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Parliamentary paper

Statement of Intent 2011–14

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Prepared in accordance with Part 4
of the Public Finance Act 1989.

May 2011

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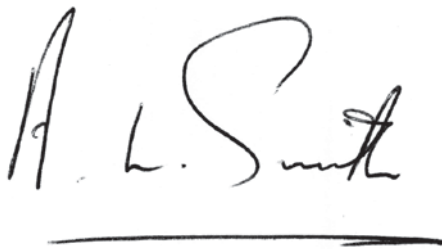
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Speaker's foreword

In my capacity as Speaker, I am responsible for Vote Audit under the Public Finance Act 1989. I am therefore pleased to introduce the Controller and Auditor-General's *Statement of Intent 2011–14* under Part 4 of the Act.

The Controller and Auditor-General is an Officer of Parliament whose role is to assist Parliament in its scrutiny of executive government, to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

Along with the Estimates of Appropriations for Vote Audit, the *Statement of Intent 2011–14* indicates how the Auditor-General intends to discharge her duties and apply the resources made available to her in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Auditor-General to account for the performance of her Office during 2011/12.

A handwritten signature in black ink, reading "A. L. Smith". The signature is written in a cursive style with a large, sweeping "S". Below the signature is a horizontal line.

Dr The Rt Hon Lockwood Smith MP
Speaker of the House of Representatives

5 May 2011

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Statement of responsibility

In signing this statement, I acknowledge that I am responsible for the information contained in the *Statement of Intent 2011–14* for the Controller and Auditor-General.

This information has been prepared in keeping with the Public Finance Act 1989. It is also consistent with the information considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2011/12 budgetary estimates for the Auditor-General. These were submitted under section 45G of the Public Finance Act 1989, with the proposed appropriations set out in the Appropriations (2011/12 Estimates) Bill, as presented to the House of Representative in keeping with section 13 of the Public Finance Act 1989, and with existing appropriations and financial authorities.



Lyn Provost
Controller and Auditor-General

30 March 2011

Countersigned:



Maria Viviers
Financial Controller

30 March 2011

Auditor-General's overview and strategic direction

I am pleased to submit this *Statement of Intent 2011–14* for the Controller and Auditor-General.

My thoughts in preparing this statement are dominated by the Christchurch earthquake tragedy on 22 February 2011, which will remain the nation's focus for some time to come and will test the resilience of us all. Of course, New Zealand is not alone in coping with natural disasters.

Since the global recession, reduced public revenue and increased levels of national debt are now part of our broader environment, while the recovery and rebuilding of Christchurch, our second-largest city, will require an extraordinary amount of human endeavour as well as financial support.

New Zealand's landscape and physical environment is under increasing pressure from man-made activities and natural events and disasters, and our decision-makers and communities will be called on to balance immediate and ongoing economic imperatives with sustainable future needs. For many, the lure of living in Australia and other places overseas will be increasingly attractive, and we may struggle as a nation to keep our best and brightest and maintain our ability to support an ageing population.

In this context, there will be an increased drive for efficiency and better services in the public sector, with a range of structural, funding, and service changes being considered and implemented to do more with less. It is important that effectiveness does not become a casualty of that drive for efficiency. For those committed to keeping New Zealand strong, there will be many challenges. Our ability as a country to adapt cleverly will be the key to success. For my Office, these challenges will include managing pressure on audit quality, and potential loss of staff to domestic and overseas organisations.

Outlook for 2012

In 2010, I said our focus for the next two to three years would be on these main themes:

1. the local government reorganisation in Auckland;
2. performance reporting;
3. analysis and reporting of sector information (sector knowledge);
4. changes to financial reporting standards (and, more broadly, auditing standards and regulation of auditors); and
5. adding value through our 4000-plus annual audits, inquiries, and performance audits.

In addition, during this time, I wanted to identify a cross-cutting theme to underpin our audits and other work in 2012/13. We will select a topic during 2011 so that we can complete the necessary planning and research before starting work on the cross-cutting theme during 2012.

I am pleased to say that we have made good progress with the first two matters identified in 2010 – Auckland and performance reporting. Our stakeholders and clients are telling us that we have built a better understanding of their environments, businesses, and risks, and that we are bringing this understanding to our work with them. I am committed to building on this understanding to carry out audit work that addresses the change in, and growing complexity of, the public sector and the higher expectations of the public.

My emphasis for 2011/12 will be on sharing sector knowledge and accounting and auditing standards, and continuing to make an important contribution internationally.

Sharing sector knowledge

In February 2011, we started an initiative to improve the way we share knowledge within the organisation. This initiative consolidates and expands on our previous work, which focused on helping us to better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. This new initiative will be a test of our ability to be flexible, agile, and adaptive.

