



## Summary Annual Report 2010/11



Welcome to my summary annual report for the year ended 30 June 2011.

### The public sector in 2010/11

I started the 2010/11 year aware of the significant challenges the public sector faced from wider international events. During the year, we weathered the ongoing challenge of financial and economic turbulence in the wake of the global financial crisis as well as challenges arising from the tragic Canterbury earthquakes. In response to the Canterbury earthquakes, many public servants have made extraordinary contributions to maintain essential public services for their fellow New Zealanders.

At the end of 2010/11, our challenges remain very real. As we adapt to our current environment, we strive to safeguard the long-term sustainability of our public services as well as our society and economy. Adapting while safeguarding our future services will require us all to continue to focus on delivering value and, in doing so, to be willing to question our assumptions and current ways of doing things.

I am glad to be able to tell Parliament and the public that, through my Office's work, I have seen a responsive and responsible public sector willing and working to deliver more for less. We have found that most public sector organisations have good financial management systems and controls over the resources they manage, and are asking themselves about how they can continue to deliver value in our changing environment.

### My Office's achievements

I am proud of the Office's achievements during the past year. We delivered an ambitious work programme, completing timely and quality annual audits that our clients have told us built on a better understanding of their environments, businesses, and risks. They also told us that we can offer them yet more insight and advice based on learning from our audit work. I am committed to working on this feedback to address the change in, and growing complexity of, the public sector and the higher expectations of the public.

We achieved strong results in our other areas of work, publishing yet more performance audits and other reports than in previous years, and completing several major inquiries. Among these reports was *How the Department of Internal Affairs manages spending that could give personal benefit to Ministers*. I am personally heartened that useful improvement work is under way that I hope will lead to a better system to support appropriate spending by Ministers.

We made good progress in two of the areas of focus that I identified at the beginning of 2010 – Auckland and performance reporting. We completed the audits of Auckland Council’s initial planning document and the dissolution accounts of the eight former councils, as well as a suite of reports to Parliament on the Auckland local government reform.

We issued unmodified audit opinions on the appropriateness of their performance reporting for all but three local authorities – a very pleasing result. I’d like to acknowledge and congratulate all public entities that have achieved significant improvements in their non-financial performance reporting. It has been hard work, but entities are beginning to reap the benefits of better information for their decision making and resource prioritisation.

### **Our internal management and capability**

Looking at our internal operations, we improved our financial management and professional development. Along with others in the public sector, we challenged ourselves to look for and better understand ways to be more cost-effective. I am satisfied that we moved swiftly to ensure the safety of our staff as well as our ongoing service delivery in the aftermath of the Canterbury earthquakes. The Audit New Zealand office was in the red zone, and we are now committed to finding new permanent premises. I thank my staff in Christchurch for their forbearance, as we know that our temporary accommodation, as for many others, is sub-optimal.

I am committed to making sure that my Office continues to be well positioned to contribute to a more effective and efficient public sector, including looking at the efficiency of our own operations and processes. But, in doing so, we must be careful not to lose effectiveness. Looking forward, I want to maintain and improve on my Office’s 2010/11 service, quality, and timeliness results, while investing in building our infrastructure and capability to deal with the opportunities that lie ahead of us.

I sincerely thank the staff of the Office and our wider community of contracted audit service providers for their good work during the year, and congratulate them on their achievements. With their support, I look forward to the challenges and opportunities of 2011/12.



Lyn Provost  
Controller and Auditor-General  
23 September 2011

# About us

## Our vision

To improve the performance of, and the public's trust in, the public sector

## Our mission

To provide independent assurance to parliament, public entities, and the public that public entities are:

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

## Our strategy

To generate greater insight and value from our work by:

- better understanding the objectives and operating environments of public entities;
- better using the full range of our resources to identify and address issues and risks within public entities and the public sector; and
- better customising our reporting.

## Our people

Lyn Provost, the Controller and Auditor-General, is an Officer of Parliament who carries out her role independent of executive government and Parliament, but is accountable to Parliament for the public resources she uses to do the job.

The Auditor-General's work is carried out by staff in two business units supported by a shared corporate business services team:

**The Office of the Auditor-General**, which plans, sets policy and standards, appoints and oversees the Auditors' work, carries out performance audits, inquiries and special studies, and provides reports and advice to Parliament and others.

