



Summary Annual Report 2006/07



I am pleased to present this Summary Annual Report for the year ended 30 June 2007. The Summary provides an overview of the Office and our achievements during the year, and gives a brief picture of our financial and non-financial performance.

In 2007/08, we face a challenging year in which, by carrying out the audits of about 4000 public entities and our other work, we can continue to contribute to trust in the effectiveness and efficiency of the public sector. I am proud of our achievements in 2006/07 and confident that we have a strong basis on which to make that contribution.

Changes to accounting and auditing standards and the legislative environment of public entities have continued to affect our work in 2006/07 by increasing the complexity of financial reporting. This puts pressure on the cost and quality of audit work, and has meant that

financial and audit expertise is in high demand. The Office faces recruitment and retention challenges in this environment.

In particular, there has been continued work to prepare our auditors and to assist public entities with the adoption of New Zealand equivalents to International Financial Reporting Standards (IFRS), which are designed for the private sector. The decision to base New Zealand standards on IFRS was made recognising that the needs of the public sector are different and would therefore require different treatment. I am becoming increasingly concerned that these differences are not always being recognised, and, if appropriate changes are not made, the public sector will become disenfranchised from the standard-setting process, which is likely to lead to financial information that fails to meet users' needs.

In 2006/07, we also worked to implement the New Zealand equivalents to International Standards on Auditing – in particular, the revised quality control standard that requires quality processes to be in place throughout our operations (the Office of the Auditor-General, Audit New Zealand, and our other audit service providers).

Two other areas of work have been significant in 2006/07:

- We completed the audits of Long-Term Council Community Plans for 2006-16, involving extensive liaison with the local government sector and collaboration between our auditors, and reported on the results of this extensive work to Parliament; and
- We started work to review our approach to auditing performance information prepared by public entities – in particular, to reflect the public accountability intentions of legislation passed between 2002 and 2004. We have also given consideration to our own reports to ensure that these better reflect good practice as we see it.

K B Brady

18 September 2007

About the Office – Our role and structure

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. He is independent of executive government 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.

The Auditor-General's staff are organised in two business units:

- The Office of the Auditor-General plans, sets policy and standards, appoints and oversees auditors, carries out performance audits, inquiries, and special studies, and provides reports and advice to Parliament and others.
- Audit New Zealand carries out annual audits allocated by the Auditor-General and provides other assurance services to public entities.

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

Most audits of public entities are allocated by the Auditor-General. However, a contestable regime is used to appoint the auditors of some strongly commercial public entities and a small number of schools where appropriate.

Overview of performance – Outcomes

As an Office, we want to help create trust in the effectiveness and efficiency of the public sector through our independent advice and assurance. A measure of this trust is New Zealand's ranking on the Transparency International Corruption Perception Index. In 2006, New Zealand's score was 9.6, ranking it first equal with Finland and Iceland. The Office also collects performance indicators to give it insight into the effect of its work on improving the effectiveness and efficiency of the public sector.

Our annual audit and other assurance work shows that the quality of financial reporting and management in the public sector is being maintained with:

- An improvement in the number of audit reports being qualified or including explanatory paragraphs (for example, reporting breaches of law) compared to last year. For 2006/07, 288 of the 4090 audit reports we issued (7.0%) were qualified or included explanatory paragraphs, compared to 2005/06 when 371 reports of the 4063 we issued (9.1%) were qualified or included explanatory paragraphs.
- Increased acceptance of annual audit management report recommendations made by Audit New Zealand to entities this year (64%) compared to last year (53%). We consider this is because many of our recommendations last year related to preparation for IFRS, which many entities had not considered. Only 1% of our recommendations were rejected this year, compared to 8% last year.
- A high proportion of our assessments remaining unchanged of central government entities for the five particular aspects of financial and service performance we rank based on our annual audit work. Sixteen assessments were higher than last year, while 25 were lower. In future, we will be reporting assessments under a new framework that is designed to be simpler and easier to understand.

Overview of performance – Service performance achievement

Below we provide a snapshot of our achievements in delivering services against the measures and targets we set in our annual plan.

Audits and other assurance services

	2006/07 Actual	2006/07 Forecast	2005/06 Actual
Number of audits completed	4090	3865	4063
Number of audits in arrears at year end	360	310	315
Management reports sent within 6 weeks	95%	100%	96%
Costs	\$58.6m	\$59.8m	\$43.0m

We were concerned to see that the number of audits in arrears increased in 2006/07. This occurred because of giving priority to other work at the expense of some smaller audits. We intend to monitor and manage audits in arrears more closely in 2007/08, and have set ourselves a target at 30 June 2008 of having no more than 10% of audits in arrears being due to inaction on our part.

We carry out quality assurance on the work performed by our appointed auditors each year, with the intention of reviewing all our appointed auditors during a three-year period. In 2006/07, 43 quality assurance reviews were carried out. The majority of the work we reviewed was of a good standard. We have provided feedback to the small number of auditors for whom we had concerns, and are following up to assess whether there has been improvement.

