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Parliamentary paper

# Annual Report 2007/08





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# Annual Report for the year ended 30 June 2008

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

September 2008

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Hon Margaret Wilson  
Speaker  
House of Representatives  
Wellington

Madam Speaker

In accordance with section 37 of the Public Audit Act 2001, I am pleased to submit my Annual Report for the year ended 30 June 2008.

Yours faithfully

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, characteristic of the signature of K B Brady.

K B Brady

Controller and Auditor-General

30 September 2008

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## Auditor-General's overview



I am pleased to present my annual report for 2007/08.

During the year we began preparing a new strategic plan for the period 2009-12 to serve as a basis for the term of the next Auditor-General after my term concludes in May 2009. While an incoming Auditor-General will bring their own priorities, I want to ensure that the Office's strategies, intentions, and risks are clearly laid out as a basis on which they can chart the course for their own term of office.

In 2007, I also commissioned a peer review of the Office by a team of our international counterparts. The purpose of the review was to let us know whether we are operating effectively and efficiently, and in keeping with good practice. The peer review team's report was published on 15 April 2008. It covers the governance and general management of the Office, including the allocation of audits, and setting and monitoring of audit fees, the carrying out of annual audits, performance audits and inquiries; the operation of quality control systems; and the Office's relationships with its primary stakeholders.

I am very pleased with the report of the peer review team which noted, among other things, that "the Office would rate highly both absolutely and relatively in any international comparison." The full report of the peer review team is available on the Office's website.

## The year in review – New Zealand equivalents to International Financial Reporting Standards and the impact for the public sector and us as auditors

Significant changes in the accounting and auditing profession and in the legislative and operating environments of public entities continue to have a major effect on our work, as they have done in recent years.

### Carrying out audits under NZ IFRS

A significant change in the accounting and auditing profession has been the adoption by the Accounting Standards Review Board (ASRB) of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for periods starting on or after 1 January 2007.

For most public entities, 2007/08 was the first year their audits were carried out under NZ IFRS. Therefore, during 2007/08, we turned our attention from preparing our auditors to audit in an NZ IFRS environment to actually carrying out audits under NZ IFRS. We continued to assist the public sector to prepare for their transition to NZ IFRS with a range of initiatives, including developing model annual reports for reporting under NZ IFRS.

### The impact of NZ IFRS for public sector financial management

The change to NZ IFRS has increased complexity for those preparing financial reports and those auditing them and contributed to a public sector environment in which financial and audit expertise are in high demand. Overall, I believe the change to NZ IFRS is beginning to impact on the public sector as a whole – as well as on my own Office, resulting in pressure on both the quality and the cost of the audit work carried out. For example, arrears in issuing public entities' audit reports at 30 June increased from 312 in 2006 to 362 in 2007 to 453 in 2008. Fees overall, including work associated with NZ IFRS, increased by approximately 9% for 2007/08, and we experienced greater overruns of audit hours against those anticipated.

In my liaison with those involved in the accounting and auditing of public entities, I have been told that financial reporting standards are now so complex that many entities' finance teams can no longer prepare their financial statements and associated information without specialist external expertise. If the need for external expertise is now the norm for public entities, this raises serious questions about both the reasonableness of financial reporting standards and the financial management capability of the public sector. I understand that the Treasury is

currently carrying out work to assess financial capability within government departments, and I look forward to the results of this analysis.

I believe that the ASRB, when it decided to base New Zealand standards on IFRS (which were written to be applied by large profit-oriented entities), acknowledged that the needs of the public sector are different and would therefore require different treatment. As I have publicly stated before, the new standards will be credible only if they are seen to:

- specifically consider public sector issues;
- incorporate appropriate changes to IFRS so that the public sector is able to apply them sensibly; and
- incorporate appropriate guidance to assist the public sector to apply the standards.

However, this is not happening in all cases. I am becoming increasingly concerned about the credibility of the new standards and have begun to voice my concerns publicly. If New Zealand is to remain at the forefront of public sector management, it is vital that accounting standards are sensible in the context of the New Zealand public sector. I expect that some of the standards my Office has been concerned about will create issues and begin affecting our reporting over the next year. For example, I expect the requirements for capitalisation of borrowing costs to be a problem as we undertake our 2009 Long-Term Council Community Plan audits over the next few months.

## **The impact of financial reporting requirements for the work of the Office**

I have also been concerned that the demands created by changes within the accounting and auditing profession have meant that my Office's audit work has had to focus more heavily on entities' financial statements. That focus has been at the expense of public-interest audit work based on fuller consideration of the risks and challenges that entities face in their strategic, governance, and operational contexts.

In 2007/08 we began development work to rebalance our audit effort so that our audits of public entities take this fuller perspective into account. This work is expected to form a key element of our 2009-12 strategy and is expected to result in a stronger emphasis on non-financial reporting, waste, probity, and accountability across many of the sectors within our mandate.

Over time, providing this broader and more useful assurance to Parliament, public entities, and the public may well result in some increases in audit costs. I am not

yet sure of the extent of such increases, and will discuss these with Parliament and others before I make any decisions. Nonetheless, I am committed to ensuring that the annual audits address the Auditor-General's statutory mandate, while meeting stakeholder expectations.

## Monitoring and managing the reasonableness of audit fees

To ensure that our annual audits comply with changing financial reporting and auditing standards, public sector audit fees have been increasing to keep pace with the wider international demand for assurance services. That fee pressure is likely to continue for the foreseeable future, given the prevailing market conditions.

I have systems in place to ensure that audit services are provided at a reasonable cost to public entities. In doing so, I must ensure that audits are performed well, both now and in the future, which means my audit service providers must be fairly remunerated.

I again sought independent assurance that our audit appointments and fee monitoring processes are working effectively. The report from the independent reviewer, David Gascoigne, is on pages 37-39.

I also sought an internal review of the audit allocation method, which we have used for contracting audits since 2005 to ensure that the wider pressure on audit fees is managed as well as it can be. The results of this review were positive. The review report suggested a number of refinements to the allocation processes as follows:

- *Continuing to build on existing sector clusters by ensuring sufficient critical mass is achieved and maintained for each audit service provider;*
- *Continuing to fine tune fee monitoring processes so that public sector entities can have confidence that their audit fees represent value for money;*
- *Providing more education and dissemination of 'good practice' advice for Boards and officers of public sector entities so that there is wider and better understanding of the reasons for changed audit processes;*
- *Examining ways to simplify the administration of audits – especially for smaller entities.*

## The year in review – public entities' legislative and operating environment and their impact on our audits

### Auditing Long-Term Council Community Plans

The next round of the three-yearly audits of Long-Term Council Community Plans (LTCCPs), required by the Local Government Act 2002 and first undertaken in 2006 is due to be undertaken during the 2008/09 year. During 2007/08, we carried out extensive work to review and improve our LTCCP audit methodology and we reviewed the basis of estimating audit fees. In particular, we focused on enhancing our methodology around the following key areas of concern arising out of our 2006 LTCCP audits:

- implementation of the local government principle to take a sustainable development approach;
- the provision of clear information to the public on key issues, choices and implications and the associated financial management strategies;
- performance frameworks and information to allow the public to meaningfully assess council services and progress toward community outcomes; and
- the adequacy of underlying information – in particular, about asset management.

As we prepare to enter our second round of LTCCP audits, there is now no question in my mind that the Office's LTCCP and associated amendment audit responsibilities are having a significant impact on the Office and its resourcing. Some of this has been extremely beneficial, providing a platform for collaborative work between our audit service providers and a basis for the development work I referred to earlier to rebalance our audit effort. However, the effort and resource involved in gearing up to perform a demanding audit that occurs only once every three years is high.

At present, based on the results of the 2006 LTCCP audits and the issues that we identified, my view is that our audit work is warranted. Local authorities manage long-lived assets and services of critical importance to communities across New Zealand. Public confidence that these assets and services will continue to be available and will meet changing community needs is vital. However, I would like to think that over time, local authorities themselves will build the integrity of their information, decision-making, and service management such that our LTCCP audits would no longer be necessary.

## Performance audits and good practice guidelines

Most work we do to ensure quality in our performance audit work confirmed that it is of high quality and remained on a par with previous years. We also equalled our success of 2005/06 in completing the highest number of reports on performance audits, special studies, and inquiries in the history of the Office. The International Peer Review Team also commented favourably on our performance audit work, reporting that:

*Overall we found a robust performance audit framework, with thorough processes and quality assurance arrangements complementing the findings of other external quality assurance reviews in recent years. The reports themselves were clearly written and easy to follow.*

However, despite consultation with Select Committees showing considerable support for our work programme, including the proposed performance audits, our 2007/08 stakeholder survey showed significant reductions in satisfaction for our performance audit work. The stakeholder survey report noted that the survey results:

*... show that the Office is continuing to perform at a high level and that where the scores are reduced, this is primarily because of the smaller number of interviews conducted this year compared to last.*

Relative to our international counterparts, the Office audits a very large number of public entities and comparatively has very limited discretionary resources to carry out the in-depth work that performance audit allows. This limited discretion means that our performance audits are carried out with significantly lesser resource and costs than those of many of our peers – but also means that, at times, we are not able to do as much in-depth work as we would like.

Nevertheless, our performance audit programme has built up a useful body of work in important areas of public administration. These areas include funds management, grants administration, debt management, “joined-up” government, asset management, defence acquisitions, transport safety and strategy implementation. As a result there has been growing effort on good practice guides on issues commonly emerging from our annual audits.

However, determining how to best use our discretionary resources – primarily our performance audit resource – requires careful balancing. Topics for performance audits must not only be of interest to stakeholders, but must also, given our limited discretionary resources, produce results that can be useful to as many entities as possible. We therefore continue to consider how we can both develop our performance audit and good practice guide programme and carry out this work to balance the different interests and needs of our stakeholders and entities.

## Auditing performance information – Implications of new public sector management legislation

One of the significant areas of strategic focus which we continue to pursue is performance information prepared by public entities - particularly where the auditor is required to attest to entities' Statements of Service Performance. The work in this area is intended to enhance the effectiveness of annual audit work on service performance information – an area of particular interest to me.

These enhancements are also needed to address issues arising as a result of statutory change (for example, the Crown Entities Act 2004 and the changes to the Public Finance Act 1989 and the Local Government Act 2002), as well as general improvements that I consider to be long overdue.

The work we carry out in this area will better position us to contribute to improving the quality of service performance information reported by public entities. It also takes account of our focus on sustainable development.

I have recently decided that audit opinions should provide assurance that we have assessed whether the entity's performance framework will allow its actual output performance to be fairly presented. For the local government sector, this is already part of the assurance that the audit opinion on the LTCCP provides. My staff are revising my auditing standard AG-4 *The Audit of Service Performance Reports*, which I will consult on later this year prior to issuing it. I intend the revised AG-4 to take effect for future reporting periods.

During 2007/08 we completed our in-depth reviews of the 2007/08 forecast performance information of government departments and most Crown entities and began in-depth reviews of 2008/09 forecast information. Our intention through these in-depth reviews was to provide entity-focused feedback that set out our expectations of forecast information (which are based on relevant legislation and accounting standards) and clearly identified areas for improvement. My expectation is that our in-depth reviews will help entities understand and improve their information in anticipation of the changes I expect to make to my auditing standard AG-4.

For the 2009 financial year-end audits, our letters to Ministers and select committees will provide gradings of government departments and Crown entities on the Service Performance Information and Associated Systems and Controls. This will be the first time we have graded this aspect since the introduction of our revised grading approach in 2007.

Our 2009 LTCCP methodology review also included lessons learned from our work in relation to auditing performance information. Our revised LTCCP methodology gives greater emphasis to performance frameworks rather than detailed performance measures. Ultimately all our work on improving the audit of performance information will be incorporated into the rebalancing of our audit effort and the development and training of our audit service providers.

## Main risks and issues

For several years, we have identified our key strategic risks as being the loss of our independence and audit failure. We have recently included two additional strategic risks – loss of capability and loss of reputation. During 2007/08, we maintained risk management systems around our key risks and worked to improve recruitment and retention. However the changes in the public sector and the accounting and auditing professions, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff, mean that our main strategic risks remain.

I have a high standard for independence for my employees and the auditors whom I appoint from chartered accounting firms. My independence standard is based on a standard issued by the New Zealand Institute of Chartered Accountants. Compliance with my independence standard, by statutory officers, employees, and all appointed auditors, is monitored through regular declarations of interest and, as necessary, measures to manage conflicts of interest.

My employees and appointed auditors are required to adhere to professional auditing standards. There are external peer review and substantiation procedures across annual audits, performance audits and inquiries. Although there were updates to the Auditor-General's Auditing Standards (as is required to be done every three years) during 2007/08, the adoption of New Zealand equivalents to International Standards on Auditing will mean further changes to my auditing standards during 2008/09.

We continued to implement the New Zealand Institute of Chartered Accountants' revised quality control standard PS-1. We have interpreted the new quality control standard as requiring quality control processes to be in place throughout the operations of the Office (that is, the Office of the Auditor-General, Audit New Zealand, and other audit service providers) and to all the Office's outputs. Our work to implement the standard means I can be confident that the Office gives appropriate emphasis to quality for all my auditing and assurance work.

My independent Audit and Risk Committee, comprising three external members and the Deputy Controller and Auditor-General continues to meet on a quarterly

basis. The report from the Chairman of the Audit and Risk Committee is included at pages 75-76.

However, we continue to face challenges in recruiting and retaining suitably qualified and experienced senior staff because of industry and labour market shortages. This in turn adds pressure on salaries, audit charge-out rates, and ultimately audit fees paid by public entities. Therefore, recruiting and retaining good staff and continuing to invest in developing our staff is a core component of our strategic plan. This is becoming increasingly critical in the current tight and international labour market.

Our “future business model” project has provided a planning tool for better forecasting our audit staff requirements in future years. As a result we know that we need to maintain a consistent level of recruitment for both graduate and qualified audit staff. We also know that we need to supplement our staff with secondments from within New Zealand and internationally to help us through peak periods.

We were fortunate in 2007/08 to have had several successful Audit New Zealand recruitment initiatives, which saw the Office's total staff boosted from 288 to 311 full-time equivalents. Initiatives included our accounting graduate recruitment programme and recruitment programmes targeted at qualified accountants in the United Kingdom and South Africa.

However, we must also focus on retaining our skilled staff. Despite our success in recruitment, staff turnover, particularly of qualified auditors, remains of concern. Auditing is a knowledge industry and therefore retaining knowledge and expertise is as important as recruiting new people and skills. Initiatives to address this include more targeted development programmes, more flexible work arrangements, and potential secondment programmes to our equivalent organisations in the United Kingdom.

Further discussion on our organisational health and capability is set out in Part 3.

## The year ahead

I was grateful for the feedback I received from Parliament on my 2008/09 draft work programme. I appreciate the opportunity to operate transparently in setting out my annual work programme, including seeking feedback from members of Parliament as part of our annual plan preparation.

Members of Parliament mainly supported the approach we have taken to determining the Office's work programme, and neither the Speaker nor any committee of the House requested any change to our work programme priorities. As a result, I am confident that the performance audits we intend to carry out in 2008/09 are relevant and likely to be useful to Parliament, public entities, and the public.

The feedback included:

- guidance on the scope and relative emphasis we should place on some studies and other areas of concern – I will ensure that this feedback is incorporated into our scoping of the respective studies; and
- suggestions for projects in future years including to consider more work on procurement across the public sector – I will ensure that this feedback is incorporated into development of our 2009/10 work programme.

## Concluding remarks

I would like to extend my thanks to the Deputy Controller and Auditor-General and my Audit and Risk Committee for their guidance and support. I would like to acknowledge the contribution of Terry McLaughlin who recently left his role of Executive Director of Audit New Zealand (after a long period in a range of roles with the Office) to become Chief Executive of the New Zealand Institute of Chartered Accountants. Finally, I thank my staff and appointed auditors for their efforts and their achievements and for their commitment to integrity, honesty, and independence.

We have another challenging year ahead as we continue to contribute to trust in the effectiveness and efficiency of the public sector. I am proud of the contribution we have made in 2007/08, and am confident that we have a strong basis on which to continue to make that contribution.



K B Brady

Controller and Auditor-General

30 September 2008



Part 1  
**Background**

# Role and functions of the Auditor-General

## Nature and scope of the Auditor-General's functions

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. The Public Audit Act 2001 sets out his mandate and responsibilities.

The Auditor-General 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.

Parliament seeks independent assurance that public sector organisations are operating, and accounting for their performance, in keeping 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 two business units – the Office of the Auditor-General and Audit New Zealand.

The Office of the Auditor-General carries out strategic planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reports and advice to Parliament, and carries out 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 keeping with the Auditor-General's auditing standard on the independence of auditors.

The Auditor-General also engages private sector accounting firms to carry out his statutory functions for some public entities. Figure 1 shows the Auditor-General's operating model.

**Figure 1**  
Our operating model



## Size and scale of our operations

### Annual audits

The Auditor-General has a statutory duty to conduct annual audits of the financial reports and other audits required by various statutes of about 4000 public entities, of which 3000 are schools and other very small entities. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.

### Parliamentary services

The Office of the Auditor-General provides reports and advice to select committees and responsible Ministers. Each year, we prepare 120 to 140 reports to assist select committees with their financial reviews of public entities and Estimates examinations, and 120 to 130 reports to Ministers on the results of annual financial audits. The Office of the Auditor-General and appointed auditors also provide independent assurance to Parliament that expenses and capital expenditure of departments and Officers of Parliament have been incurred for purposes that are lawful, and within the scope, amount, and period of the appropriation or other authority.

### Performance audits and inquiries

The Office of the Auditor-General aims to carry out 19 to 21 performance audits, special studies, and major inquiries each year. It also considers 200 to 300 requests for inquiries each year from taxpayers, ratepayers, and members of Parliament. A few of these requests lead to the Auditor-General carrying out a major inquiry. The Office of the Auditor-General also responds to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968. There are 50 to 100 enquiries each year in relation to this Act.

### Our current staff and contracted resource base

We employ about 300 staff in eight locations throughout New Zealand. We also engage 53 audit service providers, in addition to Audit New Zealand, to carry out annual audits of public entities.



Part 2

**Our output classes, performance measures, and targets (including Statement of service performance)**

## Outcome, impact, and output performance measures and standards

Our desired overall outcome is trust in the effectiveness and efficiency of the public sector. The Auditor-General helps create trust in the effectiveness and efficiency of the public sector by providing independent assurance and advice to Parliament and the public that governance and management arrangements are suitable to address five main areas<sup>1</sup> – our intermediate outcomes – and where they are not by saying so. These five main areas are that public entities:

- carry out activities in keeping with Parliament’s intentions, and in an effective and efficient manner;
- carry out activities, resourcing, and accountability requirements within the authority granted by Parliament;
- obtain and apply resources in an economical manner;
- meet parliamentary and public expectations of an appropriate standard of behaviour for the public sector; and
- give full and accurate accounts of their activities, and of their compliance with Parliament’s intentions, through the annual reporting cycle.

We gather the information necessary to provide this independent advice and assurance through our output classes:

- **Provision of audit and assurance services** - performing audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the Financial Statements of the Government, public entities’ financial statements, and other information that must be audited.
- **Parliamentary services** - providing advice and assistance to select committees and other stakeholders, and performing the Controller function. Through this function, the Office provides independent assurance to Parliament that departments and Offices of Parliament have incurred expenses and capital expenditure for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority.
- **Performance audits and inquiries** - carrying out, and reporting on, performance audits and inquiries of public entities under the Public Audit Act 2001, and responding to requests for approvals of pecuniary interest questions regulated by the Local Authorities (Members’ Interests) Act 1968.

Our outcome measure of trust in the effectiveness and efficiency of the public sector is that New Zealand’s Transparency International Corruption Perception index score over the next three years is maintained or improved. In 2007, New Zealand’s score was 9.4 and ranked first equal on the index with Denmark and Finland.

Figure 2 summarises our outcomes, our outputs, and our strategy.