Accounting and auditing standards

I am pleased that the Accounting Standards Review Board has decided to adopt two sets of accounting standards for New Zealand. In my view, this is likely to mean public sector standards will be based on International Public Sector Accounting Standards (IPSAS) in future. I am looking forward to our involvement in applying these new standards, and to resuming our involvement in the standard-setting process. We will be keen to ensure that changes to the standards are applied smoothly and sensibly for the New Zealand public sector context.

Our international contribution

My Office makes a significant contribution to the international audit community, ranging from input into the development of accounting and auditing standards to our involvement with public sector auditing in the Pacific and beyond. The respect and esteem with which we are held among our overseas colleagues is humbling and heart-warming. It underlines our responsibility and commitment to improving the standard of public sector auditing globally.

Concluding comments

In 2011/12, we will continue to focus on adding value to the public sector through our audits and other work, and to review our own effectiveness and efficiency. While I do not underestimate what will be involved, I am confident that my Office has the people and expertise to respond to the challenges ahead.

I thank the Speaker and the Finance and Expenditure Committee for the feedback they provided on my *Draft statement of intent 2011–14*, which has been taken into account in preparing this final Statement of Intent.



Lyn Provost
Controller and Auditor-General

5 May 2011

Part 1

Medium-term intentions

Nature and scope of the Auditor-General's functions

The Controller and Auditor-General (the 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.

By law, the Auditor-General is the auditor of all public entities in New Zealand – a total of about 4000 public entities, such as government departments, central agencies, Crown entities, schools, and State-owned enterprises.

All public entities are accountable for their use of public resources and powers. It is the Auditor-General's job to give Parliament and the public independent assurance about how public entities are operating and accounting for their performance.

The role also includes auditing local authorities, which are accountable to the public for the activities they fund through locally raised revenue. As well as annual audits, the Auditor-General audits local authorities' long-term plans, which are prepared every three years.

By carrying out audits and reporting about audit findings, the Auditor-General draws attention to matters of effectiveness and efficiency, waste, probity, and financial prudence. She recommends actions to help improve public sector performance and how performance information is reported to Parliament and the public.

The Public Audit Act 2001 sets out the mandate and responsibilities of the Auditor-General. The Auditor-General's legislative mandate is confined to public entities, in respect of which the Auditor-General:

- must carry out the annual audit requirements of the Public Audit Act 2001 and other statutes (such as the Public Finance Act 1989 and Local Government Act 2002, which set out accountability responsibilities of public entities);
- may carry out other services of a kind that it is reasonable and appropriate for an auditor to perform; and
- may carry out performance audits and inquiries.

Strategic directions and operating intentions

The Auditor-General's vision is to improve the performance of, and the public's trust in, the public sector. In the medium-term, her strategy is to generate greater insight and value from our work by improving our understanding of the public

entities we audit, using the full range of our resources, customising our reporting, and improving the overall capability and engagement of our staff.

We summarise our outcomes, impacts, and outputs in Figure 1. Details of the measures and standards for achieving our outcomes, and how we have performed previously are shown in Figure 2.