**Audit New Zealand**, which carries out annual audits allocated by the Auditor-General and provides other assurance services to public entities.

Private sector accounting firms are also engaged and allocated by the Auditor-General to carry out annual audits of some public entities.

## Summary of our outcomes

Our measures of our outcomes show maintained or improved results for 2010/11.

Our outcomes	Our impact
<b>Trusted public sector</b>	9.3 – New Zealand’s score on Transparency International’s Corruption Perceptions Index, making New Zealand first equal with Denmark and Singapore
<b>Appropriately responsible public sector behaviour</b>	97% – unmodified annual audit opinions 87% – annual audits completed on time
<b>High performing public sector</b>	64% of people surveyed thought their last public service experience was value for money
<b>Our annual audits encourage public entities to respond effectively to our recommendations for improvement</b>	Our annual audits helped maintain the quality of financial reporting and management in the public sector:  77% – the three-year average of our management report recommendations accepted by public entities  More than 90% – the three-year average of central government entities whose management and financial controls we graded good or better  68% – the proportion of central government entities whose performance management information and controls we graded as needing to improve
<b>Parliament, local government, and other stakeholders are supported and get value from our advice</b>	Our support to Parliament and others helped improve the accountability of public entities:  More than 85% of select committee members surveyed annually have, for each of the last five years, said our advice assisted their examinations
<b>Our inquiries and performance audits encourage public entities to respond effectively to our recommendations for improvement</b>	Follow-up on our performance audits and inquiries showed that public entities take action on our recommendations



# Summary of achievements and service performance

## Audit and assurance services

We are generally pleased with the trends for 2010/11, during which we saw:

- a minor increase in the number of audits in arrears at 30 June and a slight reduction in the timeliness for issuing management reports to public entities after completion of our audits. We consider this a good result, given the disruption caused by the Canterbury earthquakes;
- a significant decline in the percentage of audit arrears being due to inaction on our part, reflecting increased focus by auditors in this area;
- an increase in an already high level of client satisfaction and maintenance of a high percentage of appointed auditors receiving a quality assurance grade of “satisfactory” or better; and
- encouraging evidence that the relevance and understandability of the information presented by public entities is already increasing, with local authorities’ 2010 audits being carried out in accordance with the Auditor-General’s revised auditing standard on reporting service performance.

We again received confirmation from an independent review that our processes for audit appointments and audit fee monitoring have been carried out with due probity and objectivity. However, there continues to be some pressure on audit fees. During 2010/11, fees have again been affected by entity specific issues, in addition to some pressure on average charge-out rates as a result of auditors using a more senior team mix, coupled with the return of some salary-driven pressure as the market for accountants and auditors begins to free up again. The following table shows the movement in audit fees in the last two years.

	2009/10 to 2010/11				2008/09 to 2009/10			
	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
Total	3158	3.9%	2.0%	1.9%	3027	5.8%	5.1%	0.7%



A milestone event affecting public entities' financial reporting and our work that occurred during the year was the External Reporting Board taking over responsibility from the New Zealand Institute of Chartered Accountants for setting financial reporting standards. The External Reporting Board has indicated that financial reporting standards will be developed using a multi-standards approach, which we think is likely to better meet the needs of users of public entity reports in future.