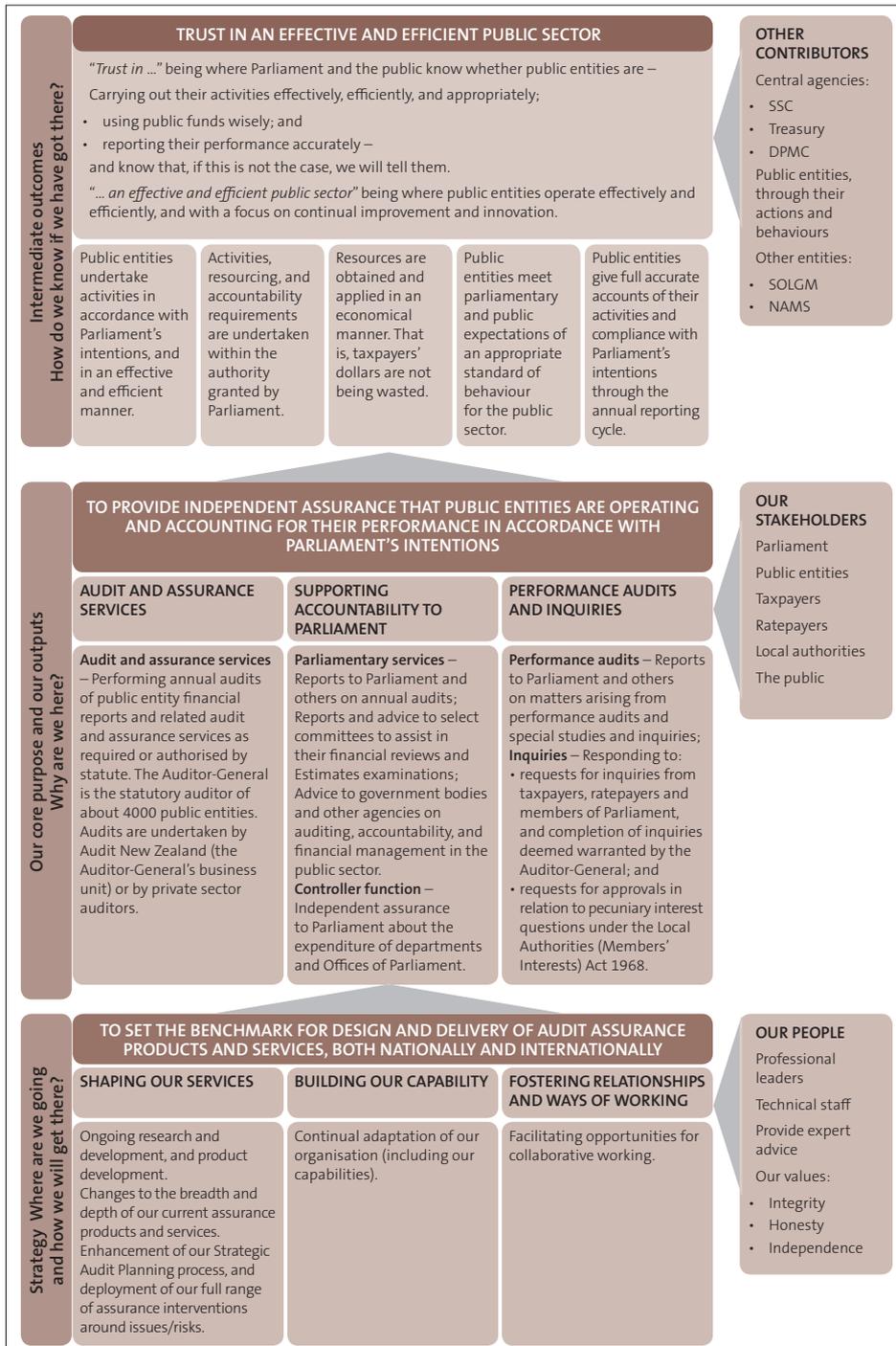
1 These five main areas reflect the mandate given to the Auditor-General in the Public Audit Act 2001.

For each output class, we report against our impact and output measures and their associated standards. Two sets of tables are presented, reporting on the impact measures and the output measures associated with each output.

The impact measures help us understand whether our outputs are having the effect we want (as required by section 40(d)(i) of the Public Finance Act 1989). As they focus on impacts, we can seek only to influence, rather than control, performance against these measures. The output performance measures and standards help us understand whether we are producing quality outputs within time and resource constraints (as required by section 41(1)(e)(ii) of the Public Finance Act 1989).

Our Statement of service performance comprises pages 27-36, 42-44, 46, 50-54, and 57-59.

**Figure 2**  
 Summary of our outcomes, our outputs, and our strategy



## Provision of audit and assurance services

This output class relates primarily to the Auditor-General's statutory duty to carry out annual audits of the financial reports, and in some cases performance information, of about 4000 public entities, including the Financial Statements of the Government. This output class also includes other audits that the Auditor-General is required to do by statute, such as the three-yearly audits of local authorities' Long-Term Council Community Plans (LTCCPs), and other assurance services provided to public entities on behalf of the Auditor-General. The cost of this work is funded mainly by fees paid by the public entities being audited. In 2007/08, annual audits and other assurance services accounted for 86% of our total expenditure.

The major portion of this output class relates to annual audits, delivery of which is supported by several key processes including:

- appointing auditors and monitoring audit fees;
- setting the Auditor-General's auditing standards;
- maintaining auditor independence; and
- quality assurance of annual audits.

There are two main products from an annual audit:

- the audit report; and
- the management report.

The audit report is addressed to the readers of the financial statements and performance information. It provides the auditor's independent opinion on whether the financial statements and performance information fairly reflect the public entity's performance and financial position. If the financial statements fairly reflect the public entity's financial performance and position and, where applicable, service performance information, the auditor issues an audit report with an unqualified opinion. However, if the auditor identifies a material<sup>2</sup> error or omission in the financial statements or performance information, the auditor issues an audit report with a qualified opinion.

The management report is addressed to the governing body or the senior management of public entities. It sets out any significant issues identified by the auditor during the audit and provides recommendations for improving the public entity's controls, systems, and processes.

2 Material is defined in AS-702: *The Audit Report on an Attest Audit* as:

*A statement, fact or item that is of such a nature or amount that its disclosure, or the method of treating it, give full consideration of the circumstances applying at the time the written assertion or set of assertions is completed, has the potential to influence users of the audit subject matter in making decisions or assessments.*

Where public entities are subject to financial review by select committees, we report the results of annual audits to responsible Ministers and select committees. These reports include a grading for entities, based on our assessment of their management control environment, financial and service performance (where required) systems and controls.

### Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors to carry out the annual audits of public entities on his behalf. He appoints auditors from a pool of 54 audit service providers that includes Audit New Zealand and private sector accounting firms, ranging from the four major chartered accountancy firms to sole practitioners. Most audits are allocated directly to an auditor, but during the year two auditors were appointed to an audit after a competitive tender – one was for a listed port company and the other followed the merger of two state-owned enterprises operating in the commercial market.

Because we mainly use an allocation approach, we monitor audit fees at the point of negotiation between the appointed auditor and the entity. We also provide a comparative analysis to help resolve any concerns about proposed audit fees. Our objective is to ensure that audit fees are fair to the public entities subject to audit, while being set at a level that provides a fair return to the auditors for the work required of them to meet the Auditor-General's auditing standards.

During 2007/08, the Auditor-General appointed or reappointed the existing auditors to conduct the audits of 176 public entities and their subsidiaries.

### Setting the Auditor-General's auditing standards

Under section 23 of the Public Audit Act 2001, the Auditor-General is required to publish his auditing standards, by way of a report to the House of Representatives, "at least once every 3 years". *The Auditor-General's Auditing Standards* were most recently published in May 2008. These standards are available on our website ([www.oag.govt.nz](http://www.oag.govt.nz)).

Section 23 also requires that each annual report must include a description of any significant changes made to the standards during the year. As part of the May 2008 re-publication, minor revisions were made to all of the auditing standards, and no other changes have been made since May 2008.

Work is currently under way to incorporate into the Auditor-General's auditing standards any responses considered necessary in respect of New Zealand equivalents to International Standards on Auditing. That work will also consider

what other changes need to be made to the standards in respect of the audit of non-financial performance information and the reporting by appointed auditors to the Auditor-General.

These changes may require publication of the Auditor-General's auditing standards earlier than May 2011, the next scheduled publication date.

### **Maintaining auditor independence**

High independence standards are set for both the Auditor-General's employees and appointed auditors from chartered accounting firms, and compliance with these standards is regularly monitored. During the year, we identified one instance where concerns were raised about whether the Auditor-General's standard on independence had been breached. The breach concerned the merger of two accounting firms and the audit of a small public entity. Prior to the merger, the audit was performed on behalf of the Auditor-General by one of the firms, and the Chairperson of the Board of the entity was a partner in the other firm. Upon merging, the new firm elected to retain the audit, which meant that the Chairperson (who continued as a partner in the new firm) was required to promptly relinquish his role as a Board member to avoid a self-review threat to independence. However, for various reasons, the Chairperson did not resign from the Board promptly, and this resulted in the independence breach. The Auditor-General put measures in place to reduce the effect of the breach to an acceptable level.

### **Quality assurance of annual audits**

Because the Auditor-General is responsible for auditing all public entities, we ensure that audits are performed effectively and efficiently. We carry out quality assurance reviews of appointed auditors to ensure that they have complied with the relevant professional standards, as well as the Auditor-General's own published auditing standards. We aim to review the performance of each of our appointed auditors at least once every three years.

### Measuring our performance for output class: Provision of audit and assurance services

2007/08 forecast main impact measures and standards	2007/08 Actual	2006/07 Actual	2005/06 Actual
The number of public entities' audited financial reports issued within the statutory timeframe is improved (or at least maintained), measured against the previous two years.	Total audits due for completion in year: 3946  Percentage on time: 78%	Total audits due for completion in year: 3949  Percentage on time: 83%	Total audits due for completion in year: 3962  Percentage on time: 84%
The number of public entities' audited financial reports containing qualified opinions is reduced (or at least maintained), measured against the previous two years.	Total qualified opinions: 91 or 2.3%	Total qualified opinions: 96 or 2.4%	Total qualified opinions: 95 or 2.4%
Public entities' acceptance of Audit New Zealand's management report recommendations is improved (or at least maintained), measured against the previous two years.	Accepted: 72%  Rejected: 4%  Noted, under consideration, or not responded to: 24%	Accepted: 64%  Rejected: 1%  Noted, under consideration, or not responded to: 35%	Accepted: 53%  Rejected: 8%  Noted, under consideration, or not responded to: 39%
Central government entities' management control environment, financial information and service performance <sup>3</sup> information systems and controls are improved (or at least maintained), measured against the previous two years.	Management control environment: • Very good: 38% • Good: 51% • Needs improvement: 11% • Poor: 0%  Financial systems and controls: • Very good: 21% • Good: 68% • Needs improvement: 11% • Poor: 0%	Not applicable – benchmark data was collected in 2007 for our first assessment of central government entities' management control environment and financial systems and controls aspects.	Not applicable – benchmark data was collected in 2007 for our first assessment of central government entities' management control environment and financial systems and controls aspects.

<sup>3</sup> Service performance information and associated systems and controls were not graded in 2007/08.

2007/08 forecast measures and standards of output delivery	2007/08 Actual	2006/07 Actual	2005/06 Actual
Less than 10% of the outstanding audit reports at 30 June 2008 are because of inaction on our part.	Total arrears at 30 June: 453  55% due to inaction on our part.	Total arrears at 30 June: 362  51% due to inaction on our part.	Total arrears at 30 June: 312  Not applicable – new measure for 2007/08.
All management reports are issued within six weeks of issuing the audit report.	93% issued within six weeks.	95% issued within six weeks.	96% issued within six weeks.
Audit New Zealand's client survey* shows that, overall, 75% of respondents are satisfied with the quality of Audit Zealand's work (including the expertise of staff and the quality of the entities' relationships with Audit New Zealand.	On a scale of 1 to 10, 75% of respondents gave overall service ratings of 7 or greater.	On a scale of 1 to 10, 68% of respondents gave overall satisfaction ratings of 7 or greater.	75% of respondents satisfied.
Quality assurance reviews for all appointed auditors are completed during a three-year period. Of the auditors reviewed in any given year, 95% achieve a result of satisfactory or better.	All completed.  93% achieved satisfactory or better.	All completed.  84% achieved satisfactory or better.	All completed.  85% achieved satisfactory or better.
An annual independent review of our processes confirms the probity and objectivity of the methods and systems we use to allocate and tender audits, and monitor the reasonableness of audit fees.	Review undertaken and confirmation provided (see pages 37-39 for the reviewer's report).	Review undertaken and confirmation provided.	Review undertaken and confirmation provided.
The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.	No significant proposal made for an appropriation increase in audit fees and expenses.	Not applicable – new measure for 2007/08.	Not applicable – new measure for 2007/08.

\* In 2008/09, the client satisfaction survey has been extended to include other audit service providers in addition to Audit New Zealand.

## Audit completions, reporting, and arrears

An important aspect of the performance of public entities is the issuing of audited financial statements within statutory timeframes so that those interested in the accountability of public entities receive our audit assurance as soon as possible after the year end.

As Figure 3 shows, public entities did not meet all of their statutory timeframes. Overall, the timeliness of audit completions fell, with 78% of the audits due for completion in the year being finished within the statutory timeframe compared to about 83% in the previous two years.

**Figure 3**  
**Audits completed on time**

Sector*	Total audits** due in 2007/08	Number on time in 2007/08	Percentage on time in 2007/08	Percentage on time in 2006/07	Percentage on time in 2005/06
<b>Central government</b>					
Government departments	43	43	100%	100%	100%
State-owned enterprises	144	66	46%	52%	59%
District health boards	47	30	64%	69%	73%
Tertiary education institutions	121	87	72%	67%	59%
Crown research institutes	57	29	51%	58%	59%
Other entities***	319	214	67%	68%	60%
<b>Central government total</b>	<b>731</b>	<b>469</b>	<b>64%</b>	<b>66%</b>	<b>63%</b>
<b>Local government</b>					
Local authorities	85	75	88%	99%	98%
Other council organisations	179	138	77%	78%	84%
Energy companies	57	43	75%	97%	81%
Ports and airports	65	52	80%	94%	76%
Licensing trusts	45	29	64%	71%	73%
Fish and game councils	14	14	100%	100%	92%
Other local government	249	91	37%	52%	54%
<b>Local government total</b>	<b>694</b>	<b>442</b>	<b>64%</b>	<b>74%</b>	<b>73%</b>
<b>Schools</b>	<b>2521</b>	<b>2167</b>	<b>86%</b>	<b>91%</b>	<b>93%</b>
<b>Total for all sectors</b>	<b>3946</b>	<b>3078</b>	<b>78%</b>	<b>83%</b>	<b>84%</b>

\* In all of the sectors except government departments and local authorities, we have included any related subsidiaries within the total of the main entities.

\*\* "Total audits due" is the number of audits in each sector which had an expected completion date between 1 July and 30 June.

\*\*\* The "Other entities" group in the central government sector includes Māori Trust Boards, Rural Education Activity programmes, section 19 audits, subsidiaries of government departments, crown entities not separately identified, crown agents, and miscellaneous other central government entities.

As anticipated by the Auditor-General in the *Annual Plan 2008/09*, the number of audits outstanding at 30 June 2008 is also higher than in the previous two years, increasing from 312 to 453 over the two years. Figure 4 shows the number of audits outstanding at 30 June 2008.

Overall, the number of arrears has grown, largely because of changes in the public sector and changes in professional standards, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff. The transition to the new accounting standards (NZ IFRS) has had a major impact on public entities in the last year. However, there are other reasons for the increased number of arrears, including auditor performance, which we intend to address. This will include continuing to seek explanations from those auditors who don't meet our expectations, and taking action where necessary.

Our assessment is that 55% of the arrears at 30 June 2008 were caused by inaction on our part compared with 51% at the end of the previous year. The target of less than 10% of the outstanding audit reports at 30 June being caused by inaction on our part is particularly challenging, and is unlikely to be achieved until we have managed to bring total arrears down from the current level of 453 to about 150. We will be working with our audit service providers to ensure that the main obstacles to prompt completion of audits are removed, with the objective of significantly reducing the number of arrears in total and those that are our responsibility.

As mentioned in last year's annual report, priority has been given to audit work in larger public entities at the expense of smaller audits such as cemeteries and administering bodies (for example, hall boards).

Over the medium term, and as the requirements of NZ IFRS stabilise, we would like to see improvement in the timeliness of public sector audit completions. We will also be monitoring more closely, and seeking to improve, our own timeliness in completing audits and reporting.

**Figure 4**  
**Audits outstanding at 30 June**

Sector	Total audits due in 2007/08	Arrears at 30 June 2008	% Arrears at 30 June 2008	Arrears at 30 June 2007	Arrears at 30 June 2006
<b>Central government</b>					
Government departments	43	0	0%	0	0
State-owned enterprises	144	0	0%	3	4
District health boards	47	12	26%	13	6
Tertiary education institutions	121	23	19%	33	36
Crown research institutes	57	4	7%	3	0
Other entities	319	50	16%	54	72
<b>Central government total</b>	<b>731</b>	<b>89</b>	<b>12%</b>	<b>106</b>	<b>118</b>
<b>Local government</b>					
Local authorities	85	4	5%	2	1
Other council organisations	179	17	9%	21	18
Energy companies	57	12	21%	3	15
Ports and airports	65	2	3%	0	1
Licensing trusts	45	8	18%	5	4
Fish and game councils	14	0	0%	0	0
Other local government	249	141	57%	92	51
<b>Local government total</b>	<b>694</b>	<b>184</b>	<b>27%</b>	<b>123</b>	<b>90</b>
<b>Schools</b>	<b>2521</b>	<b>180</b>	<b>7%</b>	<b>133</b>	<b>104</b>
<b>Total for all sectors</b>	<b>3946</b>	<b>453</b>	<b>11%</b>	<b>362</b>	<b>312</b>

Comments on the individual sectors are summarised below.

### Central government and local government sectors

Sixty-four percent of audits in both the central and local government sectors were completed within the statutory timeframe in 2007/08. The completion rate for central government has changed only slightly from the previous two years (66% and 63% respectively).

In general, the slowest completion rates related to the audits of subsidiary entities. Auditors have given priority to completing group accounts, with many of the subsidiary entities not being material to the group accounts. We intend to ensure that sufficient priority is also given to completion of subsidiary audits in future to improve our overall performance.

While it is pleasing to note the slight reduction in the number of audits in arrears in the central government sector at 30 June 2008 compared with a year earlier, the same cannot be said of the local government sector. Most of the arrears are smaller audits where priority has been given to other audit work.

We remain particularly concerned about the continuing pattern of audit arrears in the Māori Trust Boards sector (included in the “Other entities” category above), which we reported on to Parliament earlier this year<sup>4</sup>. We will continue to work directly with Maori Trust Boards to bring these audits up to date as soon as possible.

## Schools sector

The majority of the public entities subject to audit by the Auditor-General are schools. In the previous two years, we have managed to complete over 90% of school audits within the statutory timeframe and held the number of arrears at 30 June to below 150. The statutory date for school audits is 31 May, only a month before the end of our reporting year, so there will always be a reasonable number of school audits in arrears at 30 June. Unfortunately only 86% of audits were completed on time in 2007/08, and 180 were in arrears at the end of the year (7% of the total).

The principal reason for the slower completion rate in 2007/08 was the transition to new accounting standards (NZ IFRS). We worked closely with the Ministry of Education to mitigate the impact of the transition, but it was inevitable that such a major change would cause difficulties in many schools. The other main reason was a major exercise to regularise unlawful expenditure incurred in previous years by a large number of integrated schools.

We are not aware of any changes of the same magnitude for the schools audits to be completed in 2008/09, and therefore anticipate that we will be able to achieve a similar performance to previous years.

## Management reports issued within six weeks

This year we issued 93% of our management reports within six weeks of signing the audit report, which is slightly down on our performance in the previous two years. See Figure 5. We intend to increase the focus on timely completion of management reports during 2008/09.

<sup>4</sup> *Central Government: Results of the 2006/07 audits*, 2008, parliamentary paper B.29[08a], Part 8, “Status of Māori Trust Board Audits”.

**Figure 5**  
**Management reports issued within six weeks**

Sector	Total due in 2007/08	Total on time in 2007/08	Percentage on time in 2007/08	Percentage on time in 2006/07	Percentage on time in 2005/06
<b>Central government</b>					
Government departments	43	43	100%	95%	100%
State-owned enterprises	124	108	87%	98%	96%
District health boards	45	38	84%	80%	90%
Tertiary education institutions	123	99	80%	95%	85%
Crown research institutes	49	49	100%	100%	100%
Other entities	314	282	90%	92%	93%
<b>Central government total</b>	<b>698</b>	<b>619</b>	<b>89%</b>	<b>94%</b>	<b>93%</b>
<b>Local government</b>					
Local authorities	81	52	64%	75%	81%
Other council organisations	174	121	70%	77%	86%
Energy companies	61	59	97%	95%	92%
Ports and airports	62	50	81%	84%	89%
Licensing trusts	42	28	67%	93%	77%
Fish and game councils	14	14	100%	100%	93%
Other local government	191	162	85%	88%	95%
<b>Local government total</b>	<b>625</b>	<b>486</b>	<b>78%</b>	<b>84%</b>	<b>89%</b>
<b>Schools</b>	<b>2333</b>	<b>2288</b>	<b>98%</b>	<b>98%</b>	<b>99%</b>
<b>Total for all sectors</b>	<b>3656*</b>	<b>3393</b>	<b>93%</b>	<b>95%</b>	<b>96%</b>

\* The total number of management reports due in 2007/08 is not the same as the "Total audits due in 2007/08" shown in Figure 3. This is because the due dates of management reports are dependent on, but different to, the dates that audits are completed, and these two different sets of dates do not fall identically within the financial year.