Figure 1
Summary of our outcomes, impacts, and outputs

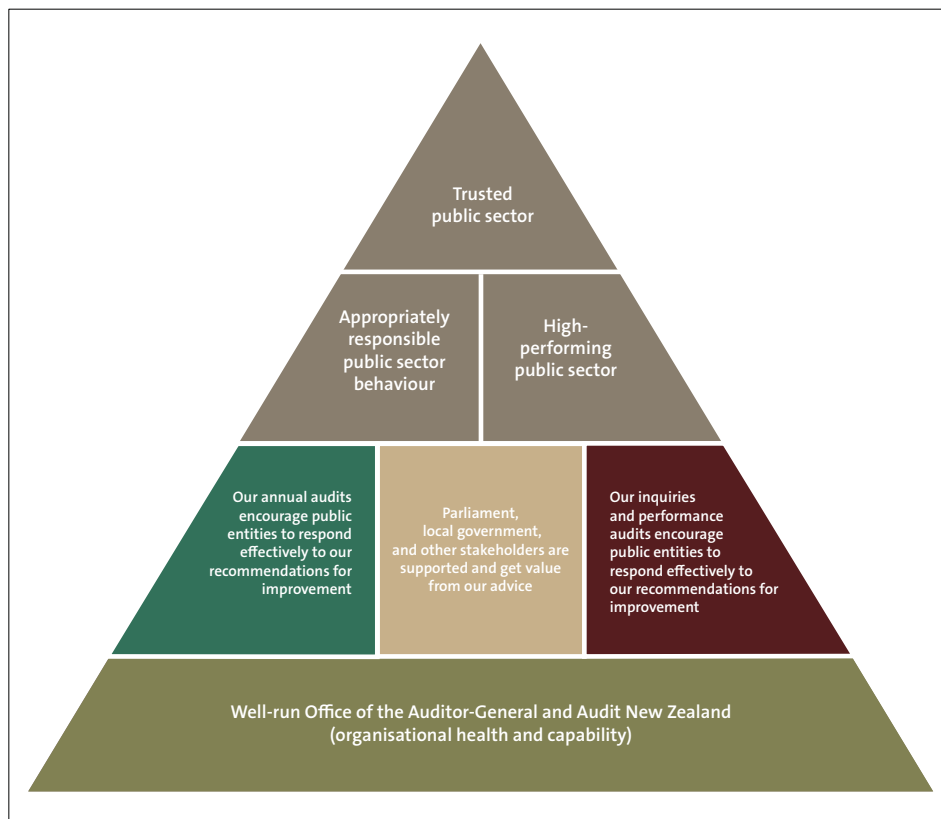


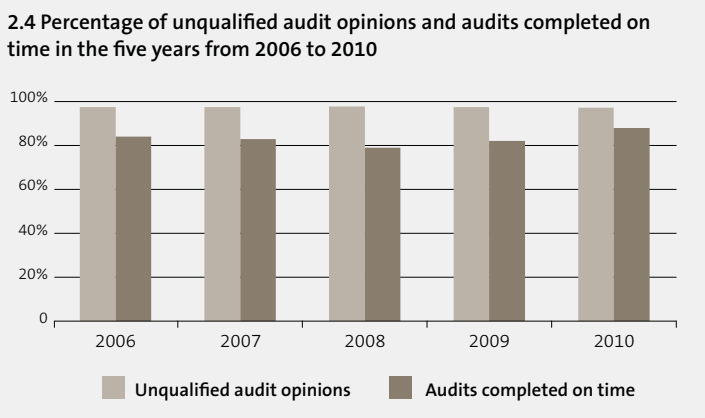


Figure 2
Measures and standards, and previous performance, for achieving our outcomes

Measures and standards	Previous performance
<p>Trusted public sector</p> <p>New Zealand's score on Transparency International's Corruption Perceptions Index is maintained or improved.</p>	<p>2.1 New Zealand's score on the Transparency International Corruption Index for the six years from 2005 to 2010</p> <p>In 2010, New Zealand was rated first equal with Denmark and Singapore. New Zealand has achieved a high place on the index since it started in 1995.</p>
<p>Trusted public sector</p> <p>New Zealand is ranked in the 90th percentile of the Worldwide Governance Indicators.</p>	<p>2.2 New Zealand's ranking in the Worldwide Governance Indicators for the five years from 2006 to 2009</p>
<p>Trusted public sector</p> <p>The State Services Commission's biannual Kiwis Count Survey shows that the public's confidence that public servants do a good job is improved (or at least maintained).</p>	<p>2.3 Kiwis Count Survey results in 2008 and 2010: Public servants do a good job</p>

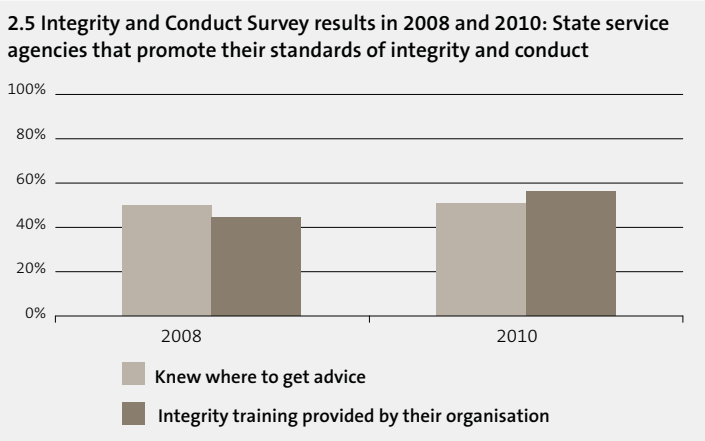
Appropriately responsible public sector behaviour

Public entities' financial statements fairly reflect their actual results and are publicly available on time.



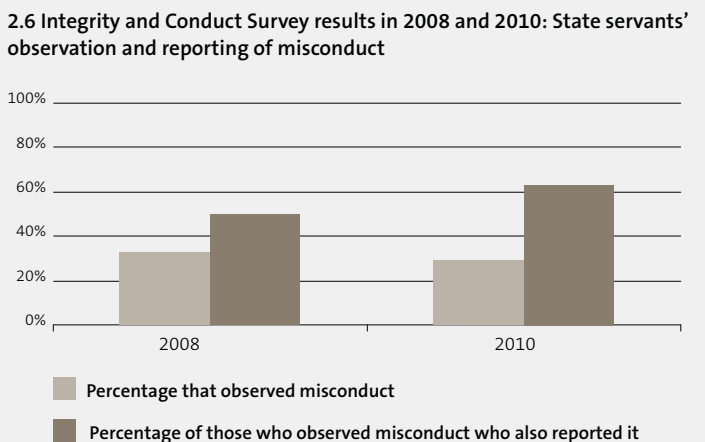
Appropriately responsible public sector behaviour