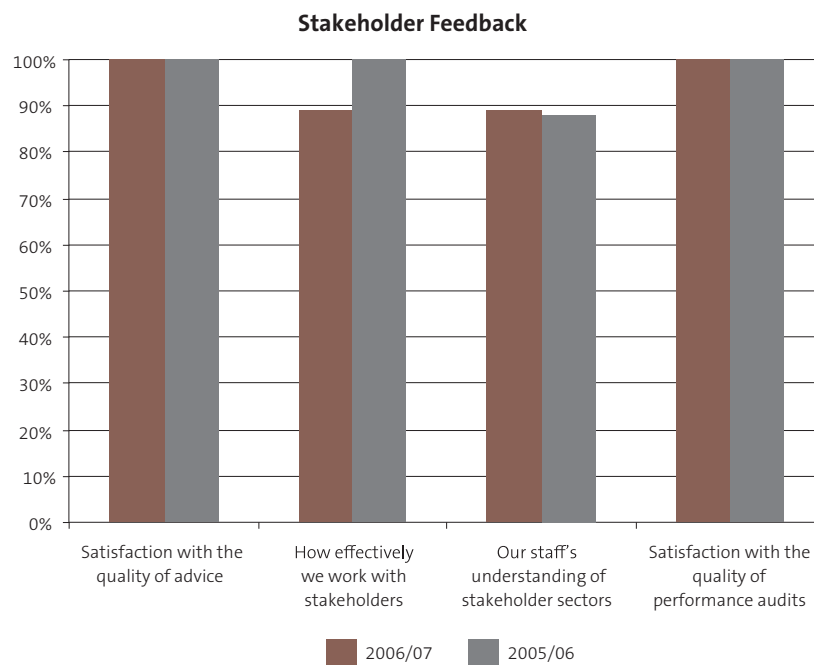
Parliamentary services, performance audits and other studies, and inquiries

	2006/07 Actual	2006/07 Forecast	2005/06 Actual
Number of public reports issued	22	21-23	25
Number of reports to select committees	143	125-150	128
Reponses to requests for inquiries	250	210-260	228
Costs	\$8.8m	\$9.1m	\$8.7m

A full list of the public reports we issued is included in the Annual Report, and copies of the reports are available on our website: www.oag.govt.nz

The 22 public reports issued are made up of reports to Parliament on the results of annual audits (2), on the results of LTCCP audits (1), on major inquiries (1), and on performance audits (18). Since 2004/05, we have received additional funding from Parliament to increase the number of performance audits we carry out. The 18 performance audit reports we published in 2006/07 is the highest number we have ever completed in a single year.

The following graph shows results from our annual stakeholder feedback survey. Most of our ratings from this survey continue to be very positive. However, the ranking of how effectively stakeholders felt we worked with them was down from 100% last year to 89% this year. Comments from our stakeholders suggested this resulted from the effects of staff turnover.



Our reports, advice, and responses to inquiries are subject to a range of external and internal quality assurance to ensure that they are well prepared. In all cases, the results of this quality assurance work confirmed that our work was of good quality.

Controller function

The Controller function of the Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of government departments and Officers of Parliament have been incurred lawfully, for purposes within their intended scope. Monthly statements (between September 2006 and June 2007) are provided by the Treasury for our review. We take action on any breaches or suspected breaches in accordance with the Auditor-General's mandate and standards, and with a Memorandum of Understanding with the Treasury. In 2006/07, we fully met our measures and targets for our Controller function work.

Financial performance and financial position*

	2007 Actual \$000	2007 Forecast \$000	2006 Actual \$000
The revenue we earned was:	67,674	69,031	51,840
We received this revenue from the following sources:			
• \$58,339,000 of audit fees from public entities			
• \$9,335,000 from the Crown, which included a funding increase from the previous year of \$232,000			
Our total expenditure was:	67,345	69,024	51,700
The main items we spent money on were personnel costs (\$27,496,000), fees paid to contracted auditors (\$27,805,000), and other day-to-day operating costs (\$10,764,000)			
<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:	329	7	140
Our total assets at 30 June were:	12,250	10,236	10,747
The assets consisted of:			
• Current assets – including cash \$3,844,000, work in progress \$1,525,000, and receivables \$4,103,000	9,861	7,936	8,242
• Non-current assets – the plant and machinery we own	2,389	2,300	2,505
Our liabilities at 30 June were:	8,664	6,650	7,161
The liabilities consisted of:			
• Current liabilities – including payables and provisions \$5,008,000, and provision for employee entitlements \$2,475,000	7,952	6,200	6,704
• Non-current liabilities – provision for employee entitlements \$712,000	712	450	457
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)	329	7	140
Provision for payment of surplus to the Crown	(329)	(7)	(140)
Closing balance at 30 June	3,586	3,586	3,586
Our net increase/(decrease) in cash held was:	852	(64)	(1,321)
The net cash flows were from:			
• Operating activities	1867	1,039	984
• Investing activities	(1,015)	(963)	(1,368)
• Financing activities	-	(140)	(937)

* This Summary Financial Report has been extracted from the full financial report. The full financial report, dated 18 September 2007, is in our Annual Report 2006/07 (available on our website, www.oag.govt.nz).

Audit report



AUDIT REPORT

TO THE READERS OF THE SUMMARY FINANCIAL REPORT OF THE CONTROLLER AND AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2007

We have audited the summary financial report set out on pages 3 and 5.

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 18 September 2007.

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 summary financial report presented by the Controller and Auditor-General.

CST Nexia Audit
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Chartered Accountants
Manukau City, New Zealand
18 September 2007