## Results of our annual audit opinions and Ministerial reporting

A "qualified audit report" is issued in accordance with the New Zealand Institute of Chartered Accountants Auditing Standard No. 702: *The Audit Report on an Attest Audit (AS-702)*. AS-702 describes three types of qualified audit opinions (a "disclaimer of opinion", an "adverse" opinion, and an "except-for" opinion), which may be issued in different situations.

A fuller definition of a "qualified audit report" and the situations where the different types may be issued is set out in our report *Central government: Results of the 2005/06 Audits* (parliamentary paper B.29[07a], 2007, pages 31-34).

Figure 6 provides an analysis of all qualified audit reports issued in 2007/08. Information for the previous year is provided for comparison.

**Figure 6**  
**Qualified audit reports issued in 2007/08 compared to 2006/07**

Type of qualified audit report	2007/08	2006/07
Disclaimer of opinion	1	6
Adverse opinion	12	10
Except-for opinion	78	80
<b>Total</b>	<b>91</b>	<b>96</b>
<b>Total of all audits due for completion</b>	<b>3946</b>	<b>3949</b>
<b>% qualified</b>	<b>2.3%</b>	<b>2.4%</b>

There was a small reduction in the proportion of qualified audit reports issued compared to all audits due for completion in the year – a decrease from 2.4% in 2006/07 to 2.3% in 2007/08.

The reason for this overall decrease was because the number of non-school audit reports containing disclaimers of opinion decreased. This mainly came about because fewer entities entered the Auditor-General’s mandate during 2007/08 as compared to the previous year, which meant that there were fewer situations where we were unable to gain sufficient audit assurance on the opening position of those entities.

Further details on the nature of qualified audit opinions are included in our reports:

- *Central government: Results of the 2006/07 audits;* and
- *Local government: Results of the 2006/07 audits.*

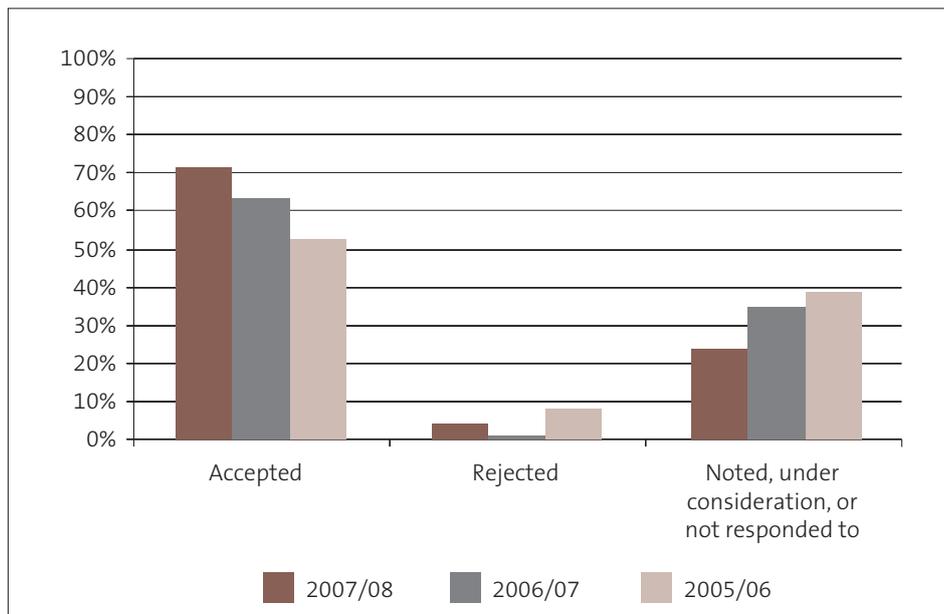
2007/08 was the first year in which we prepared Ministerial letters using our revised approach to grading – Environment Systems and Controls, which replaced “the five management aspects”. This year therefore provides baseline data for future reporting for the Management Control Environment and the Financial Information Systems and Controls. For the 2006/07 year and the 2007/08 year, the Service Performance Information and Associated Systems and controls aspect was not graded. Gradings are expressed as being “very good”, “good”, “needs improvement”, or “poor”. We were pleased that, in this first year, no gradings of “poor” were given.

## Acceptance of Audit New Zealand's management report recommendations and client satisfaction results

Figure 7 provides an analysis of public entity acceptance of Audit New Zealand's management report recommendations. It is pleasing to see a positive trend of increasing acceptance of our recommendations.

**Figure 7**

Client acceptance of Audit New Zealand's management report recommendations



The results of the client satisfaction survey also showed a pleasing improvement from 2006/07. Our 2007/08 overall satisfaction rating returned to the 2005/06 level, with 75% of respondents rating service at 7 or greater on a scale of 1 to 10. The client satisfaction survey report noted that Audit New Zealand should continue to focus on being client-focused through:

- strengthening relationships with clients,
- conducting a business audit rather than an accounting audit;
- identifying issues and providing help to identify solutions; and
- sharing best practice information and identifying beneficial information from entities experiencing similar issues.

## Quality assurance reviews

There are five levels of quality assurance rating, assessed using the reviewers' overall judgement of the quality of the audit work carried out. The five levels are "excellent", "very good", "good", "satisfactory" and "re-review".

Of the 44 appointed auditors reviewed during the 2007/08 year, three received a rating of "re-review". Follow-up reviews of appointed auditors are normally carried out within the next year.

## Audit fees

Our independent reviewer again assessed our fee-setting and monitoring systems (the full report is included at pages 37-39). The reviewer concluded that the processes by which audits in the public sector have been allocated and fees have been set in the financial year to 30 June 2008 have been carried out with due probity and objectivity.

As noted in the Auditor-General's overview, however, there is continuing pressure on audit fees. Fees for all types of audits continue to be affected by the costs associated with changes in auditing and financial reporting standards – particularly the ongoing implementation of NZ IFRS – and the increasing cost of employing accountants and related audit staff.

Figure 8 summarises the movements in audit fees from 2005/06 to 2007/08, based on those audit fees that had been agreed at the time when the analysis was prepared, and shows how the factors described in the previous paragraph have continued to affect both the hours and the average hourly cost of undertaking audits across the public sector.

**Figure 8**  
Analysis of movements in audit fees from 2005/06 to 2007/08

	2006/07 to 2007/08				2005/06 to 2006/07			
	Number of entities	Increase in total fee	Due to hours	Due to charge out rate	Number of entities	Increase in total fee	Due to hours	Due to charge out rate
Government departments	35	10.1%	-2.9%	13.0%	45	5.4%	5.2%	0.2%
State-owned enterprises	16	7.5%	4.1%	3.4%	16	9.8%	5.9%	3.9%
Crown entities	37	7.5%	2.0%	5.5%	51	19.0%	8.5%	10.5%
District health boards	28	5.0%	0.1%	4.9%	36	4.1%	-0.8%	4.9%
Crown Research Institutes	7	14.4%	-2.0%	16.4%	10	14.8%	7.5%	7.3%
Tertiary education institutions	19	2.7%	-0.9%	3.6%	28	1.7%	0.1%	1.6%
Energy companies	24	4.7%	6.4%	-1.7%	27	4.6%	3.7%	0.9%
Local authorities	46	6.6%	2.2%	4.4%	58	10.5%	2.9%	7.6%
Local government subsidiaries	64	10.7%	2.8%	7.9%	96	19.6%	26.2%	-6.6%
Port companies	7	-3.3%	3.5%	-6.8%	8	0.7%	-6.0%	6.7%
Licensing and community trusts	12	6.7%	5.3%	1.4%	15	8.2%	0.8%	7.4%
Māori Trust Boards	2	10.4%	0.0%	10.4%	5	46.9%	28.7%	18.2%
Schools	2456	12.3%	12.6%	-0.3%	2445	6.8%	2.8%	4.0%
Other	30	25.8%	15.0	10.8%	37	6.2%	3.0%	3.2%
<b>Total</b>	<b>2783</b>	<b>9.1%</b>	<b>5.9%</b>	<b>3.2%</b>	<b>2877</b>	<b>8.4%</b>	<b>4.5%</b>	<b>3.9%</b>

Notes:

1. Movements in total audit fees comprise movements in audit hours and movements in charge-out rates of staff engaged on the audits.
2. Fee movements are based on those of entities with balance dates falling within the financial year of the Office (for example, the 31 December 2007 audits of schools are included as fees in the 2007/08 year).

### Financial performance of output class: Provision of audit and assurance services

	2007/08 Actual \$000	2007/08 Supp. Estimates \$000	2006/07 Actual \$000
<b>Income</b>			
Crown	150	150	150
Other	58,505	58,708	58,474
<b>Expenditure</b>	(58,624)	(58,858)	(58,750)
<b>Surplus/(Deficit)</b>	<b>31</b>	<b>-</b>	<b>(126)</b>

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7 August 2008

Mr Kevin Brady  
The Controller and Auditor-General  
PO Box 3928  
**WELLINGTON**

Dear Mr Brady

**ANNUAL REPORT OF THE INDEPENDENT REVIEW OF AUDIT ALLOCATION AND TENDERING PROCESSES**

1. You have retained me as an independent evaluator of the basis upon which auditors are appointed to act on your behalf.
2. This is my report on those processes for the financial year ended 30 June 2008. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented. No limitation has been placed upon the manner in which I carry out my assignment.
4. There are three distinct types of processes:
  - (a) an allocation made by the Auditor-General of an auditor for a given entity, in accordance with “the audit allocation model”;
  - (b) an appointment of an auditor for a given entity, following a contestable tender; and
  - (c) a re-appointment for a further term of an approved auditor’s contract to audit a particular entity.
5. In the past financial year, the Auditor-General appointed auditors for 14 new entities. The “audit allocation model” under which those appointments were made has been the principal method of allocation since 2003. There is a well-established set of criteria for those appointments. There has been no evident dissatisfaction expressed by those entities either with the method or with the terms of any of the appointments effected during the year.

6. The appointment of auditors through a contestable tender process is now reserved for large entities, generally those with a commercial focus, and for some schools.
7. In the past year, a contestable tender process was used in respect of two separate entities – a newly merged State Owned Enterprise and a listed Port Company in which the majority shareholder is a public entity. In each case, an evaluation of the tenders was conducted by a panel comprising the chair of the entity's audit committee, a representative of the OAG, and an independent chair. Each panel evaluated the tenders and made a recommendation – unanimous in each case - to the Auditor-General about the appointment of a particular auditor. Both recommendations were accepted. I monitored the meeting of each of the panels and saw all relevant correspondence. I consider that the processes that were followed were both objective and fair, and the conclusions that were reached were, on all the information available, appropriate ones.
8. During the financial year, existing auditors were re-appointed to audit 63 public entities and their subsidiaries for a further term. In addition, in 111 instances a change was effected, with a different auditor being appointed in place of an existing one. The circumstances leading to these latter appointments were various: for example, retirement of an auditor, rotation of auditors within a firm. Again, in the case of all 174 appointments covered by this paragraph 8, there has been no evident dissatisfaction expressed as to the method or the terms of appointment.
9. I now deal separately with the audit of state schools. In the previous 2006/2007 financial year, there was a co-ordinated exercise, and new audit arrangements were completed for some 2,460 schools. The bulk of those arrangements are still current, so there were few appointments – and no reappointments - made in the past year. In fact, auditors were appointed, by the allocation model, in respect of only seven new state schools and 16 schools had changed audit arrangements due, mainly, to changes in the Audit Service Providers. There were no contentious issues arising from those appointments. No appointments were made by way of a contestable tender process.
10. During the course of the past year, a number of entities raised questions about the level of increase in fees in respect of the second or third year of a term of appointment. There were 14 such instances. I have read the correspondence and sought explanations about all of them. In each case, the OAG provided analyses of the fees and of factors influencing fees in the sector concerned. Those analytical and comparative analyses are becoming increasingly comprehensive. They are helpful in assisting some resolution of the questions raised. In fact, there has been a resolution in all but two instances. In those two outstanding cases, further discussion is evidently required. I will monitor progress with that during the coming year. I do note, however, that the Public Audit Act does contain a mechanism for resolving the position, should an impasse be reached.
11. In March of this year, an International Peer Review Team which you had appointed delivered its “Report on the Efficiency and Effectiveness of the Office of the

Controller and Auditor-General of New Zealand". I have read the Report and your response to the suggestions for improvement, insofar as they are relevant to the work which I undertake. I have borne in mind the points that have been made when considering what has taken place in the past year and my approach to this present report.

12. In my view, the OAG is moving sensibly towards the implementation of suggestions relating to the allocation and appointment of auditors and the setting of fees and monitoring, where that can appropriately be done. I will continue to review this during the course of the coming year.
13. I should now make two general comments. First, during the course of the financial year, I have been supplied by the OAG with a range of information about the relevant processes. I have also sought additional information and have made particular enquires. In all cases, my enquiries have been responded to fully and promptly. Secondly, during the year, the OAG has continued its efforts to improve the scope, quality and usefulness of the financial analyses that it makes available to entities and to their approved auditors. Those analyses should assist in the refinement of the processes approved by you and implemented by the OAG.
14. I now state my overall conclusions. On the basis of the written material I have seen and the explanations I have been given, I consider that the processes adopted by you and by the OAG on your behalf, in relation to the appointment and allocation of auditors for audits falling within your mandate, during the financial year to 30 June 2008 have been appropriate for their purpose, and have been applied in a way which is fair and appropriate, having regard to the rights, interests and obligations of the parties concerned.
15. That observation applies both to the way in which auditors have been appointed or re-appointed, and to the way in which enquiries as to that process, or as to the appropriateness of a proposed audit fee, have been dealt with. In cases where issues have been raised by entities as to fee levels or as to performance standards, those issues have been or are being dealt with fairly and professionally.
16. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated and fees have been set in the financial year to 30 June 2008 have been carried out with due probity and objectivity.

Yours faithfully



**David Gascoigne** DCNZM CBE LLM

## Parliamentary services

This output class includes two outputs:

- Advice and assistance – to select committees and other stakeholders; and
- Controller function – carrying out the Controller function.

### Advice and assistance

Because of our annual audits, performance audit and inquiry work, the Auditor-General has a broad overview of public entities both individually and throughout sectors. Through our services to Parliament, we provide advice and assistance to select committees, Ministers, and individual members of Parliament, as well as to central agencies and other public sector representative groups, to assist them in their work to improve the performance and accountability of public entities.

The main ways in which this advice and assistance is provided is through:

- reports and advice to select committees to assist their financial reviews of government departments and Officers of Parliament, State-owned enterprises, and Crown entities;
- reports and advice to select committees to assist their examination of the Estimates of Appropriations; and
- reports to responsible Ministers on the results of the annual audits.

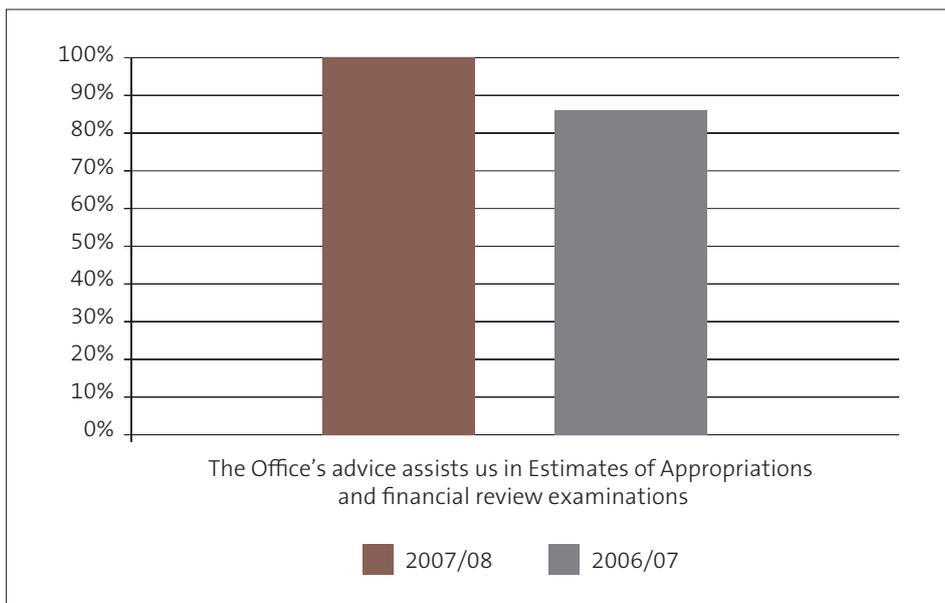
We also provide advice and assistance through:

- reports to Parliament and other constituencies on matters arising from our annual audits (including tabling two reports in Parliament on the results of our 2006/07 audits in central and local government);
- responding to requests and participating in working parties on matters related to financial management and accountability with other stakeholders, including government departments, central agencies, local authorities, professional bodies, sector organisations, and other public entities; and
- working with Auditors-General in other countries to encourage, promote, and advance co-operation in the field of public audit. This includes our roles as Secretariat of the Pacific Association of Supreme Audit Institutions (PASAI – formerly SPASAI, the South Pacific Association of Supreme Audit Institutions), membership of various committees of the International Organisation of Supreme Audit Institutions (INTOSAI), and acting as executing agent for the Pacific Regional Audit Initiative (for which we received funding from the Asian Development Bank, with co-financing from the Japan Special Fund and the Government of Australia.)

**Measuring our performance for output class: Parliamentary services (advice and assistance)**

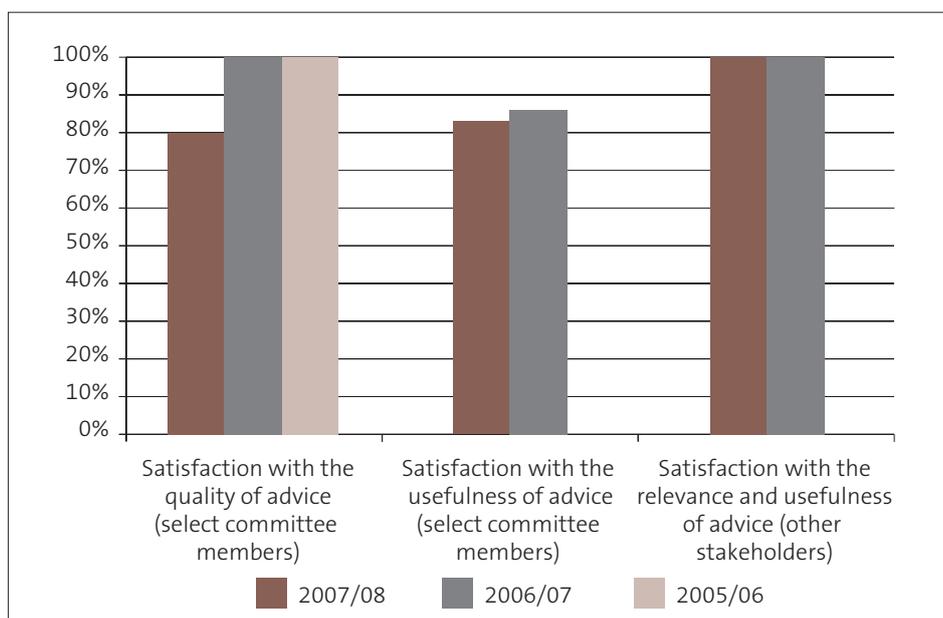
2007/08 forecast main impact measure and standard	2007/08 Actual	2006/07 Actual	2005/06 Actual
Select committees confirm that our advice assists them in Estimates of Appropriation and financial review examinations.	100% of respondents rated us 4 or better on a scale of 1 to 5, as assessed through our stakeholder survey.	86% of respondents rated us 4 or better on a scale of 1 to 5, as assessed through our stakeholder survey.	New measure for 2006/07.

**Figure 9**  
Stakeholder feedback on Parliamentary services impact



2007/08 forecast measures and standards of output delivery	2007/08 Actual	2006/07 Actual	2005/06 Actual
Reports and advice are given to select committees and Ministers at least two days before an examination, unless otherwise agreed.	100%	100%	New measure for 2006/07.
An internal review of a sample of financial review, Estimates, and Ministerial reports confirms that they meet relevant standards and procedures, including that reports are consistent in their framework and approach and are peer-reviewed in draft.	Confirmed by internal review of a sample of reports.	Confirmed by internal review of a sample of reports.	New measure for 2006/07.
At least 85% of select committee members we survey rate the advice they receive from us as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> <li>• quality</li> <li>• usefulness.</li> </ul>	80% 83%	100% 86%	100% New measure for 2006/07.
At least 85% of other stakeholders we survey rate the advice they receive from us as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> <li>• relevance and usefulness.</li> </ul>	100%	100%	New measure for 2006/07.

