



## Summary Annual Report 2007/08



I am pleased to present this Summary Annual Report for the year ended 30 June 2008, which provides an overview of the Office and our achievements and performance during the year. The full annual report can be found on our website.

During the year, the Office underwent an international peer review to let us know whether we are operating effectively and efficiently, and in keeping with good practice. I am very pleased with the report of the review team which noted, among other things, that “the office would rate highly both absolutely and relatively in any international comparison.”

Significant changes in the accounting and auditing profession and public entities’ legislative and operating environments continued to have a major effect on

our work. 2007/08 was the first year most public sector audits were conducted under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and we continued to assist through, for example, model annual reports.

However, the change to NZ IFRS has increased complexity for those preparing and auditing financial reports, contributing to a situation in the public sector where financial and audit expertise are in high demand. I believe we can see the pressure of complexity and skills shortages impacting on the public sector and on my own Office. For example, arrears in issuing public entities’ audit reports increased from 362 at 30 June 2007 to 453 at 30 June 2008. Audit fees increased by an average of 9% in 2007/08.

I am increasingly concerned about the credibility of financial reporting standards, some of which I expect to begin affecting my Office’s audit reporting over the next year. I have been told lately, by many people involved in financial management in public entities, that financial reporting standards are now so complex that many entities’ finance teams can no longer prepare their financial statements without specialist external expertise. If so, serious questions are raised about both the reasonableness of financial reporting standards and the financial management capability of the public sector.

The demands created by changes within the accounting and auditing profession have meant that my Office has had to focus more heavily on entities’ financial statements at the expense of public-interest audit work. In 2007/08, we began work to rebalance our audit effort toward non-financial reporting, waste, probity, and accountability. As part of this rebalancing, I recently decided that, where I attest to performance information, my opinions should provide assurance about whether an entity’s performance framework will allow its actual output performance to be fairly presented. Revisions to my auditing standards will be issued later this year as a basis for consultation.

In 2007/08, we reviewed and improved our 2006 LTCCP audit methodology with a focus on enhancement around the key concerns arising from our 2006 LTCCP audits – sustainability; provision of clear public information on key choices and to allow meaningful assessment of council services; and asset management information.

There is no doubt in my mind, based on the results of the 2006 LTCCP audits, that our audit work is warranted. Local authorities manage long-lived assets and services of critical importance. Public confidence that these assets and services will continue and meet changing needs is vital. I hope that, over time, local authorities will build the integrity of information, decision-making, and service management, so that LTCCP audits will no longer be necessary.

Overall, the Office is required to address financial reporting changes while continuing to perform its public sector role in a difficult environment for finding and retaining qualified and experienced staff. This means that, although we have risk management systems in place, our key risks of audit failure and loss of independence, capability, or reputation remain.

I am proud of the contribution the Office has made over the past year to trust in the effectiveness and efficiency of the public sector. While 2008/09 will be challenging, I am confident we have a strong basis on which to continue our contribution.



K B Brady

30 September 2008

## About the Office – Our role and structure

The Controller and Auditor-General (Auditor-General) is an Officer of Parliament. He is independent of executive government and Parliament in discharging the functions of the statutory office, but is answerable to Parliament for his stewardship of the public resources entrusted to him.

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

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

The Auditor-General also engages private sector accounting firms to carry out his statutory functions in relation to some public entities. Most audits of public entities are allocated by the Auditor-General. A contestable regime is used to appoint the auditors of some strongly commercial public entities and a small number of schools where appropriate.

## Overview of performance – Outcomes and impacts

As an Office, we want to help create trust in the effectiveness and efficiency of the public sector through our independent advice and assurance. A measure of trust is New Zealand's ranking on the Transparency International Corruption Perception Index. In 2007, New Zealand's score was 9.4, ranking it first equal with Denmark and Finland. The Office also collects impact information to give it insight into the effect of its work on improving the effectiveness and efficiency of the public sector.