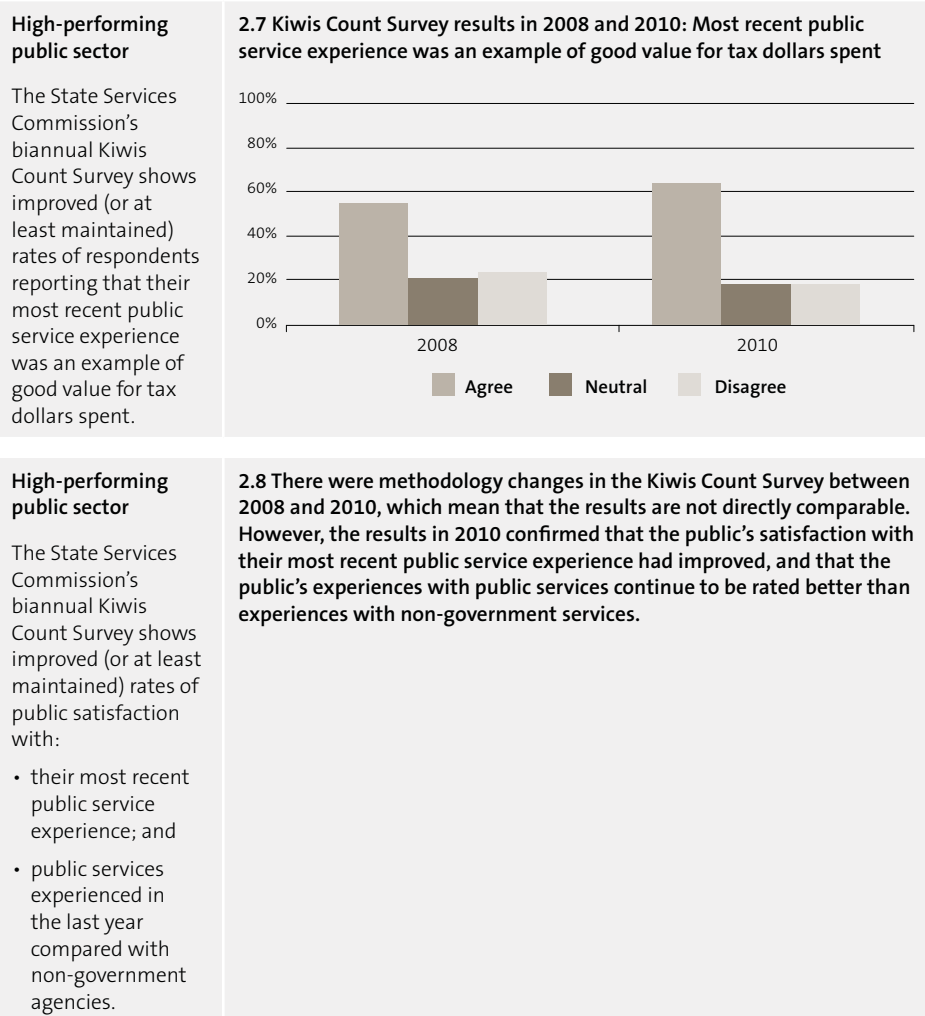
The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of State servants who reported that State service agencies promote their standards of integrity and conduct.



Appropriately responsible public sector behaviour

The State Services Commission's Integrity and Conduct Survey shows improved (or at least maintained) rates of State servants who reported that, where they observed misconduct breaches in the past year, they reported it.





Managing in a changeable operating environment

The Auditor-General's overview identified external factors that are influencing the Office, that are areas of focus for us to improve the assurance we provide to Parliament and the public, or that are opportunities for public sector improvement. The issues, and our responses to managing them, are:

- **Auckland:** The amalgamation of eight local authorities into one "super" council on 1 November 2010 was a complex exercise with major implications for the whole country, and local government in particular. We have made good progress and will build on that.
- **Performance information:** There are numerous challenges for the Office to implement the Auditor-General's revised auditing standard for auditing

service performance information. During the next two years, we are focusing on carrying out good quality audits of service performance information to underpin our statutory reporting duties and our efforts to add value to the organisations we audit. Our challenges include how we maintain independence and give advice, how we build confidence for this work, and how to report.