**Figure 10**  
Stakeholder feedback on Parliamentary services outputs



To assess the relevance, value, and timeliness of our advice and assistance to select committees, Ministers, and other stakeholders, we conduct an independent stakeholder survey. For 2007/08, there were falls in our stakeholder ratings for the quality and usefulness of advice to select committees. Both output measures fell slightly below our target standard of 85% of select committee members surveyed rating our advice as 4 or better on a scale of 1 to 5 (see Figure 10 and preceding table).

However, we note that our impact measure, in which we ask whether our advice assists select committee members in their Estimates and financial review examinations, showed an increase in ratings compared to the previous year (see Figure 9 and preceding table). The evaluation and recommendations noted that the results:

*... show that the Office is continuing to perform at a high level.*

*Where the scores are reduced, this is primarily because of the smaller number of interviews conducted this year compared to last, meaning that lower ratings of one or two stakeholders or a higher number of 'Don't knows' have a greater impact on the percentage ratings.*

The survey report recommended that the Office address the Health Committee's concerns, which were primarily about relationship management. We propose to explore this with the incoming Health Committee of the new Parliament, to allow us to address the committee's concerns.

The report also recommended that the Office assess the identified improvement areas noting that "stakeholders commented that while they were happy to suggest improvements, these were minor compared with their overall satisfaction and respect for the Office and the quality of its work." In particular, these improvement areas relate to the varying interests of select committees. For example, we received suggestions from the Chairpersons of two different committees that we should:

- *consult select committees on report content* – to understand what a committee might want to see covered in our reports, on the basis that, since the OAG already has to review the financial information, other matters may be more relevant for a committee's review;
- *provide more detailed financial analysis in select committee briefings* – to provide more in-depth financial analysis as a basis for committee members to ask more searching questions when conducting reviews.

We are considering how we can get greater input from select committees on their particular interests and concerns in order to better shape our reporting to their needs, while still performing our role of advising on the results of our audits and the observations and issues that arise from these.

Our internal review of financial review, Estimates, and Ministerial reports concluded that appropriate systems are in place to meet the Office's responsibilities in providing advice to select committees on Estimates examinations and financial reviews, and that the key controls identified had been operating effectively over the period. Several minor recommendations for improvement were made, and these have been addressed. One area currently outstanding relates to more fully reporting the adequacy and appropriateness of the performance measures contained within the Statement of Intent within the Estimate examination briefings. Improving performance measures and reporting is an Office-wide focus. Extensive effort went into providing feedback on forecast information prepared by entities, with audit views being provided in financial review briefings.

## Controller function

The “Controller” function of the Controller and Auditor-General exists to provide independent assurance to Parliament that expenses and capital expenditure of departments and Offices of Parliament have been incurred for purposes that are lawful, and within the scope, amount, and period of the appropriation or other authority.

The Office of the Auditor-General and appointed auditors carry out standard operating procedures to give effect to the Controller function in keeping with the Auditor-General’s auditing standards and the Memorandum of Understanding with the Treasury. This involves reviewing the monthly reports provided by the Treasury, and advising the Treasury of any issues arising and the action to be taken.

Each year, we report to Parliament on the significant issues arising from the operation of the Controller function.

### Measuring our performance for output class: Parliamentary services (Controller function)

2007/08 forecast main impact measure and standard	2007/08 Actual	2006/07 Actual	2005/06 Actual
Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Where there is a breach or suspected breach, actions are taken in accordance with the Auditor-General’s powers and auditing standards, and the Memorandum of Understanding with the Treasury.	The operation of the monthly Controller process and the appropriation audit were carried out to ensure that this measure was achieved.	New measure for 2007/08.	New measure for 2007/08.

There were 46 instances of expenditure outside the terms of an appropriation during the 2006/07 financial year, involving 19 separate departments. This was a significant reduction from the previous year (84 instances involving 21 departments), the first full year of operation of the Controller function following the 2004 amendments to the Public Finance Act 1984.

Arrangements to fulfil the requirements relating to Offices of Parliament have been established, and information provided. A new Memorandum of Understanding with the Treasury is soon to be finalised that will apply for the new financial year.

2007/08 forecast measures and standards of output delivery	2007/08 Actual	2006/07 Actual	2005/06 Actual
Monthly statements provided by the Treasury are reviewed for the period September to June inclusive. Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	All monthly procedures have been followed, and agreed timescales achieved.	All monthly procedures have been followed, and agreed timescales achieved.	All monthly procedures have been followed, and agreed timescales achieved.
Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards in relation to the Controller function have been applied appropriately.	Review to be undertaken in the first quarter of 2008/09, following completion of the Controller function work for 2007/08.	An internal review undertaken in May 2007 confirmed that the design of the work to address the Controller function and appropriation audit is appropriate.	Not applicable.

An internal quality assurance review was undertaken in May 2007. While it noted that the design of work to address the Controller function and appropriation audit was appropriate, it also noted some variable practices. The review made several recommendations for improvement, primarily around revising audit procedures and providing training for auditors of government departments. The actions on these recommendations was reported to the Office's Audit and Risk Committee in December 2007, and work was commenced or completed over the rest of 2007/08 on all of the recommendations made in the May 2007 review. A follow-up review will be undertaken in 2008/09 following completion of the Controller function work for 2007/08.

#### Financial performance of output class: Parliamentary services

	2007/08 Actual \$000	2007/08 Supp. Estimates \$000	2006/07 Actual \$000
<b>Income</b>			
Crown	3,064	3,063	2,890
Other	6	-	9
<b>Expenditure</b>	(3,014)	(3,063)	(2,785)
<b>Surplus</b>	<b>56</b>	<b>-</b>	<b>114</b>

## Performance audits and inquiries

This output class includes two outputs:

- Performance audits – reports to Parliament and other constituencies on matters arising from performance audits and special studies; and
- Inquiries – undertaking and reporting on inquiries relating to central and local government entities.

We published 22 main outputs during 2007/08 covering performance audits, others studies, and inquires. Appendix 1 on pages 113-120 summarises these outputs. A copy of each report is also published on our website: [www.oag.govt.nz](http://www.oag.govt.nz).

### Performance audits and other studies

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. It provides Parliament with assurance about specific issues or programmes and their management by the relevant public entity or entities. We also undertake other studies that may result in published good practice guidance on topical issues of public sector accountability and performance to assist public entities to better manage these issues.

To select performance audits and studies, each year we undertake a process of environmental scanning, identification of issues and risk assessment, and assurance response identification, to help determine how we can use our discretionary resources to best effect.

In deciding the discretionary 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 (focusing on the New Zealand Debt Management Office, Accident Compensation Corporation, New Zealand Superannuation Fund, Government Superannuation Fund, Earthquake Commission, and Student Loans Scheme);
- major public revenue management or generation (focusing on the Inland Revenue Department and New Zealand Customs Service);
- major asset management or infrastructure spending or management (focusing on health, correctional facilities, education, defence, conservation, transport, housing, and energy);

- major expenditure including service delivery expenditure (focusing on health, education, and social security and welfare); and
- similar issues in the local government sector.

Guided by these core areas of interest, we identified areas within or throughout entities or sectors that warranted further examination. To assign priorities to these assurance interventions, we considered the:

- severity and significance of the issue;
- benefit to the public;
- extent to which the performance of the public entity or sector could be improved; and
- fit with the Auditor-General's role and mandate.

We consulted with Parliament and other stakeholders on our draft annual plan (and in particular our proposed discretionary work programme) to ensure that stakeholders agreed we were addressing the issues of greatest relevance.

On pages 53-55, we describe our progress on the performance audits and other studies we proposed in our *Annual Plan 2007/08*.

### Measuring our performance for output class: Performance audits and inquiries (Performance audits and other studies)

2007/08 forecast main impact measure and standard	2007/08 Actual	2006/07 Actual	2005/06 Actual
Entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of three reports of performance audits published in the previous year and selected by our independent Audit and Risk Committee. The results of these reviews are presented to the Officers of Parliament Committee.	Three performance audits were reviewed and the results presented to the Officers of Parliament Committee. Our review concluded that our recommendations had been accepted by the relevant entities and either had been implemented or were being implemented.	New measure for 2007/08. However, in 2006/07, three performance audits selected by our Audit and Risk Committee were reviewed and the results presented to the Officers of Parliament Committee. Our review concluded that, in two cases, our recommendations had been accepted by the relevant entities, and, in the third case, some of our recommendations had been accepted. The accepted recommendations were being implemented at the time of our review.	New measure for 2007/08.

For 2007/08, the summarised results of our reviews of entities' acceptance and response to recommendations made in the three selected performance audits were as follows:

- Our report was positively received by the entity, and the recommendations were implemented within six months of the publication of our report;
- The entity has told us that it has acted on all of our recommendations and is working on ongoing improvement including a particular focus on strengthening monitoring. We monitored the changes made through our 2007/08 annual audit work.
- Our report was viewed by the entity and its Minister as constructive and useful, with a project team being established to implement our recommendations. We maintained regular liaison with the project team to support the implementation of our recommendations.

2007/08 forecast measures and standards of output delivery	2007/08 Actual	2006/07 Actual	2005/06 Actual
We complete 19 to 21 reports on matters arising from performance audits and special studies, and inquiries.	22	20	22
Select committees and other stakeholders are satisfied with the proposed work programme of performance audits (as indicated by feedback on our draft annual work programme).	Feedback was sought on two occasions under section 36(1) of the Public Audit Act 2001. Feedback mainly supported the approach we took to the proposed work programme, and gave us guidance on the scope and relative emphasis we should place on one or two key studies.	Feedback was sought on two occasions under section 36(1) of the Public Audit Act 2001. Feedback mainly supported the approach we took to the proposed work programme, and gave us guidance on the scope and relative emphasis we should place on one or two key studies.	Feedback was sought on two occasions under section 36(1) of the Public Audit Act 2001. On the basis of the feedback we received, we reviewed and amended our proposed work programme.
At least 85% of the stakeholders that we survey rate our performance audit reports (relevant to their sector or interest), as 4 or better on a scale of 1 to 5 for: <ul style="list-style-type: none"> <li>• quality</li> <li>• usefulness.</li> </ul>	50% 66%	100% 86%	100% New measure for 2006/07.
Our performance audit methodology reflects good practice for undertaking such audits, as assessed every second year by the National Audit Office of Australia.	The next review is scheduled for 2008/09.	The National Audit Office of Australia reviewed two performance audits looking at all aspects of the audit process, and endorsed the quality of the two audits.	New measure for 2006/07.
Each year independent reviews of two performance audits are undertaken. These reviews confirm the quality of these reports in terms of the presentation of administrative and management context, report structure, presentation, and format (including use of graphics and statistics), and the reasonableness of the methodology used and the resulting conclusions and recommendations.	Independent reviews of two performance audits confirmed the quality of the reports.	Independent reviews of two performance audits confirmed the quality of the reports.	New measure for 2006/07.
Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology.	Internal review confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.	Internal review confirmed that appropriate systems and controls are in place.	New measure for 2006/07.

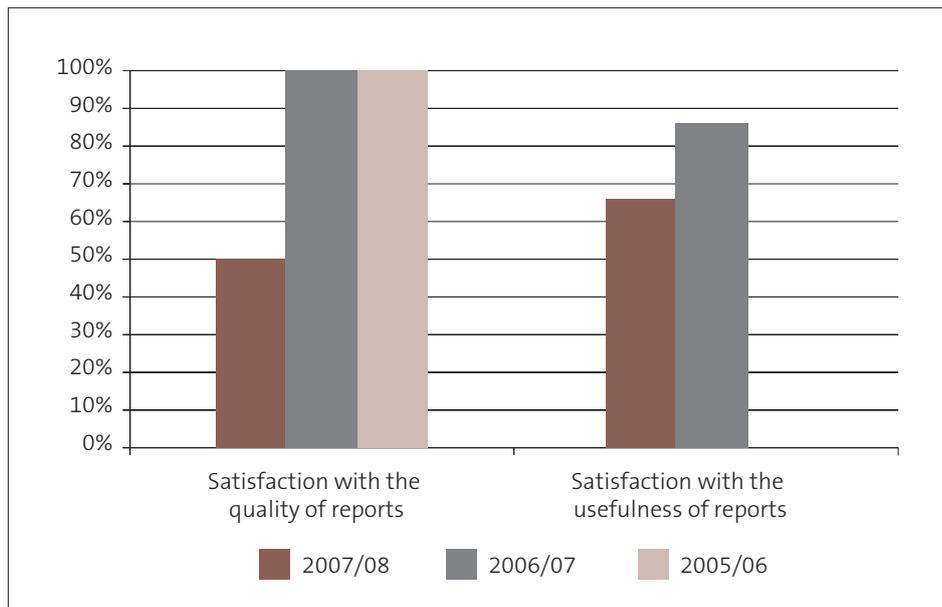
Most work we undertake to ensure quality in our performance audit work confirmed that our work is of high quality and remained on a par with previous years. We also equalled our success of 2006/07 in which we completed the highest number of performance audits in the history of the Office. The International Peer Review Team also commented favourably on our performance audit work reporting that:

*Overall we found a robust performance audit framework, with thorough processes and quality assurance arrangements complementing the findings of other external quality assurance reviews in recent years. The reports themselves were clearly written and easy to follow.*

One of the measures we use to assess the effectiveness of our performance audits and other studies is feedback from a small sample of stakeholders as collected by an independent stakeholder survey. While consultation with select committees showed considerable support for our work programme, including the proposed performance audits, our 2007/08 stakeholder survey showed significant reductions in satisfaction for our performance audit work (see Figure 11). Stakeholder rankings for both quality and usefulness of performance audits fell well below our target for the year. Two-thirds of the stakeholders responded “don’t know” on satisfaction with the quality of performance audits, and half responded “don’t know” on satisfaction with the usefulness of performance audits. This reflects that only a very small number of respondents were in sectors to which our performance audits for the year were relevant.

We do not count these “don’t know” responses, and the results for 2007/08 are based on feedback from a very small numbers of stakeholders – two on quality and three on usefulness. The average scores for quality and usefulness were 4.4 and 4.0 respectively on a scale of 1 to 5, and are more consistent with previous years than the percentages of respondents rating satisfaction with quality and usefulness.

**Figure 11**  
Stakeholder feedback on performance audit outputs



Our *Five year Strategic Plan 2004-09* has seen the Office substantially increase the number of reports on performance audits, special studies, and inquiries it produces to 21 on average in each of the last three years, as we planned to do. This effort recognises that, relative to our international counterparts, the Office audits a very large number of public entities. We have very limited discretionary resources to undertake in-depth audit work, such as through performance audits, to provide Parliament with assurance about specific issues or programmes and their management by the relevant public entity or entities. This limited discretion means that our performance audits are undertaken with significantly lesser resource and costs than those of many of our peers – but also means that, at times, we are not able to do as much in-depth work as we would like. The International Peer Review Team made a number of recommendations about opportunities for improvement of our performance audits against what the Team described as a “back drop of informative and well-received reports”, including:

- *More financial analysis would be helpful in some reports, particularly those that examine particular programmes and initiatives;*
- *More quantification of the costs and benefits of government programmes would help to determine whether entities are choosing the most cost-effective means of achieving their objectives;*

- *The Office of the Auditor-General might consider reviewing staffing levels for performance audits, looking in particular at continuity and at its capacity to do justice to the range and number of audits tackled each year;*
- *The Performance Audit Group should consider whether any topics for future audit lend themselves to an inquiry-style approach. By including some of these shorter studies, the Group would be able to offer a wider range of products and increase the flexibility of its approach.*

During 2008/09 and 2009/10, we intend to carry out development work to allow us to explore and implement the recommendations of the International Peer Review Team and to strengthen the depth and relevance of our performance audit and other studies reports.

The independent reviews of two performance audits confirmed the quality of our performance reports making useful comments about opportunities for improvement. These mainly related to:

- How our recommendations are expressed, with reviewers suggesting principles that recommendations be significant, targeted and measurable. We have revised our guidance for conducting performance audits to address this feedback.
- Presentation of reports, with some reviewers suggesting the use of photographs and simple graphics and colour to improve communication and readability. We have begun making some changes to address these suggestions.
- Ensuring that the scope of our audit work is well explained. We are reviewing scope statements to ensure that they are comprehensive and include a clear statement and explanation of what the audit does not cover and why, as well as what the audit does cover.

### **Progress against our *Annual Plan 2007/08***

On pages 57-58 of our *Annual Plan 2007/08*, we listed a number of performance audits and other studies that we proposed to start and/or complete in 2007/08. Much of that work is now complete.

Reports published during 2007/08 on completed performance audits and other studies were:

- *Turning principles into action: A guide for local authorities on decision-making and consultation*
- *\*Inquiry into Dunedin City Council and Otago Regional Council's funding of the proposed stadium*

- *Management of conflicts of interest in the three Auckland District Health Boards*
- *Effectiveness of controls over the taxi industry: Follow-up report*
- *Implementing the Māori Language Strategy*
- *Liquor licensing by territorial local authorities*
- *New Zealand Agency for International Development: Management of overseas aid programmes*
- *Mental health services for prisoners*
- *New Zealand Trade and Enterprise: Administration of grant programmes – follow-up audit*
- *Audit committees in the public sector*
- *Inland Revenue Department: Effectiveness of the Industry Partnership programme*
- *Responses to the Coroner's recommendations on the June 2003 Air Adventures crash*
- *Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund*
- *Ministry of Social Development: Preventing, detecting, and investigating benefit fraud*
- *The Accident Compensation Corporation's leadership in the implementation of the national falls prevention strategy*
- *Procurement guidance for public entities*
- *\*Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*
- *Managing funding to non-government organisations – from principles to practice*
- *\*The Auditor-General's observations on the quality of performance reporting*
- *\*Charging fees for public sector goods and services*
- *Ministry of Education: Monitoring and supporting school boards of trustees*
- *Reporting the progress of defence acquisition projects.*

\* Additions to the work programme.

In addition, we completed work during 2007/08 on a performance audit looking at maintaining and renewing the rail network, the report on which was presented to the House of Representatives on 1 July 2008.

## Variations to the 2007/08 annual work programme

Our actual work programme varies from that planned, in response to changing priorities, such as urgent work on inquiries that intervenes, and changes in government policy or entity circumstances affecting the timing or relevance of audits.

To help accommodate these inevitable changes, the planned work programme includes more performance audits than our target of 19 to 21 reports on matters arising from performance audits and special studies, and inquiries.

Six of the performance audits listed in our *Annual Plan 2007/08* will now be completed in 2008/09. These are:

- *Maintaining and renewing the rail network* – report presented 1 July 2008
- *Ministry of Education: Supporting professional development for teachers* – report presented 26 August 2008
- *Housing New Zealand Corporation – maintenance of state housing*
- *Ministry of Health – monitoring the implementation of the Primary Health Care Strategy*
- *Work and Income – effectiveness of case management of sickness and invalid beneficiaries*
- *Civil Aviation Authority (and Ministry of Transport) – follow-up on response to 2005 audit.*

In addition:

- the proposed *Local government – asset management planning* performance audit was removed from the 2007/08 work programme – work to improve asset management practice in the sector is continuing through the National Asset Management Steering Group of the Association of Local Government Engineering New Zealand Incorporated, and we will be keeping a watching brief on this work with a view to determining whether we undertake a performance audit after the 2009-19 LTCCPs have been completed;
- the *Local government – water services assessments* audit will now focus on the management of demand for water; and
- the *Health sector – management of funding to non-government organisations by District Health Boards* performance audit has been replaced by an examination of procurement in District Health Boards that includes, but is not limited to, the funding of non-government organisations.

## Inquiries

### General requests for inquiries

The Auditor-General has discretion to inquire into a public entity's use of resources. The Auditor-General can carry out inquiries on his own initiative or when correspondence from the public draws attention to particular issues.

We receive a large number of requests for inquiries each year. In 2007/08, we received 250 requests, which is within the usual range. By the end of the year, we had responded to 223 of these requests, and have carried 27 forward into the following year. We also completed 19 requests carried forward from the previous year.

Not all requests result in an inquiry. We consider each request received to determine the most appropriate way to proceed. Factors we consider include whether the Auditor-General is the appropriate authority to consider the issues, whether we have the resources to do so, and the seriousness of the issues raised.

We classify inquiries into three categories – “routine”, “sensitive”, and “major” – depending on how serious the issues raised are. A routine inquiry involves straightforward issues, and can often be carried out either by a review of documents or through correspondence and discussion with the public entity. It will not usually result in a published report. We always advise the correspondent of our conclusions and the reasons for them, and in some instances we advise the public entity of the matter.