Our annual audit and other assurance work suggest that the quality of financial reporting and management in the public sector was broadly maintained, with:

- the number of audit reports being qualified or including other explanatory paragraphs (for example, reporting breaches of law) remaining similar to those of previous years. In 2007/08, 2.3% of audit reports we issued were qualified or included other explanatory paragraphs, compared to 2.4% of reports in each of the two previous years.
- increased acceptance of the annual management report recommendations made by Audit New Zealand to entities this year (72%) compared to last year (64%). This increase resulted from lower levels of non-response to recommendations. The number of recommendations that were rejected also increased, with 4% of our recommendations being rejected this year, compared to 1% last year.

However, a concerning trend is emerging, with the number of public entities' audited financial reports issued within the statutory timeframe falling markedly compared with the previous year – from 83% in 2006/07 to 78% in 2007/08.

For our other output classes, our impact measures suggest that our work is achieving its desired impact, with:

- reviews of a sample of performance audits and inquiries showing that entities have responded well to our recommendations for improvement; and
- select committee members advising (through our stakeholder survey) that our advice assists them in their Estimates and financial review examinations.

## Overview of performance (summary Statement of service performance)

Below we provide a snapshot of our achievements in delivering services against the measures and targets we set in our *Annual Plan 2007/08*.

### Provision of audit and assurance services

2007/08 Forecast	2007/08 Actual	2006/07 Actual	2005/06 Actual
Less than 10% of audits in arrears are due to our inaction	55%	51%	N/A
All management reports sent within six weeks of the audit report	93%	95%	96%
75% of client survey respondents rate Audit NZ's overall service 7 or greater on a scale of 1 to 10.	75%	68%	75%
95% of auditors receive satisfactory or better grading through quality assurance reviews	93%	84%	85%
Independent review confirms the probity and objectivity of our methods for allocating audits and monitoring fees.	Confirmed	Confirmed	Confirmed
Costs (2007/08 forecast – \$58.9m)	\$58.6m	\$58.7m	\$43.0m

2007/08 was the first year in which we reported audit arrears due to our inaction, and we were disappointed that we did not get close to achieving our target. Improving our management of audit arrears is a key focus for the Office to improve our own effectiveness, but more importantly to ensure that those interested in public accountability receive our audit assurance as soon as possible after year-end.

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

### Parliamentary services, and Performance audits and inquiries

The Controller function of the Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of departments and Officers of Parliament have been incurred lawfully, for purposes within their intended scope. Monthly statements (between September 2007 and June 2008) were provided by the Treasury for our review. We took action on breaches and suspected breaches in accordance with the Auditor-General's mandate and standards and with the Memorandum of Understanding with the Treasury that sets out monthly procedures and timescales. An internal quality assurance review was undertaken in May 2007 to confirm that our policies, procedures and standards were appropriately applied. This review found some variability in practices that have been addressed through procedure revisions and training.

2007/08 Forecast	2007/08 Actual	2006/07 Actual	2005/06 Actual
At least 85% of select committee members surveyed rate the advice they receive from us as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 80%	Quality: 100%	Quality: 100%
	Usefulness: 83%	Usefulness: 86%	N/A
At least 85% of stakeholders surveyed rate our performance audit reports as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 50%	Quality: 100%	Quality: 100%
	Usefulness: 66%	Usefulness: 86%	Usefulness: N/A
Number of reports issued on performance audits and special studies	22	20	22
Independent reviews of two performance audits confirm their quality (presentation of context; report structure, presentation and format; reasonableness of methodology and conclusions).	Confirmed	Confirmed	Confirmed
	80% of our findings on inquiries are reported within:		
• 3 months for “routine” inquiries,	91%	95%	N/A
• 6 months for “sensitive” inquiries; and	82%	0% (1 undertaken)	
• 12 months for “major” inquiries.	None undertaken	None undertaken	
Costs (2007/08 forecast – \$9.5m)	\$9.2m	\$8.8m	\$8.7m

