)	(1,340)	(1,365)
Net Cash Flow from Investing Activities	(1,170)	(1,170)	(1,185)
Financing Activities			
Cash disbursed on:			
Payment to the Crown	(776)	(776)	(244)
Net Cash Flow from Financing Activities	(776)	(776)	(244)
Total net increase/(decrease) in cash held	(1,077)	(1,077)	53
Add Opening cash balance at 1 July	4,313	4,313	3,236
Closing cash balance at 30 June	3,236	3,236	3,289

* The Statement of Prospective Cash Flows does not include the Audit Service Provider audit fees as these do not involve any cash transactions within the Office.

Reconciliation of surplus in the statement of prospective financial performance to the prospective net cash flow from operating activities for the year ending 30 June 2007

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of Prospective Financial Performance on page 47 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 50.

	2005-06		2006-07
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Surplus	244	244	255
Non-cash Items			
Depreciation	1,213	1,213	1,227
Total Non-cash Items	1,213	1,213	1,227
Working Capital Movements			
(Increase)/decrease in prepayments	98	98	-
(Increase)/decrease in receivables	(17)	(17)	-
(Increase)/decrease in work in progress	(120)	(120)	-
Increase/(decrease) in payables	(331)	(331)	-
Increase/(decrease) in current employee entitlements	9	9	-
Increase/(decrease) in property lease liabilities	(111)	(111)	-
Increase/(decrease) in finance lease liabilities	(162)	(162)	-
Total Net Working Capital Movements	(634)	(634)	-
Other Items			
Increase/(decrease) in property lease liabilities	46	46	-
Total Other Items	46	46	-
Net Cash Flow from Operating Activities	869	869	1,482

Statement of forecast capital expenditure for the year ending 30 June 2007

This statement discloses the forecast capital expenditure for the 2006-07 financial year (incurred in accordance with section 24 of the Public Finance Act 1989) that is primarily routine replacement and upgrade of the office's information technology, office equipment and furniture and fittings, to help staff efficiently deliver the services set out in the *Annual Plan*.

	Actual June 2002	Actual June 2003	Actual June 2004	Actual June 2005	Budget June 2006	Estimated Actual* June 2006	Forecast June 2007
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Furniture and fittings	44	61	69	401	482	482	200
Office equipment	149	94	29	104	13	13	100
Motor vehicles	234	366	283	512	496	496	500
Computer hardware	192	80	623	214	322	322	415
Computer software	170	164	188	288	27	27	150
Total	789	765	1,192	1,519	1,340	1,340	1,365

* Actual for the 8 months to 28 February 2006 plus budget for the period March-June 2006.

Forecast details of physical assets by category
as at 30 June 2007

	As at 30 June 2006		Forecast Position as at 30 June 2007		
	Budgeted Net Book Value	Estimated Actual Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000
Furniture and fittings	681	681	3,087	2,181	906
Office equipment	179	179	1,338	1,145	193
Motor vehicles	423	423	747	543	204
Computer Hardware	703	703	2,314	1,720	594
Computer Software	318	318	3,475	3,110	365
Total	2,304	2,304	10,961	8,699	2,262

Prospective appropriation statement for the year ending 30 June 2007

Description of statement

This statement breaks down the expenditure reported in the Statement of Prospective Financial Performance (on page 47) and the Forecast Output Class Operating Statements (on the next page) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2006-07 in the *Estimates of Appropriations* (parliamentary paper B.5 Vol.1).

Departmental Output Expense	\$000
Legislative Auditor (Multi-class Output Appropriation)	
Parliamentary Services	
• Annual appropriation	2,212
• Other appropriation	636
	2,848
Performance Audits and Inquiries	6,295
Legislative Auditor	9,143
Provision of Audit and other Assurance Services	42,058
Total Departmental Output Expense	51,201

Forecast output class operating statements* for the year ending 30 June 2007

Departmental output expense	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total expenses \$000	Surplus \$000
Legislative Auditor (Multi-class Output Appropriation)						
Basis – these output expenses use the same resources and contribute to the same outcome.						
Parliamentary Services						
Scope: Assisting Parliament in its role of encouraging accountability for resources, including advice to Select Committees and others, and undertaking the Controller function.						
	2,849	-	-	2,849	2,848	1
Performance Audits and Inquiries						
Scope: Undertaking and reporting on performance audits and inquiries to central and local government entities.						
	6,295	-	-	6,295	6,295	-
Provision of Audit and other Assurance Services						
Scope: The provision of audit services to public entities by Audit New Zealand and private sector audit providers, and audit-related assurance services undertaken by Audit New Zealand at the request of audited entities.						
	150	6,947	35,215	42,312	42,058	254
Total	9,294	6,947	35,215	51,456	51,201	255

* Details of the forecast performance for each class of outputs are set out on pages 36-42.

Forecast financial indicators for the year ending 30 June 2007

	2005-06		2006-07
	Budgeted (after Supplementary Estimates) \$000	Estimated Actual \$000	Forecast \$000
Operating results			
Revenue: other than Crown	44,115	44,115	42,162
Output expenses	52,974	52,974	51,201
Surplus before capital charge	354	354	377
Surplus 244	244	255	
Working capital			
Net current assets*	1,782	1,782	1,824
Current ratio**	130%	130%	131%
Average receivables and work in progress	35 days	35 days	36 days
Resource utilisation			
Physical assets			
Total physical assets at year-end	2,304	2,304	2,262
Additions as % of physical assets	58%	58%	60%
Taxpayers' funds			
Level at year-end	3,586	3,586	3,586
Forecast net cash flows			
Surplus on operating activities	869	869	1,482
Deficit on investing activities	(1,170)	(1,170)	(1,185)
Deficit on financing activities	(776)	(776)	(244)
Net increase/(decrease) in cash held	(1,077)	(1,077)	53

* Current assets minus current liabilities.

** Current assets as a proportion of current liabilities.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Central government: Results of the 2004-05 audits – B.29[06a]
- Progress with priorities for health information management and information technology
- The Treasury: Capability to recognise and respond to issues for Māori
- New Zealand Police: Dealing with dwelling burglary – follow-up report
- Achieving public sector outcomes with private sector partners
- Inquiry into the Ministry of Health's contracting with Allen and Clarke Policy and Regulatory Specialists Limited
- Maritime Safety Authority: Progress in implementing recommendations of the Review of Safe Ship Management Systems
- Inquiry into certain aspects of Te Wānanga o Aotearoa
- Cambridge High School's management of conflicts of interest in relation to Cambridge International College (NZ) Limited
- Inquiry into the sale of Paraparamu Aerodrome by the Ministry of Transport
- Annual Report 2004-05 – B.28
- Electricity Commission: Contracting with service providers
- Ministry of Justice: Performance of the Collections Unit in collecting and enforcing fines

Website

All these reports are available in PDF format on our website www.oag.govt.nz. They can also be obtained in hard copy on request – reports@oag.govt.nz.

Subscription for notification of new reports

We offer a subscription facility for people to be notified by e-mail when new Reports and Latest News are added to our website. The link to this subscription service is in the Reports section and also in the Latest News section of the website.

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 ISO 14001 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.



Office of the Auditor-General
Private Box 3928, Wellington

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

E-mail: reports@oag.govt.nz
www.oag.govt.nz