Sensitive and major inquiries involve more complex issues and may attract a broader level of public interest and attention. In these inquiries, we will often review the entity's files and may also formally interview people. We may report the results of these inquiries publicly, as well as advising the correspondent and the entity.

### Measuring our performance for output class: Performance audits and inquiries (Inquiries)

2007/08 forecast main impact measure and standard	2007/08 Actual	2006/07 Actual	2005/06 Actual
Entities take action in response to concerns identified in inquiry reports, as assessed by follow-up on a sample of sensitive and major inquiries undertaken in the previous year.	We have followed up the one sensitive inquiry that was undertaken in 2006/07 (there were no major inquiries). The entity concerned has taken positive steps to address the comments we made.	New measure for 2007/08.	New measure for 2007/08.

2007/08 forecast measures and standards of output delivery	2007/08 Actual	2006/07 Actual	2005/06 Actual
80% of our findings on inquiries are reported to the relevant parties within: <ul style="list-style-type: none"> <li>• three months for “routine” inquiries*</li> <li>• six months for “sensitive” inquiries*</li> <li>• 12 months for “major” inquiries.*</li> </ul>	91% (115 routine inquiries, 105 reported within three months).  82% (11 sensitive inquiries, 9 reported within six months).  No major inquiries were undertaken.	95% (80 routine inquiries, 76 reported within three months).  0% (1 sensitive inquiry, not reported within six months).  No major inquiries were undertaken.	New measures for 2006/07.
For enquiries under the Local Authorities (Members’ Interests) Act 1968, we complete 80% within 30 working days.	95% (103 received, 98 reported within 30 working days).	87% (47 received, 41 reported within 30 working days).	86% (49 received, 42 reported within 30 working days).
Responses to requests for inquiries and our administering of the Local Authorities (Members’ Interests) Act 1968 requests are undertaken in accordance with relevant policies, procedures, and standards as confirmed by internal quality assurance review.	Review was completed and confirmed that requests are undertaken in accordance with relevant policies, procedures, and standards.	Review was completed and confirmed that requests are undertaken in accordance with relevant policies, procedures, and standards.	Undertaken.

\*These times are measured from the date we decide to start the inquiry, which may be later than the date we received the request to inquire.

As most of our inquiry work is responsive to issues arising during the year, the workflow can be uneven. In 2006/07, we had undertaken only one sensitive inquiry and no major inquiries. In 2007/08, however, we completed 11 sensitive inquiries, including inquiries on the funding arrangements supporting the proposed development of a new stadium in Dunedin, and into decisions made by Queenstown Lakes District Council for its regulatory and resource management services.

After a significant amount of preliminary work, we announced in April 2008 that we would not inquire into matters raised with us in relation to procurement practices at the Hawke’s Bay District Health Board, but would instead carry out a programme of work to provide assurance that necessary improvements were being made at that Board and to strengthen policies and practices across the District Health Boards sector. At the end of the year, we were close to completing a major inquiry into activities at the West Coast Development Trust and had just announced terms of reference for an inquiry into matters arising out of Immigration New Zealand.

Figure 12 provides a summary of the requests for inquiries dealt with during the year.

**Figure 12**  
Summary of requests and inquiries dealt with during 2007/08

	Requests carried forward from 2006/07	Requests received during 2007/08	Requests dealt with during 2007/08	Requests carried forward to 2008/09
		250		27 requests (categorised on completion)
No inquiry	1		116	
Routine inquiries	16		115	
Sensitive inquiries	2		11	
Major inquiries	0		0	
<b>Total</b>	<b>19</b>	<b>250</b>	<b>242</b>	<b>27</b>

### Enquiries under the Local Authorities (Members' Interests) Act 1968

We also administer the Local Authorities (Members' Interests) Act 1968, which governs the financial interests of members of local authorities. In 2007/08 we received 103 enquiries under this Act. This was slightly more than usual, in part because of the effect of the October 2007 local authority elections. We also carried forward seven enquiries from the previous year. See Figure 13.

**Figure 13**  
Summary of Members' Interests Act enquiries dealt with during 2007/08

	Carried forward from 2006/07	Received during 2007/08	Completed during 2007/08	Carried forward to 2008/09
Members' Interests Act enquiries	7	103	110	0

We have recorded our view many times in recent years that the Act is in need of reform. It is poorly drafted, it operates unevenly, and the rationale for some of the requirements is unclear. Our experience during the 2007 local authority elections highlighted that the difficulties with the Act have practical consequences and can have a significant effect on the operation of the local democratic process. Resulting from the 32 requests for guidance that we dealt with, four people were either prevented or discouraged from standing as candidates because of the contracting rules in the Act, and two others had to rearrange their personal affairs to be eligible to be candidates. We remain of the view that the Act in its current form does little to strengthen democracy at the local level. Our annual publication on our activities in the local government sector includes an article discussing these issues and our recent experience with the Act in more detail.<sup>5</sup>

<sup>5</sup> *Local Government: Results of the 2006/07 audits*, 2008, parliamentary paper B.29[08b], part 12, "Local Authorities (Members' Interests) Act 1968".

Our internal quality assurance review confirmed that our inquiry processes are operating well and offered some minor suggestions on areas of possible future improvement. As a result of these reviews and our own ongoing assessment of how well the new processes are operating, we are likely to make some further refinements to the basic process during the coming year.

**Financial performance of output class: Performance audits and inquiries**

	2007/08 Actual \$000	2007/08 Supp. Estimates \$000	2006/07 Actual \$000
<b>Income</b>			
Crown	6,407	6,407	6,295
Other	14	-	20
<b>Expenditure</b>	(6,223)	(6,407)	(6,018)
<b>Surplus</b>	<b>198</b>	<b>-</b>	<b>297</b>



Part 3

## Organisational health and capability

## Capability report

Our *Annual Plan 2007/08* set out the measures we intended to use to assess our current capability, specifically:

- staff numbers and the distribution of staff by function, gender, and ethnicity;
- number of internal promotions to senior roles;
- average investment in staff training and development; and
- data on staff tenure and turnover.

Our specific intentions and results against these measures for 2007/08 were:

- to maintain and improve our overall rating as assessed by staff in our annual staff survey; and
- to maintain and improve all of the key capability statistics from the previous year.

Specific areas of focus were:

- strengthening the management and leadership development of our people;
- further embedding the national professional development programme;
- supporting all staff members with Individual Development Programmes;
- ongoing investment in targeted areas of generic training (for example, Te Reo, presentation skills, media liaison, and writing);
- completing a significant “future business model” project that will provide us with a robust planning tool to better forecast staff requirements;
- introducing high potential and talent management programmes to recognise, reward, and develop our high performers;
- further embedding our national internship programme; and
- further aligning our human resources policies and procedures to support recruitment, retention, and development of the best people.

Based on this information, we also make some of our own conclusions about the adequacy, quality, and effectiveness of our current capability.

### Summary results

Overall we have made good progress during 2007/08 in:

- improving staff numbers in a difficult labour market;
- ongoing leadership and capability development of our people;
- improving our systems and processes;
- improving recruitment and retention strategies to attract and retain good people; and
- maintaining acceptable levels of organisational health.

## Resources

Work on our “future business model” project has provided us with a planning tool to better forecast audit staff requirements in future years. This model has shown us that we need to maintain a consistent level of recruitment for both graduate and qualified employees. It also shows that we need to continue to supplement our internal staff with secondees from New Zealand and overseas accounting and audit firms to help us through our peak periods.

Our recruitment initiatives and processes were quite successful in 2007/08, with a net increase in staff numbers of 23 full-time equivalents to 311. This reflects an increased intake of accounting graduates (40) and successful recruitment programmes targeted at qualified auditors in the United Kingdom and South Africa. The graduate programme is very successfully supported by an effective internship programme, with 23 interns recruited for nine weeks in the 2007/08 year. A new Alumni programme for ex-staff based in the United Kingdom is also showing early signs of success.

Despite a successful recruitment programme, staff turnover – especially that of qualified auditors – remains of concern. A variety of contributing factors have been identified, including overseas travel, work-life balance, and career change. Several initiatives seek to address this, including more targeted development programmes, more flexible working arrangements, careful management of remuneration, and potential secondment programmes to our equivalent organisations in the United Kingdom.

Figure 14 provides a summary of staff numbers, their functional distribution, and staff turnover for the year.

**Figure 14**  
**Staff numbers, functions, and turnover**

As at 30 June	2008	2007	2006	2005
<b>Staff numbers (full-time equivalents)</b>				
Office of the Auditor-General	57	70.9	70.7	66.2
Audit New Zealand	216	217.2	189.1	177.6
Corporate Services*	38	n/a	n/a	n/a
<b>Total</b>	<b>311</b>	<b>288.1</b>	<b>259.8</b>	<b>243.8</b>
<b>Functional distribution</b>				
Audit/assurance	74%	72%	71%	69%
Technical and advisory	9%	4%	4%	4%
Corporate support	13%	20%	21%	23%
Management	4%	4%	4%	4%
<b>Turnover**</b>				
Office of the Auditor-General	19%	19%	18%	n/a
Audit New Zealand	21%	18%	28%	n/a
Corporate Services*	21%	n/a	n/a	n/a

\* Corporate Services function is shared between the OAG and Audit New Zealand business units. From 2008, the staff numbers for Corporate Services are shown separately. In previous years, these staff numbers were distributed between the two business units.

\*\* During 2007/08, a restructure resulted in a small change in allocation of staff between the shared Corporate Services team and Audit New Zealand. This restructure also led to increased turnover, contributing an estimated 2% to each of shared Corporate Services' and Audit New Zealand's totals.

## Equal employment opportunities

Under the Public Audit Act, the Auditor-General must develop and publish an equal employment opportunities (EEO) programme, and ensure that this programme is complied with.

The principles of equal opportunity are embedded in the Office's policies and procedures. Our recruitment programme in particular aims to attract and appoint the best people, who have the appropriate skills, values, and attributes to meet the Office's needs, objectives, and strategic direction, in a manner that provides equal employment opportunity to Māori, women, ethnic or minority groups, and people with disabilities.

We believe that the Office benefits from a diverse workforce, and we are committed to recognising and valuing different skills, talents, experiences, and

perspectives among our employees. A diverse workforce will help the Office relate to our clients and bring a variety of perspectives to bear on any given topic.

While the Office practices the principles of EEO, a formally articulated EEO programme is still being developed and will be completed in the 2008/09 year. As shown in Figure 15, the diversity of our staff continues to increase.

**Figure 15**  
**Staff diversity**

As at 30 June	2008	2007	2006	2005
<b>Gender distribution – all staff</b>				
Women	52%	54%	51%	48%
Men	48%	46%	49%	52%
<b>Gender distribution – executive management</b>				
Women	42%	45%	33%	30%
Men	58%	55%	67%	70%
<b>Ethnicity distribution</b>				
NZ European	42%	48%	49%	53%
NZ Māori	4%	3%	3%	4%
Pacific Islander	3%	2%	2%	2%
Asian	12%	9%	12%	14%
Other European	12%	8%	9%	7%
Other ethnic groups	2%	3%	3%	2%
Undeclared	25%	27%	22%	18%

## Training and development

We aim to continue to improve the overall skill, leadership capability and experience level of staff. This is of particular importance for audit staff, but applies to staff throughout the Office.

We have continued the development of high potential and talent management programmes, both as a way of improving staff retention and to broaden the skills of our current and future leaders. Leadership competency frameworks were successfully introduced to both Audit New Zealand and the OAG.

Expenditure on training and development has increased for Audit New Zealand. This reflects an increased proportion of pre-qualified staff with significant training programmes, and costs associated with a leadership coaching programme for managers and directors.

Many staff members have also received generic training, including on writing, presentation, and media skills.

Professional development continues to have a very high priority. In 2007/08, Audit New Zealand refreshed its national professional development programme for all audit staff. The programme delivered 30 modules/courses to 437 course participants, which were highly rated by audit staff. The programme is aimed at developing the base professional competencies of audit staff. This includes equipping them to work within Audit New Zealand's national professional practice framework, audit methodology, quality control systems, and the Auditor-General's statements and standards. In conjunction with the OAG, Audit New Zealand also delivered technical workshops and updates as part of its "auditor readiness" programme, to prepare it for the introduction of International Financial Reporting Standards to New Zealand.

**Figure 16**  
**Staff experience and training**

As at 30 June	2008	2007	2006
<b>Experience – average time in job (years)</b>			
Office of the Auditor-General	7.2	5.8	5.6
Audit New Zealand	4.3	4.3	5.0
Corporate Services*	5.4	n/a	n/a
<b>Training and development – average expenditure per employee</b>			
Office of the Auditor-General (incl. Corporate Services)	\$1,884	\$2,572	\$1,754
Audit New Zealand	\$4,509	\$3,165	\$2,298
<b>Pass rate of staff undertaking NZICA accreditation</b>			
	100%	100%	97%

\* Corporate Services function is shared between the OAG and Audit New Zealand business units. From 2008, the staff numbers for Corporate Services are shown separately. In previous years, these staff numbers were distributed between the two business units.

## Organisational health and staff satisfaction

We survey our staff each year, to understand trends in various aspects of our staff satisfaction. We are particularly interested in the overall satisfaction and engagement of our staff, whether the organisation meets the basic needs of our people, the degree to which our people contribute as individuals and as a team, and the opportunity for growth in the organisation.

In 2007/08, we changed the survey methodology, electing to join many other State sector employers in using the Gallup Q12 employee engagement survey. The change in survey means that it is difficult to compare this year's results with those of previous years, the only common question being overall satisfaction. However, we have compared the results of similar questions between last year and this year and have found that, in general, the response is similar.

Our results (see Figure 17) are broadly on a par with other State sector organisations, although generally below the average for employees in New Zealand as a whole. We consider it desirable and beneficial to improve our employees' engagement and satisfaction across the board, and will be working on this throughout the coming year.

**Figure 17**  
**Staff survey results**

As at 30 June	2008	2007	2006
<b>Staff survey results (1=low, 5=high)</b>			
(Note: 2006 and 2007 figures converted to 5-point scale for comparison)			
Overall engagement	3.7	n/a	n/a
Overall satisfaction	3.5	3.6	4.3
Basic needs met	4.0	n/a	n/a
Individual contribution	3.5	n/a	n/a
Teamwork	3.5	n/a	n/a
Growth	4.0	n/a	n/a

Another indicator of organisational health is the average sick days taken by employee. As shown in Figure 18, the figures for 2007/08 are consistent with previous years.

**Figure 18**  
**Sick leave**

	2007/08	2006/07	2005/06
<b>Sick leave taken – average days per employee</b>			
Office of the Auditor-General	5.2	5.3	4.3
Audit New Zealand	5.5	4.8	5.2
Corporate Services	4.3	n/a	n/a

## Information systems

The Office, especially Audit New Zealand, is highly dependent on information technology to carry out its work. Audit staff working in the field need to have remote access and communications tools to ensure an effective, efficient, and customer-focused service. The Office of the Auditor-General needs systems to manage the 4000-odd audits it is responsible for.

During 2007/08, the Office invested in redevelopment of the core system used to manage the allocation and tracking of annual audits. The new system replaces one that is more than ten years old, which no longer meets the information, management, and security needs of the Office. The replacement system contains considerable new functionality, and incorporates significant business and process knowledge that was previously tacit in nature.

Also in 2007/08, a project was started to replace the core financial and time and cost management systems. These systems are particularly critical to Audit New Zealand's effectiveness at managing the time and costs associated with annual audits.

## Financial performance indicators

Details of our performance against measures established in the *Annual Plan 2007/08* are summarised in Figure 19 below.

**Figure 19**

### Financial performance indicators for the year ended 30 June 2008

Measure	2007/08 Actual \$000	2007/08 Supp. Estimates \$000	2007/08 Annual Plan \$000	2006/07 Actual \$000
<b>Operating results</b>				
Income: other than Crown	58,525	58,708	53,981	58,503
Output expenditure	67,861	68,328	63,580	67,553
Surplus before capital charge*	549	120	120	552
Surplus	285	-	-	285
<b>Working capital management</b>				
Current assets less current liabilities	2,324	2,221	1,753	1,844
<i>Current ratio</i>	130%	129%	128%	123%
<i>Average receivables and work in progress</i>	42 days	36 days	32 days	35 days
<b>Resource use</b>				
Plant and equipment:				
Total plant, equipment, and intangible assets at year-end	1,847	2,040	2,262	2,389
<i>Additions as % of plant and equipment</i>	42%	46%	56%	51%
<b>Taxpayers' funds</b>				
Level at year-end	3,521	3,521	3,586	3,521
<b>Net cash flows</b>				
Surplus on operating activities	452	1,274	1,313	1,867
Surplus/(Deficit) on investing activities	(652)	(849)	(1,275)	(1,015)
Surplus/(Deficit) on financing activities	(469)	(469)	-	-
Net increase/(decrease) in cash held	(669)	(44)	38	852

\* Capital charge and offsetting interest components are now reported separately for 2006/07 and 2007/08 Actual figures. These were previously offset, with only the net capital charge being reported in the Statement of financial performance. The Annual Plan and Supplementary Estimates figures were prepared on this basis.



Part 4  
**Risk management**

## Risk management framework

Our risk management framework is the set of elements of our management system concerned with identifying and managing risk. It is aligned to our business outcomes and the strategies designed to achieve these outcomes.

Risk identification and management is a key part of our annual planning. Our strategic planning defines plans and allocates resources to achieve objectives. An integral part of that process is the identification of anything that threatens our achieving those objectives.

We have categorised the risks we are exposed to as strategic, professional operational, and business operational risks. All risks are managed within the same framework, as experience shows that inadequately managed professional operational and business operational risks can escalate to the level of strategic risk.

## Strategic risks

Identifying and managing risk is integral to our business. For several years, we have identified our key strategic risks as being the loss of our independence and audit failure. We have recently included two additional strategic risks – loss of capability and loss of reputation. In our view, we now face four main strategic risks:

- Loss of independence – Independence underpins the value of the Auditor-General's products. Losing that independence in fact or appearance, whether by failure on the part of the Auditor-General or his appointed auditors to act independently or otherwise, would undermine trust in our organisation.
- Audit failure – the risk that we issue an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process.
- Loss of capability – the risk that we are unable to retain, recruit, or access people with the technical and other skills our audit work requires.
- Loss of reputation – the risk that we may lose reputation or credibility, which would affect our relationships with stakeholders.

These risks will always be present, but much of the way we do our work reduces them.

## Strategic risk mitigation actions

The key mitigation actions are:

- the Auditor-General's independence standards – the Auditor-General sets a high standard for independence for both his employees and the auditors he appoints;

- monitoring the independence of the two statutory officers, employees, and appointed auditors – the system includes regular declarations of interest and, where necessary, implementation of measures to avoid conflicts of interest;
- adhering to professional auditing standards;
- quality assurance regimes – including implementing and complying with New Zealand Institute of Chartered Accountants' revised quality control standards;
- peer review and substantiation procedures – including annual independent evaluation of our audit allocation and tendering processes, independent external review of two performance audits each year, and stakeholder feedback studies;
- an independent Audit and Risk Committee, comprising three external members and the Deputy Controller and Auditor-General; and
- ongoing training and development of our staff – including talent and capability management programmes, leadership development initiatives, and professional development programmes.

## Operational risks

Identifying more specific risks is a key part of our annual planning. We carry out a review of the environment in which we operate. We consider economic, legal, social, environmental, and technological developments, and changes in the accounting and auditing professions, which might affect us. We look too at the effect such matters might have on our stakeholders and the entities that we audit.

Demand created by changes within the public sector and the accounting and auditing professions, together with the continuing difficulty in finding and retaining suitably qualified and experienced staff, has meant that our audit work has had to focus more heavily on entities' financial statements. This has been at the expense of public interest audit work based on fuller consideration of the risks and challenges that entities face in their strategic, governance, and operational contexts.

We are therefore working to rebalance our audit effort so that it takes this fuller perspective in the audit of each individual entity, to the extent deemed appropriate in the judgement of each entity's appointed auditor. This should result in a stronger emphasis on non-financial reporting, waste, probity, and accountability, and may over time affect how our audits are costed, resourced, carried out, and reported.

In Part 3 of this report, we have described the efforts we are making to maintain and build our organisational health and capability to equip us to deal with the increased demands of our environment. However, in the short to medium term, we expect to see trends such as increasing levels of arrears in the issuing of public entities' audit reports.

### Enhancement of risk management

Over the past year, we have continued to develop our processes for managing strategic and operational risks, to ensure that all significant risks are identified, that mitigation measures are put in place where appropriate, and that responsibility for the implementation of those measures is clearly allocated. We have also reviewed and updated our risk management documentation to reflect those enhancements.