- **Good analysis and reporting of sector information:** We have enormous amounts of data and knowledge that we can use much better to inform our audit work and to share with others. We will focus on getting the best from what we know and improving our understanding and reporting of sector themes.
- **Implementing Ministry of Economic Development and External Reporting Board changes:** There is still a lot of work to do to arrive at the right set of financial reporting standards for the public sector in New Zealand. We will focus on making a positive contribution to the work of the Ministry of Economic Development and the External Reporting Board in setting and implementing appropriate standards.
- **Choosing a cross-cutting theme for 2012/13:** We will choose one theme for our audit effort in 2012/13 that we will report on and that will make a lasting difference to the New Zealand public sector.
- ... and, of course, **adding value through our 4000-plus annual audits, inquiries, and performance audits.** Our auditing and assurance work is our core business, and the foundation for our ability to have a positive influence on public sector performance. We will focus on maintaining the underlying quality of all our financial and performance audits and inquiries, and on how to add value to the organisations that we audit. We will also focus on improving our reporting and our supporting communications and relationships.

Strategic risks and risk management

The Auditor-General faces four ongoing strategic risks. These risks are primarily managed through processes that support the work we do, as shown in Figure 3.

Figure 3
Our strategic risks and risk management

Risk	Management
<p>1. 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, her staff, or her appointed auditors to act independently or otherwise, would undermine trust in our organisation.</p>	<p>We manage this risk by applying the Auditor-General’s independence standards. The Auditor-General sets a high standard for independence for her employees and the auditors she appoints to carry out audits on her behalf. Monitoring of the independence standards, including for the two statutory officers and all employees, is carried out through a system that includes regular declarations of interest and, where necessary, implementation of measures to mitigate conflicts of interest.</p>
<p>2. Audit failure – the risk that we issue an incorrect audit opinion with material effect, or a report that is significantly wrong in nature or process.</p>	<p>The Auditor-General adheres to professional auditing standards, including implementing and complying with the revised quality control standards from the New Zealand Institute of Chartered Accountants, supplemented by the Auditor-General’s auditing standards to address public sector matters where general auditing standards are not relevant or appropriate.</p> <p>We monitor adherence to these standards through external quality assurance regimes (such as participating in New Zealand Institute of Chartered Accountants’ practice reviews and international peer reviews from time to time). We also commission an annual independent evaluation of our audit allocation and fee-monitoring processes, an independent external review of two performance audits each year, and stakeholder feedback studies. Our internal peer review and substantiation procedures include carrying out quality assurance reviews of all our appointed auditors and our Office products on a basis of risk and at least every three years.</p> <p>A range of audit opinion and consistency review processes are used to confirm audit team conclusions where non-standard audit opinions are proposed, or changes to audit standards and work are being introduced. Before performance audits are presented to Parliament, a process of external report clearance and internal substantiation and review occurs.</p>
<p>3. 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.</p>	<p>Ongoing training and development of our staff and our appointed auditors and their staff is carried out, including management programmes, leadership development initiatives, and professional development programmes.</p>

4. Loss of reputation – the risk that we lose reputation or credibility that affects our ability to maintain effective relationships with stakeholders. This could arise either because of failings in one of the three areas above or because of external expectations and perceptions about the role of the Office or its findings on any particular matter that has been the subject of audit scrutiny. The Auditor-General’s discretionary mandate is broad, and it is inevitable that we will not meet all expectations.

Managing this risk requires the exercise of judgement about where to focus our audit effort and how best to report while also achieving the greatest likelihood of public sector improvement. There are a number of ways this risk is managed in our day-to-day work. The combined leadership team of the Office meets on a regular basis to discuss issues and feedback from key stakeholders and public entities on our audit work. Senior staff liaise with public entities and key stakeholders, and we carry out regular stakeholder and client feedback surveys as well as media monitoring to identify where the Office could communicate more effectively about its role and the results of its audit work.

Part 2

Organisational health and capability

To ensure that we can achieve our outcomes, impacts, and outputs, we need a strong foundation of skilled people working together in a well-run organisation.

The organisation

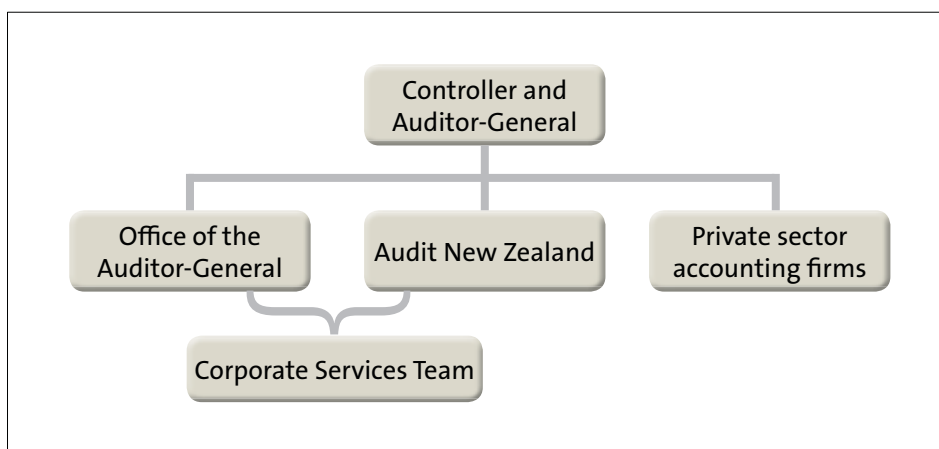
The work of the Auditor-General is carried out by about 350 staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand, supported by a shared team of corporate services staff – and by auditors contracted from about 60 private sector accounting firms.