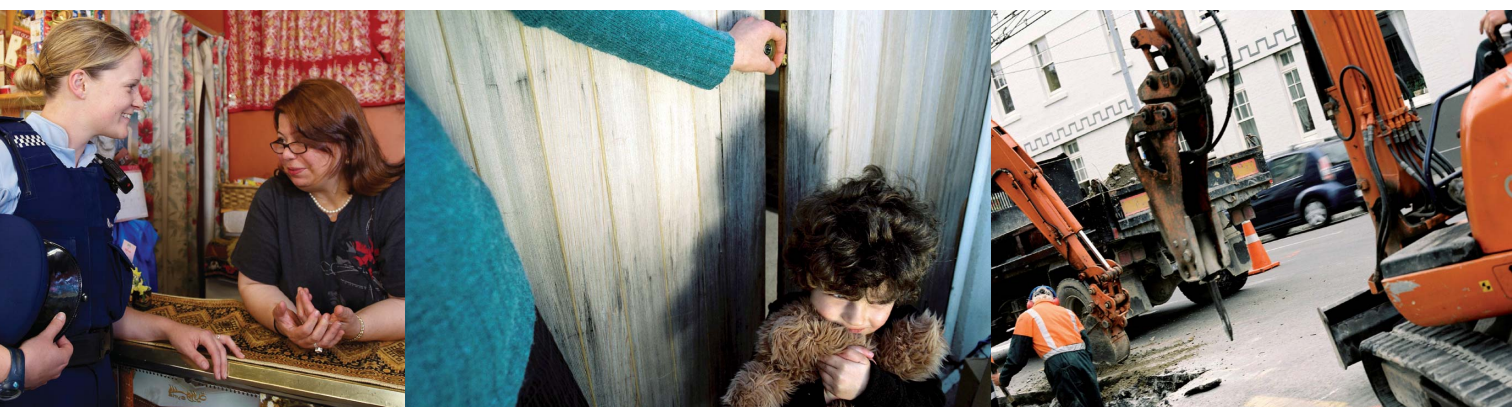
### Achievement against measures

2010/11 Forecast	2010/11 Actual	2009/10 Actual	2008/09 Actual
Less than 30% of audits in arrears are due to inaction on our part	20%	42–47%*	49%
All management reports sent within six weeks of the audit report being signed	94%	95%	93%
75% of client survey respondents rate overall service as 7 or greater on a scale of 1 to 10	90%	83%	80%
95% of auditors receive satisfactory or better grading through quality assurance reviews	100%	98%	100%
Independent review confirms the probity and objectivity of our methods for allocating audits and monitoring fees	Confirmed	Confirmed	Confirmed
Costs (2010/11 forecast – \$65.0m)	\$65.0	\$62.7m	\$60.6m

\*Note: This year we used an estimate.

### Supporting accountability to Parliament, and performance audits and inquiries

Our results show that our work continues to play an important part in supporting accountability to Parliament. This is pleasing, given the continuing high demand for services in providing advice to select committees. Our stakeholder feedback report says that the Office is continuing to perform at a high level, with stakeholders valuing the professional and impartial advice and guidance that they receive from the Office. While we did see a decline in ratings for the relevance and usefulness of our advice and performance audits, the overall trend remains strongly positive. The small number of stakeholders surveyed can lead to significant shifts from year to year.



Our stakeholders encouraged us to continue to offer more insight and advice from what we learn through our annual and discretionary work, to drive performance improvement in the public sector. We are focusing on good analysis and reporting of sector information and will be carrying out work to better manage information from annual audits into our services to Parliament, and performance audits and inquiries.

We completed 26 reports on matters arising from performance audits, other studies, and major inquiries. These reports covered a broad range of issues, and included such diverse topics as District health boards: *Availability and accessibility of after-hours services*, and *New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network*.

We were encouraged by the positive findings from the Australian National Audit Office's review of our performance audit methodology and an independent panel review of two of our reports. The reviewers commented on the overall quality and the value our reports represent, noting that they were well presented and easy to understand. The reviewers identified clear reporting, strong analysis and evidence collection, and sound planning as our strengths. They suggested improvements in the presentation of report overviews and audit scope, consideration of cost-benefit and risk around some of the findings and recommendations, and making more use of overseas best practice.

We received slightly fewer requests for inquiries this year, allowing us to largely "catch up" with the number of larger and more complex inquiries that we have been dealing with in recent years, which had been straining our resources and affecting our timeliness.

We completed the two longstanding inquiries into New Zealand Defence Force payments to officers seconded to the United Nations and into the Plumbers, Gasfitters and Drainlayers Board. We also concluded various significant inquiries later in the year including *How the Department of Internal Affairs manages spending that could give personal benefit to Ministers* and on local government issues that attracted attention.

In late 2010, our work was dominated by the local authority elections, including training for new members that Local Government New Zealand provides around the country on the Local Authorities (Members' Interests) Act 1968. We have in the past reported our concerns with this Act and we are pleased that the Minister of Local Government has recently initiated a full review of the Act.