As a result, the following are now established key elements of our risk management framework:

- review of environmental scanning results through our annual Office-wide planning process to identify risks;
- application of our risk management processes;
- implementation of our risk management information system;
- our risk reporting environment; and
- our existing controls that are in place to minimise risk.

# Report of the Audit and Risk Committee

## For the year ended 30 June 2008

### Members

Anthony N Frankham FCA, FAMINZ, FIOD (Chairman), *professional director and specialist investigating accountant* (to 21 April 2008)

John Hagen MBA, MCom, FCA *Investigating accountant* (member from 15 February 2008; Chairman from 21 April 2008)

Joanna Perry MA (Cantab), FCA (ICAEW), FCA (NZICA), *professional director and chartered accountant* (to 8 September 2007)

Stephen Revill BA, LLB, *Senior legal counsel, Unisys New Zealand Limited* (from 3 September 2007)

Ross Tanner MA (Hons), MPA (Harvard), *Director, Ross Tanner Consulting Limited*

Phillippa Smith BA, LLB, MPP, *Deputy Controller and Auditor-General*

The Audit and Risk Committee is an independent committee established by and reporting directly to the Auditor-General. The Committee was established in 2003, as the Audit Committee. The reference to risk was included in the name of the Committee in December 2005, to better describe the Committee's role.

The purpose of the Committee is to oversee:

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

The Committee has no management functions.

During the past year, the Committee:

- met on three occasions to fulfil its duties and responsibilities;
- received briefings from the Auditor-General and other senior managers on key business activities of the Office, as a basis for ensuring that risks facing the Office are being appropriately addressed;
- oversaw the Office's continuing review of its risk management framework and the procedures underpinning the framework;
- discussed with the external auditors their audit plan for the year and findings from their audit work;
- monitored the implementation of recommendations made by the external auditors;

- reviewed the proposed three-year plan for internal audit, and generally oversaw the implementation of the internal audit function contracted to KPMG;
- reviewed the annual plan and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major judgmental areas, and compliance with legislation and relevant standards;
- received and considered the report of the independent peer review team on the Office.

The Committee has reported to the Auditor-General on the above and other matters it has seen fit to do so. There are no outstanding or unresolved concerns which the Committee has brought to the attention of the Auditor-General.

John Hagen  
Chairman

for the Audit and Risk Committee

28 July 2008



Part 5

**Financial statements 2007/08**

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# Audit report



## AUDIT REPORT

### TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

We have been appointed by the House of Representatives to carry out the audit of the financial statements and the statement of service performance included in the annual report of the Controller and Auditor-General for the year ended 30 June 2008.

#### Unqualified Opinion

In our opinion:

- The financial statements of the Controller and Auditor-General on pages 83 to 112:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Controller and Auditor-General's financial position as at 30 June 2008;
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Controller and Auditor-General on pages 27 to 36, 42 to 44, 46, 50 to 54 and 57 to 59:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2008, and is the date at which our opinion is expressed.

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

#### Basis of Opinion

We carried out the audit in accordance with New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and the statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.



The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Controller and Auditor-General;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

#### **Responsibilities of the Controller and Auditor-General and the Auditor**

The Controller and Auditor-General is responsible for preparing financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Controller and Auditor-General as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Controller and Auditor-General's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Controller and Auditor-General's responsibility arises from sections 45A, 45B, and 45F of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

#### **Independence**

When carrying out the audit we followed the independence requirements of the Institute of Chartered Accountants of New Zealand.

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.

*CST Nexia Audit*

**CST Nexia Audit**  
Chartered Accountants  
Manukau City, New Zealand

audit and assurance services  
local focus, global reach

## Statement of responsibility

In terms of the Public Finance Act 1989 and the Public Audit Act 2001, I am responsible, as Controller and Auditor-General, for the accuracy and judgements used in the preparation of the financial statements, and for establishing and maintaining systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

Appropriate systems of internal control have been employed to ensure that:

- all transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.

In my opinion, the information set out in the Statement of service performance, the financial statements, and attached notes to those statements (on pages 27-36, 42-44, 46, 50-54, 57-59 and 83-112) fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2008, and our financial position as at that date.

Signed:



K B Brady  
Controller and Auditor-General

30 September 2008

Countersigned:



M J Viviers  
Financial Controller

30 September 2008

# Statement of financial performance

## for the year ended 30 June 2008

This statement reports the income and expenditure relating to all outputs (goods and services) produced by the Office. Supporting statements showing the income and expenditure of each output class are on pages 36, 46, and 59.

Explanations of significant variances against the main Estimates are detailed in Note 19.

Actual 2007		Notes	Actual 2008	Main Estimates 2008	Supp. Estimates 2008
\$000			\$000	\$000	\$000
<b>Income</b>					
9,335	Crown funding	2	9,621	9,599	9,620
58,480	Audit fees and other income	3	58,525	53,981	58,708
23	Gain on sale of plant and equipment		-	-	-
<b>67,838</b>	<b>Total income</b>		<b>68,146</b>	<b>63,580</b>	<b>68,328</b>
<b>Expenditure</b>					
27,540	Personnel costs	4	31,583	29,045	32,304
38,592	Operating costs	5	34,841	33,102	34,706
1,154	Depreciation and amortisation expense	9, 10	1,173	1,313	1,198
267	Capital charge	6	264	120	120
<b>67,553</b>	<b>Total expenditure</b>		<b>67,861</b>	<b>63,580</b>	<b>68,328</b>
<b>285</b>	<b>Net surplus</b>		<b>285</b>	<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

## Statement of movements in taxpayers' funds (equity)

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for the year ended 30 June 2008

Actual 2007 \$000		Notes	Actual 2008 \$000	Main Estimates 2008 \$000	Supp. Estimates 2008 \$000
3,565	Taxpayers' funds brought forward at 1 July		3,521	3,565	3,521
285	Surplus for the year		285	-	-
(329)	Repayment of surplus to the Crown	12	(285)	-	-
<b>3,521</b>	<b>Taxpayers' funds at 30 June</b>		<b>3,521</b>	<b>3,565</b>	<b>3,521</b>

# Statement of financial position

as at 30 June 2008

This statement reports total assets and liabilities. The difference between the assets and liabilities is called taxpayers' funds.

Actual 2007		Notes	Actual 2008	Main Estimates 2008	Supp. Estimates 2008
\$000			\$000	\$000	\$000
<b>Current assets</b>					
3,844	Cash and cash equivalents		3,175	2,966	3,800
389	Prepayments		200	350	389
1,525	Work in progress		2,284	1,158	1,556
4,103	Debtors and other receivables	8	4,455	3,500	4,233
9,861	<i>Total current assets</i>		10,114	7,974	9,978
<b>Non-current assets</b>					
2,034	Plant and equipment	9	1,533	1,807	1,628
355	Intangible assets	10	314	455	412
2,389	<i>Total non-current assets</i>		1,847	2,262	2,040
<b>12,250</b>	<b>Total assets</b>		<b>11,961</b>	<b>10,236</b>	<b>12,018</b>
<b>Current liabilities</b>					
5,008	Creditors and other payables	11	4,279	3,700	5,189
469	Repayment of surplus	12	285	-	-
2,540	Employee entitlements	13	3,226	2,521	2,568
8,017	<i>Total current liabilities</i>		7,790	6,221	7,757
<b>Non-current liabilities</b>					
712	Employee entitlements	13	650	450	740
712	<i>Total non-current liabilities</i>		650	450	740
<b>8,729</b>	<b>Total liabilities</b>		<b>8,440</b>	<b>6,671</b>	<b>8,497</b>
<b>3,521</b>	<b>Net assets</b>		<b>3,521</b>	<b>3,565</b>	<b>3,521</b>
<b>Taxpayers' funds</b>					
3,521	General funds		3,521	3,565	3,521
<b>3,521</b>	<b>Total taxpayers' funds</b>		<b>3,521</b>	<b>3,565</b>	<b>3,521</b>

The accompanying notes form part of these financial statements.

# Statement of cash flows

## for the year ended 30 June 2008

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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 financial performance.

Actual 2007		Notes	Actual 2008	Main Estimates 2008	Supp. Estimates 2008
\$000			\$000	\$000	\$000
<b>Cash flows from operating activities</b>					
9,335	Receipts from the Crown		9,621	9,599	9,620
30,692	Receipts from public entities*		32,865	31,669	35,048
141	Interest earned		97	-	-
(7,259)	Payments to suppliers *		(7,405)	(7,790)	(7,970)
(27,760)	Payments to employees*		(30,959)	(29,045)	(32,304)
(3,156)	Net GST paid**		(3,503)	(3,000)	(3,000)
(126)	Capital charge paid		(264)	(120)	(120)
1,867	<i>Net cash flow from operating activities</i>	14	452	1,313	1,274
<b>Cash flows from investing activities</b>					
207	Receipts from sale of plant and equipment		127	-	94
(968)	Purchase of plant and equipment		(628)	(575)	(704)
(254)	Purchase of intangible assets		(151)	(700)	(239)
(1,015)	<i>Net cash flow from (used in) investing activities</i>		(652)	(1,275)	(849)
<b>Cash flows from financing activities</b>					
-	Surplus repayment to the Crown		(469)	-	(469)
-	<i>Net cash flow from (used in) financing activities</i>		(469)	-	(469)
852	Total net increase (decrease) in cash held		(669)	38	(44)
2,992	Cash at the beginning of the year		3,844	2,928	3,844
<b>3,844</b>	<b>Cash at the end of the year</b>		<b>3,175</b>	<b>2,966</b>	<b>3,800</b>

\* The Statement of cash flows does not include the contracted audit service provider audit fees, as these do not involve any cash transactions with the Office.

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

The accompanying notes form part of these financial statements.

# Statement of commitments

as at 30 June 2008

This statement records expenditure to which the Office is contractually committed at 30 June 2008.

## Non-cancellable operating lease commitments

The Office has long-term operating leases on its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 9-yearly.

Equipment lease commitments include leases of telephone exchange systems, facsimile machines, and photocopiers. There are no restrictions placed on the Office by any of its leasing arrangements.

Actual 2007 \$000		Actual 2008 \$000
<b>Non-cancellable operating lease commitments</b>		
<b>Property lease commitments</b>		
1,835	Not later than one year	1,882
3,444	Later than one year and not later than five years	1,770
316	Later than five years	201
5,595	<i>Total property lease commitments</i>	3,853
<b>Equipment lease commitments</b>		
234	Not later than one year	33
52	Later than one year and not later than five years	19
-	Later than five years	-
286	<i>Total equipment lease commitments</i>	52
<b>5,881</b>	<b>Total operating lease commitments</b>	<b>3,905</b>

The accompanying notes form part of these financial statements.

# Statement of contingent liabilities and contingent assets

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as at 30 June 2008

This statement discloses situations that existed at 30 June 2008, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

## **Contingent liabilities**

The Office did not have any contingent liabilities as at 30 June 2008 (nil as at 30 June 2007).

There is potential for claims to arise against the Office because of defalcations and other losses within entities of which the Auditor-General is the auditor. No demands for compensation have been made by any party as at the date of these financial statements. It is therefore impracticable to estimate any potential financial effect. The Office has professional indemnity insurance.

## **Contingent assets**

There were no contingent assets as at 30 June 2008 (nil as at 30 June 2007).

# Statement of output expenses, other expenses, and capital expenditure against appropriations

for the year ended 30 June 2008

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

Output expenses 2007 \$000	Vote Audit	Output Expenses 2008 \$000	Appropriations voted 2008 \$000
<b>Appropriations for output expenses</b>			
<i>Multi-class output appropriations</i>			
Legislative auditor:			
2,108	Parliamentary services	2,315	2,364
6,018	Performance audits and inquiries	6,223	6,407
8,126	Total legislative auditor	8,538	8,771
<i>Annual and other appropriations</i>			
58,750	Audit and assurance services	150	150
-	Provision of audit and assurance services (revenue-dependent appropriation) <sup>1</sup>	58,474	58,708
66,876	<i>Total appropriations for output expenses</i>	67,162	67,629
<b>Other expenses to be incurred by the Office</b>			
677	Remuneration of the Auditor-General and Deputy Auditor-General <sup>2</sup>	699	699
677	<i>Total other expenses</i>	699	699
<b>67,533</b>	<b>Total</b>	<b>67,861</b>	<b>68,328</b>

1 Revenue-dependent appropriation – Provision of audit and assurance services. In 2007/08 the Office earned \$58.505 million from the provision of audit and assurance services, including those provided by contracted audit service providers. The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation.

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

## Statement of unappropriated expenditure for the year ended 30 June 2008

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The Office incurred no unappropriated expenditure during the year ended 30 June 2008 (nil for the year ended 30 June 2007).

## Statement of trust money for the year ended 30 June 2008

On 1 November 1996, the Office was appointed Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI). PASAI exists to encourage, promote, and advance co-operation among its public audit members.

A trust account records the financial transactions the Office carries out on behalf of PASAI. All trust money transactions are recorded on a cash basis.

None of the transactions associated with the PASAI trust account are recorded within the Statement of financial performance or the Statement of financial position.

Actual 2007 \$000		Actual 2008 \$000
28	Opening balance at 1 July	22
6	Receipts	2
(12)	Payments	(2)
<b>22</b>	<b>Closing balance at 30 June</b>	<b>22</b>

# Notes to the financial statements

## for the year ended 30 June 2008

### Note 1: Statement of accounting policies

#### Reporting entity

The Controller and 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 purposes of the Public Finance Act 1989, and is domiciled in New Zealand.

The Controller and Auditor-General's activities include work carried out by the Office of the Auditor-General (OAG) and Audit New Zealand (referred to collectively as "the Office"), and contracted audit service providers. The Office has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

In addition, the Office has reported on trust money that it administers.

The financial statements of the Office are for the year ended 30 June 2008. The financial statements were authorised for issue by the Auditor-General on 30 September 2008.

#### Basis of preparation

The financial statements of the Controller and Auditor-General have been prepared in accordance with sections 45A, 45B, and 45F of the Public Finance Act 1989.

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for a public benefit entity.

This is the first set of financial statements prepared using NZ IFRS, and comparative figures for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of equity and net surplus/(deficit) for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in Note 21.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of the transition to NZ IFRS.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Office is New Zealand dollars.

*Standards, amendments and interpretations issued that are not yet effective and have not been early adopted*

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

NZ IAS 1: *Presentation of Financial Statements* (revised 2007) replaced NZ IAS 1: *Presentation of Financial Statements* (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in equity resulting from transactions with the Crown in its capacity as “owner” separately from “non-owner” changes. The revised standard gives the Office the option of presenting items of income and expenditure and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Office expects to apply the revised standard for the first time for the year ending 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

## Accounting policies

### Income

Income is measured at the fair value of the consideration received.

#### *Crown operating appropriations*

Income is derived 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 funding is recognised in the period to which it relates. Audit fees and other assurance income earned by the Office is recognised as the work progresses and time is allocated within work in progress to public entities.

#### *Income of audit service providers*

Audit fee income from audits carried out by contracted audit service providers is also recognised as the work progresses based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

*Interest*

Interest income is recognised using the effective interest method.

**Expenditure***Remuneration of the Auditor-General and the Deputy Auditor-General*

The remuneration of the Auditor-General and the Deputy Auditor-General, which is a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, is recognised as an expense of the Office.

*Expenses of audit service providers*

Fees paid to contracted audit service providers are recognised as the work progresses, based on advice from the contracted audit service providers. Contracted audit service providers invoice and collect audit fees directly from public entities.

*Capital charge*

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year.

*Leases*

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

*Foreign currency transactions*

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of financial performance.

**Financial instruments**

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss, in which case the transaction costs are recognised in the Statement of financial performance.

**Cash and cash equivalents**

Cash includes cash on hand and highly liquid short-term deposits with banks.

**Work in progress**

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

**Debtors and other receivables**

Debtors and other receivables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Office will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of financial performance. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

**Plant and equipment**

Plant and equipment consists of furniture and fittings, office equipment, IT hardware, and motor vehicles. Plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

*Additions*

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

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

In most instances, an item of plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

*Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of financial performance.

### *Subsequent costs*

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

### *Depreciation*

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

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

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

### **Intangible assets**

#### *Software acquisition and development*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

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

Staff training costs are recognised as an expense when incurred.

#### *Amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Statement of financial performance.

The useful life and associated amortisation rate of computer software is estimated at between 2.5 and 5 years (20% - 40%).

**Impairment of non-financial assets**

Plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through either continued use or disposal. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An intangible asset that is not yet available for use at balance date is tested for impairment annually.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the Statement of financial performance. Any reversal of an impairment loss is also recognised in the Statement of financial performance.

**Creditors and other payables**

Creditors and other payables are initially measured at fair value and, where appropriate, subsequently measured at amortised cost using the effective interest method.

**Income in advance**

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

**Employee entitlements***Short-term employee entitlements*

Employee entitlements that the Office expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

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

The Office recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

#### *Long-term employee entitlements*

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 5.75% and a salary inflation factor of 2.75% are used in the calculation of present value.

#### **Superannuation schemes**

Obligations for contributions to the Auditor-General's retirement savings plan, Kiwisaver, and the Government Superannuation Fund are accounted for as defined contribution plans, and are recognised as an expense in the Statement of financial performance as incurred.

#### **Taxpayers' funds**

Taxpayers' funds is the Crown's investment in the Office, and is measured as the difference between total assets and total liabilities.

#### **Commitments**

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

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

**Goods and Services Tax**

All items in the financial statements, including appropriation statements, are stated exclusive of Goods and Services Tax (GST), except for receivables and payables in the Statement of Financial Position, which are stated on a GST inclusive basis.

Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of financial position. The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

**Income tax**

The Office 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.

**Main Estimates and Supplementary Estimates**

The Main Estimates figures are those included in the Office's Annual Plan for the year ended 30 June 2008. In addition, the financial statements also present updated figures from the Supplementary Estimates.

**Output cost allocation**

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

*Direct costs* are those costs directly attributable to a single output.

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

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

**Judgements and estimations**

The preparation of these financial statements requires judgements, estimations, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The assessment of work in progress value is the most significant area where such judgements, estimations, and assumptions are made.

**Note 2: Crown funding**

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

**Note 3: Audit fees and other income**

Actual 2007 \$000		Actual 2008 \$000
7,781	Audit fees - Departments	7,793
22,815	Audit fees - Other	26,807
27,718	Income of contracted audit service providers	23,698
141	Interest	97
25	Miscellaneous	130
<b>58,480</b>	<b>Total audit fees and other income</b>	<b>58,525</b>

**Note 4: Personnel costs**

Actual 2007 \$000		Actual 2008 \$000
25,062	Salaries and wages	28,731
1,919	Other employee-related costs	1,395
779	Employer contributions to defined contribution plans	833
(220)	Increase/(decrease) in employee entitlements	624
<b>27,540</b>	<b>Total personnel costs</b>	<b>31,583</b>

Employer contributions to defined contribution plans include contributions to the Auditor-General's retirement savings plan, Kiwisaver, and the Government Superannuation Fund.

## Note 5: Operating costs

Actual 2007 \$000		Actual 2008 \$000
(104)	(Decrease)/Increase in provision for impairment of receivables	(55)
78	Fees to auditors for the audit of the Office's financial statements	83
	- Audit fees for NZ IFRS transition	5
17	Fees to auditors for other assurance services provided to the Office	22
1,777	Operating lease payments	1,876
27,718	Fees paid to contracted auditors for audits of public entities	23,599
87	Fees paid to the Office's auditors for audits of other public entities	99
	- Net loss on disposal	21
9,019	Other expenses	9,191
<b>38,592</b>	<b>Total operating costs</b>	<b>34,841</b>

## Note 6: Capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2008 was 7.5% (2007 – 7.5%).

## Note 7: Overdraft facility

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

During this financial year, no funds were drawn down under the facility (and none were drawn down in 2006/07).

## Note 8: Debtors and other receivables

Actual 2007 \$000		Actual 2008 \$000
4,319	Debtors	4,613
(216)	Less provision for impairment of receivables	(161)
4,103	<i>Net debtors</i>	4,452
-	- Crown debtor	-
-	- Other receivables	3
<b>4,103</b>	<b>Total receivables</b>	<b>4,455</b>

The carrying value of debtors and other receivables approximates their fair value.