The OAG 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 larger of the two business units. It carries out annual audits allocated by the Auditor-General, and operates from seven locations around the country. 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.

Figure 4 shows how all these parts fit together in our operating model.

Figure 4
Our operating model



Our core expertise is in auditing and public governance and management. Underlying this expertise are our technical skills (for example, in accounting and auditing) and the exercise of our professional judgement. We are able to apply this by:

- listening to, and knowing about, the public entities we audit, our stakeholders, and the public sector so that we understand their expectations and the context for our work, and know the effect of our work; and
- building our individual and collective expertise, experience, and judgement so that we can strengthen our contribution to improving public sector performance.

Our people

After a period of employment stability during the global recession, we are beginning to experience higher turnover of staff and the return to an environment where our people and their skills are in high demand among domestic and overseas organisations. We will continue to work on our staff-retention activities, but also expect to increase recruitment of experienced staff from within New Zealand and overseas.

We use a number of indicators to measure the engagement, capability, and effectiveness of our people. Many of these indicators come from surveys of public entities we have audited and surveys of our staff. We aim to improve or at least maintain these results during the next three years. We summarise our measures and standards for organisational health and capability in Figure 5, and show details with our previous performance in Figure 6.

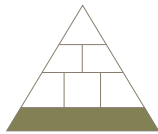


Figure 5
Summary of measures and standards for organisational health and capability

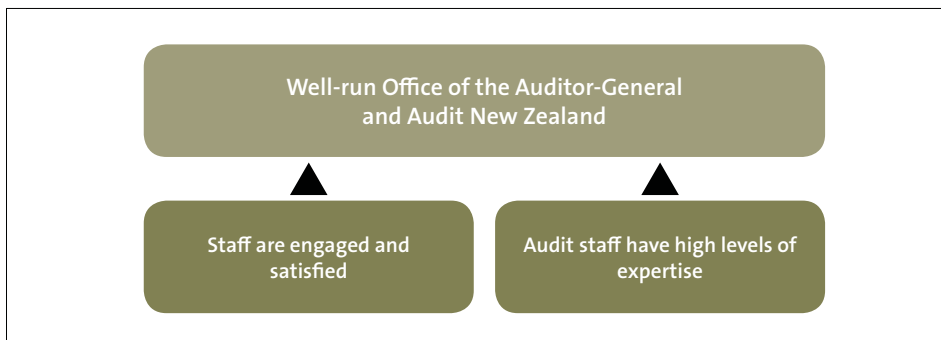
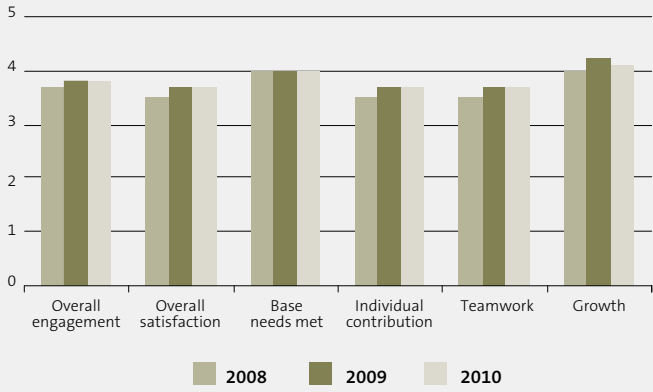

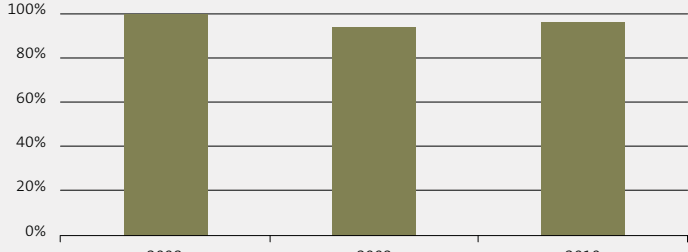


Figure 6
Measures and standards, and previous performance, for organisational health and capability