In total, 24 public reports were issued, made up of reports to Parliament on the results of annual audits (2) and on performance audits and special studies (22). A full list of the public reports we issued is included in the Annual Report and copies of the reports are available on our website: [www.oag.govt.nz](http://www.oag.govt.nz)

Our reports, advice, and responses to inquiries are subject to a range of external and internal quality assurance to ensure that they are well prepared. In all cases, the result of this quality assurance work confirmed that our work was of good quality. However, while many of our annual stakeholder survey rankings were positive this year, they showed falls on those of previous years. The survey report advises that the results “... show that the Office is continuing to perform at a high level.” and notes that “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.”

## Financial performance and financial position (summary financial statements)

	2008 Actual \$000	2008 Supp. Estimates \$000	2007 Actual \$000
<b>The income we earned was:</b>	<b>68,146</b>	<b>68,328</b>	<b>67,838</b>
We received this income from the following sources:			
• \$58.5m of audit fees from public entities and other income			
• \$9.6m from the Crown, which included a funding increase from the previous year of \$0.286m			
<b>Our total expenditure was:</b>	<b>67,861</b>	<b>68,328</b>	<b>67,553</b>
The main items we spent money on were personnel costs \$31.6m, fees paid to contracted auditors \$23.7m, and other day-to-day operating costs \$12.6m			
All our spending was within the limits set by Parliamentary appropriations			
<b>Our surplus for the year, which is returned to the Crown, was:</b>	<b>285</b>	<b>-</b>	<b>285</b>
<b>Our total assets at 30 June were:</b>	<b>11,961</b>	<b>12,018</b>	<b>12,250</b>
The assets consisted of:			
• Current assets – including cash \$3.2m, work in progress \$2.3m, and receivables \$4.5m	10,114	9,978	9,861
• Non-current assets – the plant, equipment, and intangible assets we own	1,847	2,040	2,389
<b>Our liabilities at 30 June were:</b>	<b>8,440</b>	<b>8,497</b>	<b>8,729</b>
The liabilities consisted of:			
• Current liabilities – including creditors and other payables \$4.3m, and provision for employee entitlements \$3.2m	7,790	7,757	8,017
• Non-current liabilities – provision for employee entitlements	650	740	712
<b>Movements in our taxpayers' funds were:</b>			
Opening balance at 1 July	3,521	3,521	3,565
Surplus for the year	285	-	285
Provision for payment of surplus to the Crown	(285)	-	(329)
<b>Closing balance at 30 June</b>	<b>3,521</b>	<b>3,521</b>	<b>3,521</b>
<b>Our net increase/(decrease) in cash held was:</b>	<b>(669)</b>	<b>(44)</b>	<b>852</b>
The net cash flows were from:			
• Operating activities	452	1,274	1,867
• Investing activities	(652)	(849)	(1,015)
• Financing activities	(469)	(469)	-

\* This summary has been extracted from the full financial statements. The full financial statements, dated 30 September 2008, are in our *Annual Report 2007/08* (available on our website, [www.oag.govt.nz](http://www.oag.govt.nz)).

# Audit report



## AUDIT REPORT

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

We have audited the summary financial statements and statement of service performance as set out on pages 5 to 7.

#### Unqualified Opinion

In our opinion, the information reported in the summary financial statements and statement of service performance complies with FRS-43: *Summary Financial Statements* and is consistent with the full financial statements and statement of service performance from which they are derived and upon which we expressed an unqualified audit opinion in our report dated 30 September 2008.

#### Basis of Opinion

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

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

The Controller and Auditor-General is responsible for preparing the summary financial statements and statement of service performance and we are responsible for expressing an opinion on those statements.

*CST Nexia Audit*

**CST Nexia Audit  
Chartered Accountants  
Manukau City, New Zealand  
30 September 2008**

