



Summary Annual Report 2005-06



It is my pleasure to present this Summary Annual Report for the year ended 30 June 2006. The Summary provides highlights of our achievements during the year, and extracts from our financial report. It gives a sense of both our financial and our non-financial performance.

I am proud of the work we have undertaken over the past year, particularly in responding to significant changes in the auditing and accounting profession, in the legislative and operating environments of public entities, and in information and reporting requirements and methods. I believe our achievements put us in a good position to meet our key objectives for 2006-07 – strengthening the capabilities of the people work who for and with my Office, and to make further progress in advancing my *Five-year Strategic Plan*.

K B Brady
29 September 2006

AUDIT REPORT

TO THE READERS OF THE SUMMARY FINANCIAL REPORT OF THE CONTROLLER AND AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2006

We have audited the summary financial report set out on pages 2 and 3.

Unqualified Opinion

In our opinion, the information reported in the summary financial report complies with FRS-39: *Summary Financial Reports* and is consistent with the full financial report from which it is derived and upon which we expressed an unqualified audit opinion in our report to the readers dated 29 September 2006.

Basis of Opinion

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary financial report is consistent with the full financial report on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial report against the requirements of FRS-39: *Summary Financial Reports*.

We carry out audit assignments on behalf of the Controller and Auditor-General. The level of work from these assignments is no greater than the level of work prior to our appointment as auditor. Other than the audit and these assignments, we have no relationship with or interests in the Controller and Auditor-General.

Responsibilities of the Controller and Auditor-General and the Auditor

The Controller and Auditor-General is responsible for preparing the summary financial report in accordance with generally accepted accounting practice in New Zealand. It is our responsibility to express to you an independent opinion on the financial report presented by the Controller and Auditor-General.

CST Nexia Audit
Chartered Accountants
Munakau City, New Zealand
29 September 2006



Chartered Accountants
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CST NEXIA AUDIT is an independent member of Nexia International Ltd.



Financial performance and financial position*

	2006 Actual \$000	2006 Forecast \$000	2005 Actual \$000
The revenue we earned was:	51,840	53,218	43,485
We received this revenue from the following sources:			
• \$42,737,000 of audit fees from public entities			
• \$9,103,000 from the Crown, which included a funding increase from the previous year of \$920,000			
Our total expenditure was:	51,700	52,974	42,709
The amounts spent on each activity are shown on the opposite page. The main things we spent money on were personnel costs (\$26,401,000), fees paid to contracted auditors (\$14,619,000), and other day-to-day operating costs (\$9,337,000)			
<i>All our spending was within the limits set by Parliamentary appropriations</i>			
Our surplus for the year, which is returned to the Crown, was:	140	244	776
Our total assets at 30 June were:	10,747	10,030	11,111
The assets consisted of:			
• Current assets – including cash \$2,992,000, work in progress \$1,378,000, and receivables \$3,510,000	8,242	7,726	8,764
• Non-current assets – the physical assets we own or lease	2,505	2,304	2,347
Our liabilities at 30 June were:	7,161	6,444	7,525
The liabilities consisted of:			
• Current liabilities – including payables and provisions \$3,613,000, and provision for employee entitlements \$2,951,000	6,704	5,944	7,071
• Non-current liabilities – mostly provision for employee entitlements \$457,000	457	500	454
Movements in our taxpayers' funds were:			
Opening balance at 1 July	3,586	3,586	3,586
Surplus for the year (total recognised revenues and expenses)	140	244	776
Provision for payment of surplus to the Crown	(140)	(244)	(776)
Closing balance at 30 June	3,586	3,586	3,586
Our net increase/(decrease) in cash held was:	(1,321)	(1,077)	1,273
The net cash flows were from:			
• Operating activities	984	1,031	3,005
• Investing activities	(1,368)	(1,170)	(1,310)
• Financing activities	(937)	(938)	(422)

* This Summary Financial Report has been extracted from the full financial report. The full financial report, dated 29 September 2006, is in our Annual Report 2005-06 (available on our website – www.oag.govt.nz).