As of 30 June 2008 and 2007, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2007			2008		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Current	3,470	-	3,470	3,299	-	3,299
31 to 60 days	279	(27)	252	397	-	397
61 to 90 days	131	(12)	119	332	-	332
91 to 120 days	73	(27)	46	191	-	191
Over 120 days	366	(150)	216	397	(161)	236
<b>Carrying amount</b>	<b>4,319</b>	<b>(216)</b>	<b>4,103</b>	<b>4,616</b>	<b>(161)</b>	<b>4,455</b>

The impairment provision has been calculated based on expected losses for the Office's pool of debtors. Expected losses have been determined based on an analysis of the Office's losses in previous periods and review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

Actual 2007 \$000		Actual 2008 \$000
320	Balance at 1 July	216
(104)	Additional provisions made during the year	(41)
-	- Receivables written off during the period	(14)
<b>216</b>	<b>Balance at 30 June</b>	<b>161</b>

## Note 9: Plant and equipment

	Furniture and fittings \$000	Office equipment \$000	IT hardware \$000	Motor vehicles \$000	Total \$000
<b>Cost</b>					
Balance at 1 July 2006	2,678	1,066	1,698	1,061	6,503
Additions	77	17	445	429	968
Disposals	(333)	(196)	(287)	(396)	(1,212)
Reclassification	-	(685)	685	-	-
Balance at 30 June 2007	2,422	202	2,541	1,094	6,259
Balance at 1 July 2007	2,422	202	2,541	1,094	6,259
Additions	127	7	114	382	630
Disposals	(21)	-	(17)	(308)	(346)
Balance at 30 June 2008	2,528	209	2,638	1,168	6,543
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2006	1,718	966	1,264	326	4,274
Depreciation expense	329	20	358	272	979
Elimination on disposal	(334)	(186)	(298)	(210)	(1,028)
Reclassification	-	(641)	641	-	-
Balance at 30 June 2007	1,713	159	1,965	388	4,225
Balance at 1 July 2007	1,713	159	1,965	388	4,225
Depreciation expense	350	23	353	286	1,012
Elimination on disposal	(21)	-	(16)	(190)	(227)
Reclassification	-	-	-	-	-
Balance at 30 June 2008	2,042	182	2,302	484	5,010
<b>Carrying amounts</b>					
At 1 July 2006	960	100	434	735	2,229
At 30 June and 1 July 2007	709	43	576	706	2,034
At 30 June 2008	486	27	336	684	1,533

## Note 10: Intangible assets

	Acquired software \$000	Internally generated software \$000	Total \$000
<b>Cost</b>			
Balance at 1 July 2006	2,706	-	2,706
Additions	254	-	254
Disposals	(265)	-	(265)
Balance at 30 June 2007	2,695	-	2,695
Balance at 1 July 2007	2,695	-	2,695
Additions	31	120	151
Disposals	(232)	-	(232)
Balance at 30 June 2008	2,494	120	2,614
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2006	2,430	-	2,430
Amortisation expense	175	-	175
Disposals	(265)	-	(265)
Balance at 30 June 2007	2,340	-	2,340
Balance at 1 July 2007	2,340	-	2,340
Amortisation expense	161	-	161
Disposals	(201)	-	(201)
Balance at 30 June 2008	2,300	-	2,300
<b>Carrying amounts</b>			
At 1 July 2006	276	-	276
At 30 June and 1 July 2007	355	-	355
At 30 June 2008	194	120	314

## Note 11: Creditors and other payables

	Actual 2007 \$000	Actual 2008 \$000
2,372 Creditors		1,847
2,281 Income in advance		1,873
101 Accrued expenses		123
254 GST payable		436
<b>5,008 Total creditors and other payables</b>		<b>4,279</b>

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

## Note 12: Surplus payment due to the Crown

The Office is not permitted to retain operating surpluses under the Public Finance Act 1989. Thus, the surplus for the year of \$285,000 is repayable to the Crown, and is due to be paid by 31 October 2008.

Actual 2007 \$000		Actual 2008 \$000
329	Surplus current year*	285
140	Surplus brought forward	469
-	Payment to the Crown	(469)
<b>469</b>	<b>Total provision for payment to the Crown</b>	<b>285</b>

\*The surplus for repayment to the Crown for the year ended 30 June 2007 is that reported by the Office prior to the adoption of NZ IFRS.

## Note 13: Employee entitlements

Actual 2007 \$000		Actual 2008 \$000
	<b>Current employee entitlements comprise:</b>	
843	Salary and other accruals	1,153
1,430	Annual leave	1,659
79	Long service leave	63
85	Time off in lieu of overtime worked	148
38	Retiring/resigning leave	116
65	Sick leave	87
2,540	<i>Total current portion</i>	3,226
	<b>Non-current employee entitlements comprise:</b>	
34	Long service leave	31
678	Retiring/resigning leave	619
712	<i>Total non-current portion</i>	650
<b>3,252</b>	<b>Total employee entitlements</b>	<b>3,876</b>

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

## Note 14: Reconciliation of surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of financial performance on page 83, to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 86.

Actual 2007 \$000		Actual 2008 \$000
285	<b>Surplus</b>	<b>285</b>
	<b>Non-cash items</b>	
1,154	Depreciation and amortisation	1,173
<b>1,154</b>	<b>Total non-cash items</b>	<b>1,173</b>
	<b>Working capital movements</b>	
(27)	(Increase)/decrease in prepayments	189
(593)	(Increase)/decrease in receivables	(352)
(147)	(Increase)/decrease in work in progress	(759)
1,395	(Decrease)/increase in payables	(729)
(432)	(Decrease)/increase in employee entitlements	686
-	(Decrease)/increase in property lease liabilities	-
<b>196</b>	<b>Total net working capital movements</b>	<b>(965)</b>
	<b>Investing activity items</b>	
(23)	Loss/(profit) on sale of plant and equipment	(10)
-	Loss/(profit) on sale of intangible assets	31
<b>(23)</b>	<b>Total net investing activity items</b>	<b>21</b>
	<b>Other items</b>	
255	Increase/(decrease) in non-current employee entitlements	(62)
<b>255</b>	<b>Total other items</b>	<b>(62)</b>
<b>1,867</b>	<b>Net cash flow from operating activities</b>	<b>452</b>

## Note 15: Related party transactions

The Office is a wholly owned entity of the Crown. The Office enters into transactions with government departments, Crown entities, and state-owned enterprises on an arm's-length basis. Transactions that occur within a normal supplier or client relationship, on terms and conditions no more or less favourable than those which it is reasonable to expect the Office would have adopted if dealing with that entity at arm's length in the same circumstances, are not disclosed.

The following transactions were carried out with related parties:

- There are close family members of key management personnel employed by the Office. The terms and conditions of those arrangements are no more favourable than the Office would have adopted if there were no relationship to key management personnel.
- The Office purchased services from Research Write Limited, a research and communications firm, in which the Deputy Controller and Auditor-General's sister and brother-in-law are Directors. The contract was entered into prior to her appointment as Deputy, on normal commercial terms. The services purchased cost \$8,950 (2007 – \$11,000) and continued to be supplied on normal commercial terms. There is a balance of \$3,093 (2007 – \$2,813) outstanding at balance date.
- The Office carried out the audit of the Ministry of Agriculture and Forestry (MAF) in which the Assistant Auditor-General Research and Development's husband is the Acting Chief Information Officer. The value of the services provided under the contract during the year totalled \$183,000 (2007 – \$178,000) and were negotiated on normal commercial terms. There were no outstanding balances at balance date (2007 – nil). The Assistant Auditor-General Research and Development had no involvement with the audit of MAF.
- The Office carried out the audit of the Valuers Registration Board (the Board) of which the General Manager Operations at Audit New Zealand is an outgoing member. The General Manager Operations held the Board membership position, which is a ministerial appointment, prior to employment with the Office and, on joining the Office, the Auditor-General agreed that some work be done as a transition to leaving the Board. The audit of the Board was carried out by a contracted audit service provider, not by Audit New Zealand. The value of the audit fee under the contract totalled \$5,000 (2007 – \$5,000) and it was negotiated on normal commercial terms.

**Key management personnel compensation**

Actual 2007 \$000		Actual 2008 \$000
2,595	Salaries and other short-term employee benefits	2,895
	- Post-employment benefits	-
	- Other long-term benefits	-
158	Termination benefits	-
<b>2,753</b>		<b>2,895</b>

Key management personnel include the Auditor-General, the Deputy Auditor-General, and the ten members of the OAG and Audit New Zealand Leadership Teams.

**Note 16: Financial instrument risks**

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

**Market risk***Currency risk*

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

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

*Interest rate risk*

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

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

**Credit risk**

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

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

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

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

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

#### Liquidity risk

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

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

The Office's financial liabilities are outlined in Note 11: Creditors and other payables. These are all due to be settled within two months.

### Note 17: Categories of financial instruments

The carrying amounts of financial instruments in each of the NZ IAS 39 categories are as follows:

Actual 2007 \$000		Actual 2008 \$000
<b>Loans and receivables</b>		
3,844	Cash and cash equivalents	3,175
4,103	Debtors and other receivables (Note 8)	4,455
<b>7,947</b>	<b>Total loans and receivables</b>	<b>7,630</b>
<b>Financial liabilities measured at amortised cost</b>		
5,008	Creditors and other payables (Note 11)	4,279
<b>5,008</b>	<b>Total creditors and other payables</b>	<b>4,279</b>

## Note 18: Management of taxpayers' funds (equity)

The Office's taxpayers' funds (equity) comprise general funds and is represented by net assets.

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

## Note 19: Explanation of major variances against budget

Explanations for major variances from the Office's forecast figures in the *Annual Plan 2007/08* are as follows:

### Statement of financial performance

Audit fees and other income was \$4.54 million higher than the Main Estimates. Of this increase, \$2.37 million is attributable to NZ IFRS conversion audits, which are larger than earlier anticipated, particularly for local government and council-controlled entities. The balance of the increase is associated with attest audits, in relation both to the stage of completion of 30 June audits at balance date and to finalising fees as they are agreed with clients. This includes work completed by both Audit New Zealand and contracted audit service providers.

Personnel costs were higher due to Audit New Zealand delivery of the above additional work.

Operating costs were higher due to the above additional work completed by contracted audit service providers.

Depreciation and amortisation expense was lower due to the replacement of key information systems being deferred to 2008/09.

Capital charge expense was higher due to the capital charge and offsetting interest components now being reported separately. Formerly, these were offset, with the net capital charge cost being reported only in the Statement of financial performance.

### Statement of movements in taxpayers' funds

The figures reported in the Main Estimates do not include the adjustments arising from the move to NZ IFRS. The reconciliation of the resulting change in taxpayers' funds is shown in Note 21.

**Statement of financial position**

The higher cash balance, higher receivables and higher work in progress all relate to the timing of invoicing and receipts for audit engagements. The higher creditors and other payables balance relates to the timing of accounts payment runs and the year-end accounting close-off.

The increase in employee entitlements relates to increased annual leave entitlements due to increases in staff leave entitlements and remuneration, and the number of days accrued for salaries payable.

**Statement of cash flows**

The differences in operating items all relate to the Statement of financial position items noted above.

**Note 20: Office accommodation statistics**

The following statistics are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

Actual 2007		Actual 2008
6173m <sup>2</sup>	Area	6144m <sup>2</sup>
288	Number of staff (FTE)	311
21.4m <sup>2</sup>	Space allocation per person	19.8m <sup>2</sup>
\$1,777,229	Total costs of leased office accommodation	\$1,731,754
\$5,820	Rent costs per person	\$5,568
\$355	Utility costs per person	\$387
-	Vacant accommodation	-

**Note 21: Explanation of transition to NZ IFRS**

The Office's financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. The Office has applied NZ IFRS 1: *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in preparing these financial statements.

The Office's transition date is 1 July 2006. The Office prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Office's NZ IFRS adoption date is 1 July 2007.

## Reconciliation of equity

	Note	Previous NZ GAAP 1 July 2006 \$000	Effect on transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ GAAP 30 June 2007 \$000	Effect on transition to NZ IFRS 30 June 2007 \$000	NZ IFRS 30 June 2007 \$000
<b>Current assets</b>							
Cash and cash equivalents		2,992	0	2,992	3,844	0	3,844
Prepayments		362	0	362	389	0	389
Work in progress		1,378	0	1,378	1,525	0	1,525
Trade receivables		3,510	0	3,510	4,103	0	4,103
<i>Total current assets</i>		8,242	0	8,242	9,861	0	9,861
<b>Non-current assets</b>							
Plant and equipment	a	2,505	(264)	2,241	2,389	(355)	2,034
Intangible assets	a	0	264	264	0	355	355
<i>Total non-current assets</i>		2,505	0	2,505	2,389	0	2,389
<b>Total assets</b>		<b>10,747</b>	<b>0</b>	<b>10,747</b>	<b>12,250</b>	<b>0</b>	<b>12,250</b>
<b>Current liabilities</b>							
Payables and accruals		3,613	0	3,613	5,008	0	5,008
Surplus payment to the Crown		140	0	140	469	0	469
Employee benefit liabilities	b	2,951	21	2,972	2,475	65	2,540
<i>Total current liabilities</i>		6,704	21	6,725	7,952	65	8,017
<b>Non-current liabilities</b>							
Employee benefit liabilities		457	0	457	712	0	712
<i>Total non-current liabilities</i>		457	0	457	712	0	712
<b>Total liabilities</b>		<b>7,161</b>	<b>21</b>	<b>7,182</b>	<b>8,664</b>	<b>65</b>	<b>8,729</b>
<b>Net assets</b>		<b>3,586</b>	<b>(21)</b>	<b>3,565</b>	<b>3,586</b>	<b>(65)</b>	<b>3,521</b>
<b>Taxpayers' funds</b>							
General funds	b	3,586	(21)	3,565	3,586	(65)	3,521
Surplus for the year		0	0	0	0	0	0
<b>Total taxpayers' funds</b>		<b>3,586</b>	<b>(21)</b>	<b>3,565</b>	<b>3,586</b>	<b>(65)</b>	<b>3,521</b>

- a. Intangible assets – Computer software was classified as part of plant and equipment under previous NZ GAAP. The net book value of computer software reclassified as an intangible asset on transition to NZ IFRS is \$264,000, and at 30 June 2007 is \$355,000.
- b. Sick leave – Sick leave was not recognised as a liability under previous NZ GAAP. NZ IAS 19 requires the Office to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that the Office anticipates it will be used by staff to cover future absences.

**Reconciliation of surplus**

The following table shows the changes in the Office's surplus, resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007.

	Note	Previous NZ GAAP 30 June 2007 \$000	Effect on transition to NZ IFRS \$000	NZ IFRS 30 June 2007 \$000
<b>Continuing activities</b>				
<b>Income</b>				
Crown funding		9,335	-	9,335
Audit fees – Departments		7,781	-	7,781
Audit fees – Other		22,815	-	22,815
Income of contracted audit service providers		27,718	-	27,718
Miscellaneous		166	-	166
Gain on sale of plant and equipment		23	-	23
<b>Total income</b>		<b>67,838</b>	<b>-</b>	<b>67,838</b>
<b>Expenditure</b>				
Personnel costs	a	27,496	44	27,540
Operating costs		38,592	-	38,592
Depreciation and amortisation expense		1,154	-	1,154
Capital charge		267	-	267
<b>Total expenditure</b>		<b>67,509</b>	<b>-</b>	<b>67,553</b>
<b>Surplus</b>		<b>329</b>	<b>44</b>	<b>285</b>

a. Sick leave liability – This represents the increase in the sick leave provision, which was not recognised under previous NZ GAAP.

**Statement of cash flows**

There have been no adjustments to the Statement of cash flows on transition to NZ IFRS.

# Appendix 1

## Summary of reports on performance audits and other studies published in 2007/08

### *Turning principles into action: a guide for local authorities on decision-making and consultation*

This publication updates our 1998 guidance report *Public Consultation and Decision-making in Local Government*, as we became aware of local authority and public concerns about some aspects of decision-making and consultation as set out in the Local Government Act 2002. This guide is the combined view of the Office and a working party within the sector convened to advise the Office. It discusses the principles-based approach in the Local Government Act 2002, and will assist local authorities in their consideration of the principles in the Act as they carry out decision-making and consultation. It also provides examples of local authority practice in areas that the working party and this Office identified as challenges to implement. It does not attempt to define legislative compliance – rather, it is a combined view and discussion on principles and current practice.

### *Inquiry into Dunedin City Council and Otago Regional Council's funding of the proposed stadium*

We inquired into this matter because of the amount of ratepayer funds that might be contributed to the proposed stadium, the relationship with a non-council-controlled organisation, and the uncertainty within the Otago region about the nature of the Councils' involvement. We had received several requests for inquiries into various aspects of the Councils' involvement with the proposed stadium. The purpose of the inquiry was to review the Councils' funding arrangements with the Carisbrook Stadium Charitable Trust. Overall, we found that the Councils' funding arrangements are appropriate for this stage of the project, but that a formal and robust funding framework will need to be put in place should either or both of the Councils make a firm commitment to fund the construction phase of the project.

### *Conflicts of interest in the three Auckland District Health Boards*

We carried out a performance audit at the request of the Minister of Health, in which we looked in detail at the conflict of interest policies and practices of the Auckland District Health Board, the Counties Manukau District Health Board, and the Waitemata District Health Board. There are several especially difficult types of conflict of interest that are specific to district health boards (DHBs) and that are sometimes unavoidable. The three Auckland DHBs we looked at have a range of useful policies and procedures in place, but in some areas there is room for improvement. In particular, board and committee members need to conscientiously follow the statutory requirements about conflicts of interest that apply to them. Our findings are focused on the three Auckland DHBs, but we hope that this report may also be of value to the wider DHB sector.

*Effectiveness of controls over the taxi industry: follow up report*

In 2005, we reported on the effectiveness of controls over the taxi industry. The report made 61 recommendations to improve Land Transport New Zealand's (LTNZ) performance in this area. This follow-up report was part of our commitment to providing the Transport and Industrial Relations Committee with regular updates on LTNZ's progress in implementing our recommendations. LTNZ has done a considerable amount of work to review its approach to the taxi industry. Overall, we are satisfied with how LTNZ has responded to 49 out of 61 of the recommendations in our 2005 report. Good progress has been made in the recruitment of taxi enforcement officers and the introduction of the Land Transport Rule: Operator Licensing 2007, which should result in significant improvements to how the taxi industry is managed. However there are 12 recommendations for which we consider the progress has not been adequate, and in order to address them LTNZ should give priority to the recommendations in its work programme.

*Implementing the Maori Language Strategy*

The Māori Language Strategy (the Strategy) is a 25-year strategy to co-ordinate and prioritise government action in the area of Māori language revitalisation. It was produced jointly by Te Puni Kōkiri – the Ministry of Māori Development (TPK), and Te Taura Whiri i te Reo Māori – the Māori Language Commission (Te Taura Whiri). We did a performance audit to see whether the six lead agencies responsible for implementing the Strategy were carrying out their roles effectively. We found that lead agencies' progress in planning and commitment to the Strategy, while improving, remains variable across the lead agencies.

*Liquor licensing by territorial local authorities*

Under the Sale of Liquor Act 1989, territorial authorities have the status of District Licensing Agencies, responsible for considering applications and issuing licenses for the sale and supply of liquor to the public. We carried out a performance audit to examine how territorial authorities were managing their liquor licensing responsibilities under the Act. They are, by and large, doing a good job. However, the audit identified some important areas for improvement. District Licensing Agencies are responsible not only for issuing liquor licenses but also for monitoring and enforcing compliance with license conditions and the Act. We found that not all District Licensing Agencies are sufficiently committed to this responsibility.

*New Zealand Agency for International Development: Management of overseas aid programmes*

New Zealand's Official Development Assistance funding programme is one of the main ways the Government contributes to reducing poverty in developing countries. The New Zealand Agency for International Development (NZ Aid) administers the programme. Our audit focused on how NZ Aid planned, implemented, monitored, and evaluated its overseas aid programmes. It specifically looked at how NZ Aid managed three programmes – the Papua New Guinea bilateral programme, the Indonesia bilateral programme, and the Pacific Regional Health programme. The audit found that NZ Aid has a long-term approach to planning, works closely with its development partners overseas and other international aid agencies in planning and implementing its programmes, and (to varying degrees) monitors performance and evaluates the effectiveness of its programmes. The audit also found that more clarity, consistency, and direction were required in all of these areas.

*Mental health services for prisoners*

Prisoners have a high need for mental health services, and responding to mental health issues in prison has potential to reduce re-offending. Responsibility for prisoners' mental health services is split between the Department of Corrections, the Ministry of Health, and district health boards. Our performance audit examined service planning, service delivery, and service monitoring and evaluation. We found that systems for providing mental health services are under significant pressure from increasing prison numbers and a high demand for inpatient beds. The needs of prisoners with severe mental illness are generally well catered for, but timely access to inpatient beds can be an issue. Service responsiveness is more limited for some groups. These include those with mild to moderate mental illness, women, those with personality disorders, and Māori. The agencies involved in providing mental health services to prisoners have committed resources to identify gaps in services, address these gaps, and improve services overall. Work is also being done to better identify prisoners with mental health issues.