Measures and standards	Previous performance																												
<p>Staff are engaged and satisfied</p> <p>Improve (or at least maintain) the engagement and satisfaction of our staff measured against the previous two years.</p>	<p>6.1 Gallup survey's staff engagement scores in 2008, 2009, and 2010</p>  <table border="1"> <caption>6.1 Gallup survey's staff engagement scores</caption> <thead> <tr> <th>Category</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Overall engagement</td> <td>3.6</td> <td>3.7</td> <td>3.7</td> </tr> <tr> <td>Overall satisfaction</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Base needs met</td> <td>3.9</td> <td>3.9</td> <td>3.9</td> </tr> <tr> <td>Individual contribution</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Teamwork</td> <td>3.4</td> <td>3.6</td> <td>3.6</td> </tr> <tr> <td>Growth</td> <td>3.9</td> <td>4.2</td> <td>4.0</td> </tr> </tbody> </table>	Category	2008	2009	2010	Overall engagement	3.6	3.7	3.7	Overall satisfaction	3.4	3.6	3.6	Base needs met	3.9	3.9	3.9	Individual contribution	3.4	3.6	3.6	Teamwork	3.4	3.6	3.6	Growth	3.9	4.2	4.0
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<p>Staff are engaged and satisfied</p> <p>Improve (or at least maintain) the average number of years staff have been employed by the organisation as measured against the previous two years.</p>	<p>6.2 Average number of years staff have been employed by the organisation in 2008, 2009, and 2010</p>  <table border="1"> <caption>6.2 Average number of years staff have been employed</caption> <thead> <tr> <th>Department</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>OAG</td> <td>7.0</td> <td>7.4</td> <td>6.7</td> </tr> <tr> <td>Audit New Zealand</td> <td>4.2</td> <td>4.1</td> <td>4.1</td> </tr> <tr> <td>Corporate Services</td> <td>5.2</td> <td>2.8</td> <td>3.7</td> </tr> </tbody> </table>	Department	2008	2009	2010	OAG	7.0	7.4	6.7	Audit New Zealand	4.2	4.1	4.1	Corporate Services	5.2	2.8	3.7												
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<p>Audit staff have high levels of expertise</p> <p>At least 95% of staff undertaking accreditation for the New Zealand Institute of Chartered Accountants (NZICA) pass their exams.</p>	<p>6.3 Percentage of staff passing NZICA accreditation exams in 2008, 2009, and 2010</p>  <table border="1"> <caption>6.3 Percentage of staff passing NZICA accreditation exams</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>98%</td> </tr> <tr> <td>2009</td> <td>92%</td> </tr> <tr> <td>2010</td> <td>94%</td> </tr> </tbody> </table>	Year	Percentage	2008	98%	2009	92%	2010	94%																				
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Audit staff have high levels of expertise

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.

6.4 Percentage of auditors achieving a satisfactory or better grade from quality assurance review for the five years from 2006 to 2010



6.5 Audit staff have high levels of expertise: Listening, understanding, and exercising judgement

Client survey feedback shows that auditors' knowledge about the business and operating context of public entities is improving, and that auditors are investing in work to understand that context. Our public entity clients give us improved (or at least maintained) ratings compared with the previous two years for how well their auditors:

- understand the client's business and the risks that clients face;
- demonstrate the general skills and knowledge required to conduct their audit; and
- provide useful insights into the client's business and promotes improvement in the business.

This was a new measure in 2010/11.

6.6 Audit staff have high levels of expertise: Auditing performance information

Our quality assurance reviews of our audit and assurance work confirms that auditors are carrying out their requirements for performance information in keeping with the Auditor-General's Auditing Standards and our attestation that performance statements fairly reflect the achievements of the entity.

This was a new measure in 2010/11.

Equal employment opportunities

The Office's programme for addressing equal employment opportunities is through its recruitment and employment policies. The principles of equal opportunity are embedded in the Office's policies and procedures. In particular, our recruitment programme 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. We recruit in a manner that provides equal employment opportunity to Māori, women, ethnic or minority groups, and people with disabilities.

Recruitment and employment decisions and practices (such as feedback from exit interviews) are monitored to confirm application of policies. Managers are made aware of, and given support to fulfil, our good employer obligations through specific programmes and courses and one-on-one coaching.

Our staff profile shows a good level of diversity, which we expect to maintain during the next three years.

Business practices

We have an extensive quality assurance programme for all our outputs and services. This programme indicates an acceptable level of quality. Nevertheless, we continue to work on improving this.

Our internal audit function has, in the past, been contracted to an external firm with an annual internal audit programme agreed with our independent Audit and Risk Committee. We will review this internal audit arrangement for 2011/12 to ensure that it best meets the needs of the Office and the Audit and Risk Committee.

Facilities and equipment

In 2010/11, we made progress on addressing our long-term property needs, and have presented a business case for consideration by the Officers of Parliament Committee. We anticipate meeting our objective of co-locating our OAG and Audit New Zealand Wellington staff by 2013.

We rely on information technology to complete our work. To ensure an effective, efficient, and customer-focused service, our audit staff working in the field use specialist auditing and remote access and communications tools. In the OAG, the audit status database system is used to manage the allocation, tracking, and reporting of audits. We plan to maintain and enhance these systems during the next three years.