### Achievement against measures

2010/11 forecast	2010/11 Actual	2009/10 Actual	2008/09 Actual
At least 85% of select committee members we seek feedback from rate the advice they receive from us as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 86% Usefulness: 86%	Quality: 86% Usefulness: 86%	Quality: 86% Usefulness: 86%
At least 85% of stakeholders we seek feedback from rate our performance audit reports as 4 or better on a scale of 1 to 5 for quality and usefulness	Quality: 75% Usefulness: 75%	Quality: 80% Usefulness: 100%	Quality: 100% Usefulness: 67%
Number of reports issued on performance audits, inquiries, special studies, and results of annual audits (2010/11 forecast – 19-21)	26	22	21
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 findings on inquiries are reported within: <ul style="list-style-type: none"> <li>• 3 months for routine inquiries,</li> <li>• 6 months for significant inquiries; and</li> <li>• 1 year for major inquiries.</li> </ul>	94%  50%  33% (3 major inquiries – only one was completed within the target time frame)	86%  94%  80%	84%  73%  0%  (2 major inquiries reported within 13 months)
Costs (2010/11 forecast – \$9.05m)	\$8.4m	\$8.4m	\$8.6m

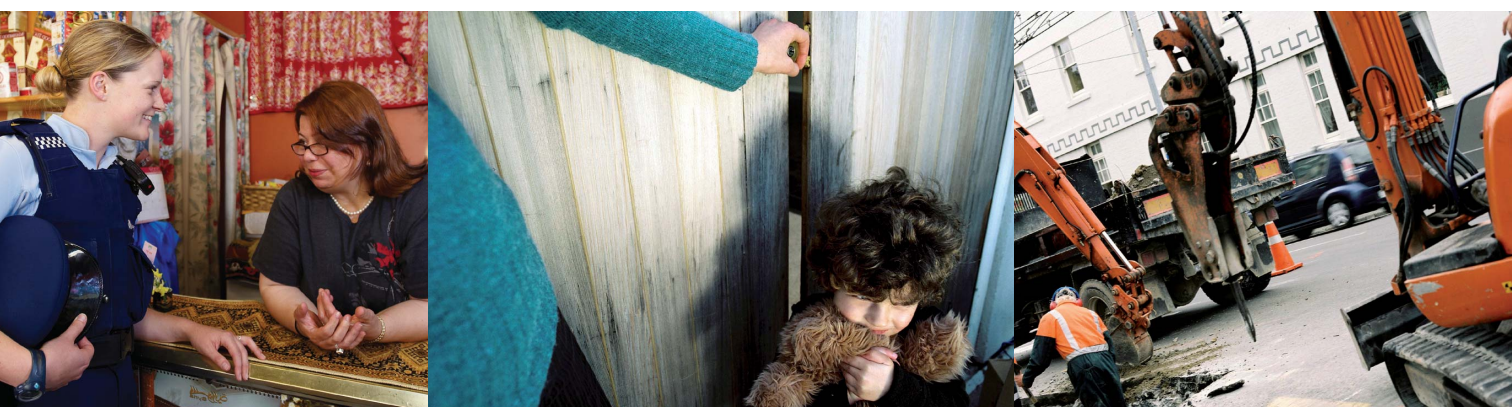




## Summary of financial performance, financial position, and cash flows\*

	2011 Actual \$000	2011 Supp. Estimates \$000	2010 Actual \$000	2009 Actual \$000
<b>The income we earned was:</b>	<b>75,195</b>	<b>74,797</b>	<b>73,798</b>	<b>70,420</b>
<ul style="list-style-type: none"> <li>• \$65.2m of audit fees from public entities</li> <li>• \$10.0m from the Crown</li> </ul>				
<b>Our total expenditure was:</b>	<b>74,279</b>	<b>74,797</b>	<b>71,784</b>	<b>69,934</b>
<ul style="list-style-type: none"> <li>• The main items we spent money on were personnel costs \$34.7m, fees paid to contracted auditors \$27.4m, and other day-to-day operating costs \$12.1m</li> <li>• All our spending was within the limits set by Parliamentary appropriations</li> </ul>				
<b>Our surplus for the year, which is returned to the Crown, was:</b>	<b>916</b>	<b>0</b>	<b>2,014</b>	<b>486</b>
<b>Our total assets at 30 June were:</b>	<b>14,541</b>	<b>12,935</b>	<b>14,281</b>	<b>13,267</b>
<ul style="list-style-type: none"> <li>• Current assets – including cash \$4.3m, work in progress \$1.9m, and receivables \$6.0m</li> <li>• Non-current assets – the plant, equipment, and intangible assets we own</li> </ul>	12,427	10,668	12,000	10,916
	2,114	2,267	2,281	2,351
<b>Our liabilities at 30 June were:</b>	<b>10,520</b>	<b>8,914</b>	<b>10,760</b>	<b>9,746</b>
<ul style="list-style-type: none"> <li>• Current liabilities – including creditors and other payables \$5.0m, and provision for employee entitlements \$4.0m</li> <li>• Non-current liabilities – provision for employee entitlements</li> </ul>	9,934	8,344	10,196	9,229
	586	570	564	517
<b>Movements in taxpayers' funds were:</b>				
Opening balance at 1 July	3,521	3,521	3,521	3,521
Surplus for the year	916	0	2,014	486
Provision for payment of surplus to the Crown	(916)	0	(2,014)	(486)
Capital contribution by the Crown	500	500	0	0
<b>Closing balance at 30 June</b>	<b>4,021</b>	<b>4,021</b>	<b>3,521</b>	<b>3,521</b>
<b>Our net increase/(decrease) in cash held was:</b>	<b>74</b>	<b>(1,361)</b>	<b>514</b>	<b>520</b>
<ul style="list-style-type: none"> <li>• Operating activities</li> <li>• Investing activities</li> <li>• Financing activities</li> </ul>	2,357	1,010	1,801	2,233
	(769)	(857)	(801)	(1,428)