Service performance

Activity	2006 Actual	2006 Target/Forecast	2005 Actual
Reports and advice to Parliament and the public:			
• Number of public reports issued	25	21-23	17
• Number of reports to select committees	151	140-160	134
• Responses to enquiries from taxpayers, ratepayers, and MPs	228	270	238
Cost	\$8,666,000	\$8,785,000	\$7,469,000
Controller function:			
We monitor, on behalf of Parliament, the issue of funds from the Crown Bank Account, to ensure that releases of funds are supported by appropriations, and are for lawful purposes.			
• Number of Controller statements certified ¹	10	12	—
Cost	\$53,000	\$91,000	\$83,000
Audits and other assurance services:²			
• Number of audits completed	4063	4036	4121
• Audits completed within deadlines	36% ³	50-100% ⁴	37% ³
• Management reports sent within 6 weeks	95%	100%	97%
• Audit arrears at year end	315	310	343
Cost	\$42,981,000	\$44,098,000	\$35,157,000

1 This is a new measure arising from the introduction of the Public Finance Amendment Act 2004. No comparisons to previous years are therefore possible.

2 From 1 July 2005, two output classes (D3 and D4) were merged. The comparative figures for the 2005 year are the combined figures for the two previous classes.

3 This figure represents the average timeliness standard across all groups of organisations audited.

4 Each group of organisations audited has an individual timeliness quality target within a range of 50% to 100%.

Highlights for 2005-06

Implementing our research and development programme

Our greatest achievement was the significant progress we made in implementing our three research and development projects:

- auditing long-term council community plans;
- the audit implications of new legislation in central government; and
- introducing New Zealand equivalents to International Financial Reporting Standards.

The focus of our research and development programme has shifted from design and development to implementation management. This is a significant milestone, as these large projects can now begin to move into the regular work of our annual and other audits.

Progressing our *Five-year Strategic Plan*

In 2005-06, we:

- published a record number of performance audit reports and good practice guides;
- strengthened our systems and processes for managing major inquiries, which is starting to result in improved timeliness of inquiries;
- enhanced our Corporate and Strategic Audit Planning processes to ensure integration, and to provide a clearer strategic perspective when setting our discretionary work programme;
- created greater consistency and efficiency through the alignment of corporate resources across our two business units – the Office of the Auditor-General and Audit New Zealand; and
- continued to invest significantly in the professional and leadership development of our people.

Improving our management and capability

We continued to look for ways to improve our management and governance, and to enhance the skills and abilities of the people who work for us.

- We focused on building our internal management capability, with an increased number of staff promoted to management positions.
- Audit New Zealand adopted a more national approach to professional development, and enhanced its graduate and technical programme.

- The Performance Audit Group reviewed its professional development approach in conjunction with our Australian counterparts.
- The Audit New Zealand client survey was redeveloped to gain a better understanding of clients' needs and perceptions.
- Our staff numbers increased slightly, although we did experience some difficulty in recruiting suitably qualified staff in tight labour market conditions.

Delivering our outputs

We significantly increased the number of performance audits and other studies undertaken. This year we produced reports on 22 performance audits and other studies (our target was 19-21), compared with 15 in the previous year.

We completed 4063 audits of public entities (compared to 4121 in 2004-05). We issued 95% of our audit reports and management letters in a timely manner (our target was 100%).

The number of enquiries was slightly less than the previous year (228, compared to 238). We responded to substantially more enquiries within the measure of 30 days than in the previous year, although we advised less where the response was to take more than 30 days.

Maintaining and improving our outcomes

We sought to maintain or improve our desired outcomes.

- New Zealand maintained its rating on the Transparency International Corruption Perceptions Index (second equal with Finland behind Iceland);
- public entities accepted fewer of our recommendations but the number of recommendations rejected remained constant;
- feedback indicates that we are considered to focus on issues of importance, and that we work in a timely and effective way with our stakeholders;
- we produced guidance on local authority codes of conduct and public entities' funding arrangements with non-government organisations (which may reduce the number of enquiries we receive on these topics); and
- overall, there has been a net improvement in entity management (as evidenced through our comparison of assessments of "the five management aspects").