*New Zealand Trade and Enterprise: administration of grant programmes – follow up audit*

Our performance audit assessed the extent to which New Zealand Trade and Enterprise has addressed areas of concern we identified in a 2004 audit we did of their administration of grant programmes. NZTE is the Government's national economic development agency. An important purpose of NZTE is to support the

development of internationally competitive business performance, which includes administering a wide range of grant and awards programmes on behalf of the Crown. NZTE has responded appropriately to the recommendations we made in 2004, and is now effectively and efficiently administering their grant programmes in keeping with the Government's intentions.

*Audit committees in the public sector*

An effective audit committee shows that an organisation is committed to a culture of openness and continuous improvement. This report, prepared with assistance from Deloitte, sets out the principles and practices needed to set up and effectively operate an audit committee in the public sector, and provides other useful resources such as example charters and checklists. The guide is not sector-specific, as the principles and practices it outlines apply to the public sector as a whole. We expect all public entities to consider setting up an audit committee in line with the good practices identified in the report.

*Inland Revenue Department: Effectiveness of the Industry Partnership programme*

Receiving cash payments but not declaring them for tax purposes is one way of avoiding or evading tax. In 2002, the Inland Revenue Department (IRD) began testing an Industry Partnership programme to try to reduce the incidence of undeclared income from cash transactions in selected industries. Our audit found that IRD generally performed well in designing, operating, and evaluating the programme. The programme included a lot of evaluation, monitoring, and self-critique, and subsequent adjustments to the programme. This was one of the programme's strengths. However, IRD could have given greater attention to bringing the people and organisations likely to have undeclared cash incomes into the tax system. IRD needs to ensure that lessons learned from the programme are recorded and reflected in operational guidance and support resources. During 2008/09, we will be asking IRD to report on its progress with this.

*Responses to the Coroner's recommendation on the June 2003 Air Adventures crash*

In May 2006, the Coroner reported on the June 2003 aircraft crash at Christchurch International Airport. At the Minister of Transport's request, we looked at how the Civil Aviation Authority and the Ministry of Transport considered, responded to, and reported on each of the Coroner's recommendations. We found that the process and the range of information used by the CAA and the Ministry in forming their conclusions provide evidence that they have properly considered their response to each of the Coroner's recommendations. However, the Ministry should have more proactively monitored the timeliness of its responses and the progress made by the CAA in responding to the Coroner's recommendations.

We had intended that this audit would also follow up on the CAA's response to the recommendations in our 2005 report. This has not been possible, because the implementation of the certification and surveillance systems (which are aimed at addressing our main recommendations) has taken longer than planned. We will audit the effectiveness of the new systems in late 2008.

*Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund*

The Guardians are the Crown entity responsible for management and governance of the Fund. The Fund has a long-term purpose, contributing to the future funding of superannuation in New Zealand, in the context of a significantly ageing population. We appointed Ernst & Young to assist with our performance audit, given the highly specialised nature of the Fund. We found the governance and management of the fund to be in good shape. The Guardians' internal control activities generally meet or exceed accepted international practices and guidelines for operating investment funds. The Guardians have also shown leadership in the New Zealand public sector in relation to the complex area of responsible investment. However, the Guardians are still in the early stages of a long-term role, and will need to make changes as the organisation grows and in response to the challenges of a constantly changing investment environment.

*Ministry of Social Development: Preventing, detecting and investigating benefit fraud*

The Ministry of Social Development has a major responsibility to safeguard the integrity of the social security benefits system, which makes payments amounting to billions of dollars a year.

Our performance audit assessed the effectiveness of the Ministry's systems, policies, and procedures for preventing, detecting, and investigating benefit fraud. We found that, overall, the Ministry has good systems, policies, and procedures in place for counteracting benefit fraud. However, we were unable to assess the effectiveness of a range of changes the Ministry has recently made in response to a major benefit fraud uncovered in late 2006. But we believe that these changes should help improve the Ministry's overall ability to counteract benefit fraud.

*The Accident Compensation Corporation's leadership in the implementation of the national falls prevention strategy*

Falls are a major cause of injury, hospitalisation, and deaths, and represent a major cost to the ACC scheme, as well as to the health system more generally. The Government published the national falls prevention strategy in August 2005,

with the aim of strengthening co-ordination of the many government, non-government, and community agencies with an interest in falls prevention. Our audit assessed how ACC had led development of the implementation plan for the strategy, and progress with actions to give effect to that plan. We found that ACC had worked well with other agencies to put together the implementation plan, and had developed close relationships with injury prevention partners in establishing a framework for implementation, engaging effectively with agencies such as DHBs. We recommended that ACC draw up a protocol with key partner agencies, and that they finalise a framework and methodology for evaluating the results of the implementation activities. ACC has responded positively to our report, and is committed to acting on the recommendations and other issues we raised for their consideration.

*Procurement guidance for public entities*

This good practice guide updates and replaces our 2001 publication *Procurement: A Statement of Good Practice*. Public entities must have a detailed understanding of what they are procuring, the value and risk of the procurement, and how important the procurement is to achieving their overall goals and business strategy. This guide expands on the different methods that public entities can use to approach the market and the factors they need to take into account when deciding on the appropriate method.

*Public sector purchases, grants and gifts: Managing funding arrangements with external parties*

Many public entities find procurement a challenging and confusing area, and it is not always clear how the various sources of rules and guidance fit together. The aim of this overarching guide is to provide that clarity. This document explains the range of funding arrangements and how to think about which type of arrangement suits a particular circumstance. That range covers conventional purchasing contracts, relational purchasing arrangements, grants, and gifts. The aim is to help public entities to satisfy themselves and Parliament that they are spending public funds carefully, and that they are properly managing the process for spending those funds.

*Managing funding to non-government organisations – from principles to practice*

In 2006, we published *Principles to underpin management by public entities of funding to non-government organisations (NGOs)*. We expect the principles and the risk-based approach outlined in that guidance to be evident in the management of funding arrangements with NGOs. We were interested in the extent to which this was the case in a public entity that managed many

such arrangements. We looked at nine case studies of Ministry of Health/NGO relationships, focusing on the main funding arrangement in each case. We focused on how the Ministry considered the particular risks involved in each arrangement and the principles of good management outlined in our guidance. In the nine funding arrangements we looked at, the Ministry demonstrated a good awareness of the issues and principles involved when a not-for-profit provider delivers public services. We decided to share some of the Ministry's experiences, to help clarify some of the more difficult areas for other public entities.

#### *The Auditor-General's observations on the quality of performance reporting*

The purpose of this discussion paper was to set out the Auditor-General's perspective about the purposes of performance reporting, to inform Parliament of observations about the quality of performance reports produced by the public sector in the last two years, and to set out the Office's conceptual framework for performance reporting. Overall, the poor quality of non-financial performance reporting by public entities is disappointing. It needs to improve significantly to allow Parliament and the public to hold public entities accountable for their use of taxes and rates and for the effectiveness of their service delivery.

#### *Charging fees for public sector goods and services*

Last year the Regulations Review Committee asked us to consider providing an update to our 1989 publication *Guidelines on Costing and Charging for Public Sector Goods and Services*. We have worked with the Committee and the Treasury in preparing this new good practice guide, which replaces our 1989 publication. It discusses our expectation that public entities set fees in keeping with the principles of authority, efficiency, and accountability. It sets out the matters that we expect public entities to consider when calculating the costs of providing goods or services and setting the associated fees. It will form the basis on which we will carry out any work to review how a public entity has set fees.

#### *Ministry of Education: Monitoring and supporting school boards of trustees*

School boards of trustees are an important part of New Zealand's education system. The elected trustees are mainly volunteers from the community, who commit a substantial amount of time and effort to the role. We carried out a performance audit to examine the effectiveness of the Ministry of Education's monitoring of, and support for, boards in their governance role. Overall, the Ministry provides some useful training and general support for all boards. It also has good systems for supporting boards that are clearly at risk of poor performance. However, the Ministry needs to more actively monitor the whole school portfolio, so that it identifies boards that would benefit from support

earlier and provides that support promptly. It also needs to ensure that it supports boards consistently throughout the country. The Ministry has responded positively to the matters raised during the audit and is committed to implementing the recommendations.

*Reporting the progress of the defence acquisition project*

Projects to acquire defence capabilities involve large amounts of public money and attract much public and political interest. Our intention was to carry out a performance audit to identify and report changes to costs, time frames, and essential user requirements in selected defence acquisition projects. However, we were unable to complete the audit as originally intended, as a lot of the detailed information that we expected the defence agencies to have was not readily available. The focus of this interim report was on the quality of the monitoring and reporting systems, not the quality of the decisions being made. In our view, the defence agencies must be able to report better and more complete information to demonstrate how well they are managing defence acquisition projects. Better reporting will enable greater accountability to Ministers, Parliament, and other stakeholders on progress with these major acquisition projects.

# Appendix 2

## Approach and method used for our stakeholder and client surveys

### Stakeholder survey

We use our stakeholder feedback survey to measure how Parliament and other key stakeholders perceive the quality, relevance, and usefulness of our reports and advice.

Using an independent consultant, we surveyed a sample of stakeholders made up of 50% of select committees, a selection of central agencies, and other representative groups.

Our questions covered the stakeholders' satisfaction of the effect and effectiveness of our work, as well as their satisfaction with the quality, relevance, and usefulness of specific reports and types of advice.

Stakeholders were asked to respond to a series of qualitative open questions and then to rate us in a number of areas on a scale from 1 to 5, with 1 being strongly disagree or very dissatisfied and 5 being strongly agree or very satisfied.

### Client survey

The Auditor-General uses an independent firm to conduct an annual client satisfaction survey of the entities for which he is the auditor (that is, all public entities). The firm surveys a random sample of public entities as a means of measuring the level of satisfaction and identifying areas where we need to improve our audit services.

In previous years, survey work has been limited to a sample of those public entities audited by Audit New Zealand. In 2008/09, we intend to extend the sample to cover public entities audited by private sector accounting firms.

Representatives of a sample of these entities are invited to participate in a telephone interview to provide comment on:

- audit service providers' core audit ability;
- audit service providers' staff knowledge;
- the way audit service providers' staff work with entities, including governing bodies and audit committees where relevant;
- the value that audit service providers add and the usefulness of the advice given;
- the performance and contribution that audit service providers made as entities prepared to adopt NZ IFRS; and
- the overall degree of satisfaction with the service received from audit service providers.



## Appendix 3

# The International Peer Review

In 2007/08, the Auditor-General commissioned an independent peer review of the Office. The review was undertaken by an international panel led by Pat Barrett, Senior Fellow, Australian National University and formerly Auditor-General, Australian National Audit Office (1995-2005). It was completed on 15 April 2008. The Office's last peer review was undertaken in 2001.

### Terms of reference for the International Peer Review

The review will assess the efficiency and effectiveness of the Office, in particular how well the Office is achieving the outcomes it seeks.

The review will cover:

- the governance of the Office, including the respective roles of and relationship between the Office of the Auditor-General and Audit New Zealand;
- the conduct of financial audit engagements, including the audit of Long-Term Council Community Plans;
- the conduct of performance audits, inquiries, the Controller function, and other work performed by the Office of the Auditor-General, including the support of select committees;
- general management of the Office, including the organisation of resources, the allocation of audits, and setting and monitoring of audit fees;
- the operation of the Office's quality control systems;
- the Office's relationships with its primary stakeholders, in particular Parliament; and
- such other matters as the review team considers relevant.

The review will generally follow the approach developed for the Australasian Council of Auditors-General for Peer Reviews and Voluntary Developmental Quality Assurance Reviews.

### Overview results of the International Peer Review

The Auditor-General's Office (the Office) is a relatively small but highly regarded organisation both in New Zealand and internationally. The Office operates in the context of a developed, highly performing and sophisticated national economy and an innovative public service that has been used as a model by many countries. On the one hand, limited resource availability and product scope might inhibit performance compared with that of other similar Offices but, on the other, the foregoing factors tend to raise expectations of the Office. The Review Team was conscious of such a tension but concluded, in relation to a number of performance

criteria, that the Office would rate highly both absolutely and relatively in any international comparison.

The Review Team was impressed by the robust legislative framework applying to the public sector and to the Office. The Public Audit Act 2001 was intended to strike an acceptable balance between:

- the independence of the Auditor-General, in particular the ability to act without direction or improper influence by the Executive or the Legislature;
- the need for a sound working relationship between the Auditor-General, Parliament and the Executive; and
- the need for the Auditor-General to be properly accountable to Parliament.

Importantly, establishing the Auditor-General as an Officer of Parliament was to ensure the Auditor-General's independence. The Office accepted that the Controller and Auditor-General, as an Officer of Parliament and a Corporation Sole has the same level of accountability as comparable entities in the public sector. It is recognised that the Auditor-General's role as an Officer of Parliament does create a tension between being accountable to Parliament while recognising that Parliament is best served by an Auditor-General free from any political interference. The same comment applies to the statutory position of Deputy Auditor-General. The effectiveness of the Office is enhanced by the seamless integration of governance at the top of the organisation, reflecting the complementary and co-operative relationship between the two current appointees.

While some concerns were expressed to the Review Team about the clarity of roles and relationships between the Auditor-General (and the Office) and Parliament, the legislative intent is quite clear. Differing perceptions about action taken, or not taken, are best addressed by direct and open communication. Independence is called into question when one is involved in processes or related decision-making and is also responsible for the review or audit of the activity. It was clear that the Auditor-General and the Office are very sensitive to issues of independence and accountability and the appropriate action, including independent review, to provide assurance to the various stakeholders, not least to Parliament itself.

The Office has undergone significant and wide-ranging change since the last Peer Review in 2001. Its workload has increased in both volume and complexity. Its legislative and operating environment has altered in a number of ways. Its budget and staffing establishment have expanded. And significant improvements have been made to its structures, systems and operations.

The relationships of the Office with its key stakeholders are generally very positive. Its work is respected across government. Central agencies in particular see it as supportive of their efforts to improve public sector performance. It is highly regarded by local government. Parliamentary Select Committees depend heavily on advice from the OAG and appointed auditors in their examination of departmental estimates and annual reports. Ministers find it helpful to receive annual financial audit reports on their portfolio agencies and spoke well of the work of the Office. Parliament also values the Office's work, although the recent inquiry into electoral advertising has obviously strained the Auditor-General's relations with political parties. Recent independent stakeholder surveys bear out the high levels of satisfaction encountered by our team.

We found considerable process rigour around quality assurance, with no fewer than five reviews conducted in the year preceding our own review. These reviews have all commented positively on the OAG's performance audits, while also usefully signposting ways in which further improvement can be made. We note that, at present, much of the quality assurance effort is focussed towards the end of an audit or indeed after an audit report has been published. We consider there would be merit in applying more of this resource to earlier points in the audit lifecycle.

With 14 performance audits to deliver in 2007-08 and a core audit staff of 15 performance auditors, there is a question as to whether present core staffing levels for performance audits provide sufficient continuity and capacity to do justice to the range and number of audits tackled each year. The selection processes for performance audits could also be refined, primarily around a more proactive engagement with Members of Parliament and public entities. While improving quality of audits and recommendations is of prime importance to the reputation and credibility of the Office, there is also the imperative to ensure that recommendations are actually being implemented effectively. A closer working relationship with Select Committees could assist in this respect.

Our overall assessment is that the Office has coped well with the challenges of recent years and is performing its tasks professionally and well. It has the feel of an outward-looking and forward-looking organisation. The feedback from stakeholders on its performance was generally positive, as noted earlier, with some suggesting that the Office could do even more to contribute to improving public sector management in New Zealand. We found management and staff alike to be well attuned to the changing requirements and expectations placed on the Office. Both the OAG and Audit New Zealand now seem to us to be well positioned to respond to the further challenges that lie ahead.

As with other Audit Offices and private sector accounting firms, the OAG and Audit New Zealand have an ongoing problem of attracting and retaining suitable professionals, not only to undertake audit programmes, but also to maintain – and hopefully improve – research and development capacity, add value to audits, and improve relationships with all stakeholders. At least three related factors need to continue to be addressed to meet staffing concerns – providing suitable personal development and professional training as well as state-of-the-art audit tools; providing a comprehensive and varied audit programme that is relevant to stakeholders as well as being demanding and interesting to staff; and promoting stakeholder relationships that enhance understanding and acceptance of the work of the auditor.

## Appendix 4

# Entities audited under section 19 of the Public Audit Act 2001

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

As this report was published, arrangements had been entered into for audits of the following entities:

- Antarctic Institute: Andrill Joint Venture
- France Trust (Central Hawkes Bay)
- Gisborne Laundry Services
- Kahungunu Executive Ki Te Wairoa Charitable Trust
- Kaipara Community Health Trust
- Maori Education Trust
- TLab Limited
- Te Runanga O Kirikiriroa Trust
- Te Wheke Atawhai Limited
- Tokelau International Trust Fund
- Unipol Recreation Limited.



# Appendix 5

## Senior management

### **Statutory officers**

Controller and Auditor-General

Kevin Brady

Deputy Controller and Auditor-General

Phillippa Smith

### **OAG Leadership Team**

Assistant Auditor-General, Accounting and Auditing Policy

Greg Schollum

Assistant Auditor-General, Corporate Business Services

Matt Reid  
(to 7/8/2007)

Peter Grant  
(from 29/10/2007)

Assistant Auditor-General, Legal

Nicola White

Assistant Auditor-General, Local Government

Bruce Robertson

Assistant Auditor-General, Parliamentary Group

Wendy Venter

Assistant Auditor-General, Performance Audit Group

Graham Baker  
(to 30/11/2007)

Mike Scott  
(from 17/12/2007)

Assistant Auditor-General, Research and Development

Ann Webster

### **Audit New Zealand Executive Leadership Team**

Executive Director, Audit New Zealand

Terry McLaughlin  
(to 30/6/2008)

General Manager, Operations

Bethia Gibson

General Manager, Professional Practices

Chong Lim



# Appendix 6

## Directory of offices

### **Office of the Auditor-General**

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Wellington 6140  
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Facsimile: (04) 917 1549  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

### **Audit New Zealand**

#### **National Office**

Level 8  
St Paul's Square  
45 Pipitea Street  
PO Box 99  
Wellington 6140  
Telephone: (04) 496 3099  
Facsimile: (04) 496 3095  
Website: [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

#### **Auckland**

Level 10  
Wollongong University College House  
155 Queen Street  
PO Box 1165  
Auckland 1140  
Telephone: (09) 373 5457  
Facsimile: (09) 366 0215

#### **Hamilton**

17 Clifton Road  
PO Box 256  
Hamilton 3240  
Telephone: (07) 839 3349  
Facsimile: (07) 838 0508

### **Tauranga**

745 Cameron Road  
PO Box 621  
Tauranga 3140  
Telephone: (07) 578 8400  
Facsimile: (07) 577 9321

### **Palmerston North**

49 Victoria Avenue  
PO Box 149  
Palmerston North 4440  
Telephone: (06) 354 9702  
Facsimile: (06) 356 7794

### **Wellington**

Level 8  
St Paul's Square  
45 Pipitea Street  
PO Box 99  
Wellington 6140  
Telephone: (04) 496 3099  
Facsimile: (04) 496 3195

### **Christchurch**

Level 2  
Charles Luney House  
250 Oxford Terrace  
PO Box 2  
Christchurch 8140  
Telephone: (03) 379 8774  
Facsimile: (03) 377 0167

### **Dunedin**

Level 1  
399 Moray Place  
PO Box 232  
Dunedin 9054  
Telephone: (03) 477 0657  
Facsimile: (03) 479 0447



# Publications by the Auditor-General

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

- Ministry of Health: Monitoring the progress of the Primary Health Care Strategy
- Ministry of Education: Supporting professional development for teachers
- Inquiry into the West Coast Development Trust
- Maintaining and renewing the rail network
- Reporting the progress of defence acquisition projects
- Ministry of Education: Monitoring and supporting school boards of trustees
- Charging fees for public sector goods and services
- The Auditor-General's observations on the quality of performance reporting
- Local government: Results of the 2006/07 audits – B.29[08b]
- Procurement guidance for public entities
- Public sector purchases, grants, and gifts: Managing funding arrangements with external parties
- The Accident Compensation Corporation's leadership in the implementation of the national falls prevention strategy
- Ministry of Social Development: Preventing, detecting, and investigating benefit fraud
- Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund
- Annual Plan 2008/09 – B.28AP(08)
- Central government: Results of the 2006/07 audits – B.29[08a]
- The Auditor-General's Auditing Standards – B.28(AS)
- Responses to the Coroner's recommendations on the June 2003 Air Adventures crash
- Inland Revenue Department: Effectiveness of the Industry Partnership programme

## Website

All these reports are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz). They can also be obtained in hard copy on request – [reports@oag.govt.nz](mailto:reports@oag.govt.nz).

## Mailing list for notification of new reports

We offer a facility for people to be notified by email when new reports and public statements are added to our website. The link to this service is in the Publications 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.



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