	(1,514)	(1,514)	(486)	(285)

\* This summary has been extracted from the full financial statements. The full financial statements, dated 23 September 2011, are in our Annual Report 2010/11 (available on our website, [www.oag.govt.nz](http://www.oag.govt.nz)).



# Audit report



## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S SUMMARY FINANCIAL AND NON-FINANCIAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

We have audited the summary financial and non-financial information as set out on pages 5 to 9, which was derived from the audited financial statements and non-financial performance information of the Controller and Auditor-General for the year ended 30 June 2011 on which we expressed an unmodified audit opinion in our report dated 23 September 2011.

The summary financial and non-financial information comprises the summary of financial performance, financial position, and cash flows and the summary of achievements and service performance.

#### Opinion

In our opinion, the information reported in the summary financial and non-financial information complies with FRS-43: *Summary Financial Statements* and is consistent in all material respects with the audited financial statements and non-financial performance information from which they have been derived.

#### Basis of opinion

We carried out the audit in accordance with International Standards on Auditing (New Zealand), and we applied the Auditor-General's Auditing Standard 4 (Revised) – *The Audit of Service Performance Reports* and the Auditor-General's Statement 810 – *Engagements to report on summary financial and non-financial information* that are also applied to the audits of many other public sector entities in New Zealand.


The summary financial and non-financial information and the audited financial statements and non-financial performance information from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 23 September 2011 on the audited financial statements and non-financial performance information.

The summary financial and non-financial information does not contain all the disclosures required for full financial statements and non-financial performance information under generally accepted accounting practice in New Zealand. Reading the summary financial and non-financial information, therefore, is not a substitute for reading the audited financial statements and non-financial performance information of 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 and non-financial information in accordance with FRS-43: *Summary Financial Statements*. We are responsible for expressing an opinion on the summary financial and non-financial information, based on the procedures required by the International Standard on Auditing (New Zealand) 810: *Engagements to Report on Summary Financial Statements* and the applicable procedures in the Auditor-General's Statement 810.

We carry out some audits of public entities on behalf of the Controller and Auditor-General. The amount of work we carry out on behalf of the Controller and Auditor-General is no more than the amount of work we did prior to our appointment as auditor of the Controller and Auditor-General. Other than the audit of the Controller and Auditor-General and the audits we carry out on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Controller and Auditor-General.

  
**CST Nexia Audit**  
**Chartered Accountants**  
**Manukau City, New Zealand**  
**23 September 2011**