Part 3

Forecast statement of service performance for each of the three years 2011/12, 2012/13, and 2013/14

Output class: Audit and assurance services

The main purpose of an annual audit is to provide independent assurance about the fair disclosure of the financial – and, in many instances, non-financial – information within annual reports. An audit involves a range of procedures, tests, and management and governance enquiries to support our audit opinion.

In carrying out annual audits, auditors consider the legislative audit mandate. They may also recommend improvements in matters of effectiveness and efficiency, waste, probity, and financial prudence in management letters to the governors and managers of public entities. We also use our annual audits to gather information and knowledge about public entities to assist us in advising Parliament and other stakeholders, and to help determine the work we do in our performance audits, inquiries, and good practice guides.

In 2009/10, annual audits and other assurance services accounted for 87% of our total expenditure. Most of the output class relates to annual audits for public entities. The annual audits are required by statute.

Types of annual audit reporting

The **audit report** is one of the reports from the annual audit process and is addressed to the readers of the financial statements and (where applicable) the statement of service performance. It provides the auditor's independent opinion (the audit opinion) on whether the financial statements (and, where applicable, the 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, performance information), the auditor issues an audit report with an unqualified opinion. However, if the auditor identifies a material 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.

If the public entity is subject to financial review by select committees, we report the results of its annual audit to responsible Ministers and select committees. The financial review report includes a grading for public entities, based on our

assessment of their management control environment and financial and service performance (where required), systems, and controls.

Our focus

In the next year, within our annual audit and assurance work, we will be focusing on:

- **Implementing Ministry of Economic Development and External Reporting Board changes** – We will continue to focus on making a positive contribution to the work of the Ministry of Economic Development and the External Reporting Board in setting and implementing accounting and auditing standards. We will also consider the implications of auditor regulation, which is being introduced under changes to the Financial Reporting Act 1993 (the Act). In the public sector, auditor regulation relates only to issuers, which are legal entities that develop, register, and sell securities for the purpose of financing their operations. A number of public entities are issuers under the Act.
- **Performance information** – We are phasing in the Auditor-General’s revised auditing standard on reporting performance information during the three financial years ending 30 June 2011 to 30 June 2013. With the Treasury, we are working directly with public entities during the three years to enable auditors to apply the revised auditing standard to audits of performance information for the year ending 30 June 2013.
- **Sharing sector knowledge** – We will continue with our initiative to share knowledge within the organisation. The initiative consolidates and expands on our previous work to help us better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. We expect the initiative to extend our ability to be flexible, agile, and adaptive.

The Vote estimate for the Audit and assurance services output class in 2011/12 is \$71.601 million.

Our impacts and outputs for Audit and assurance services are summarised in Figure 7. Details of our measures and standards for this output class, and our previous performance, are shown in Figure 8.



Figure 7
Summary of impacts and outputs for Audit and assurance services

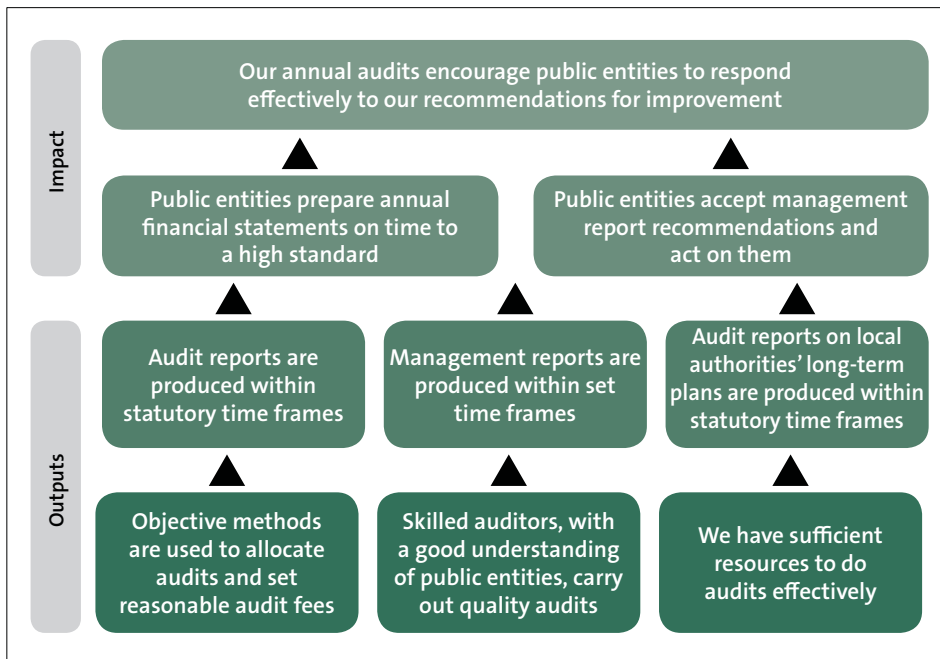
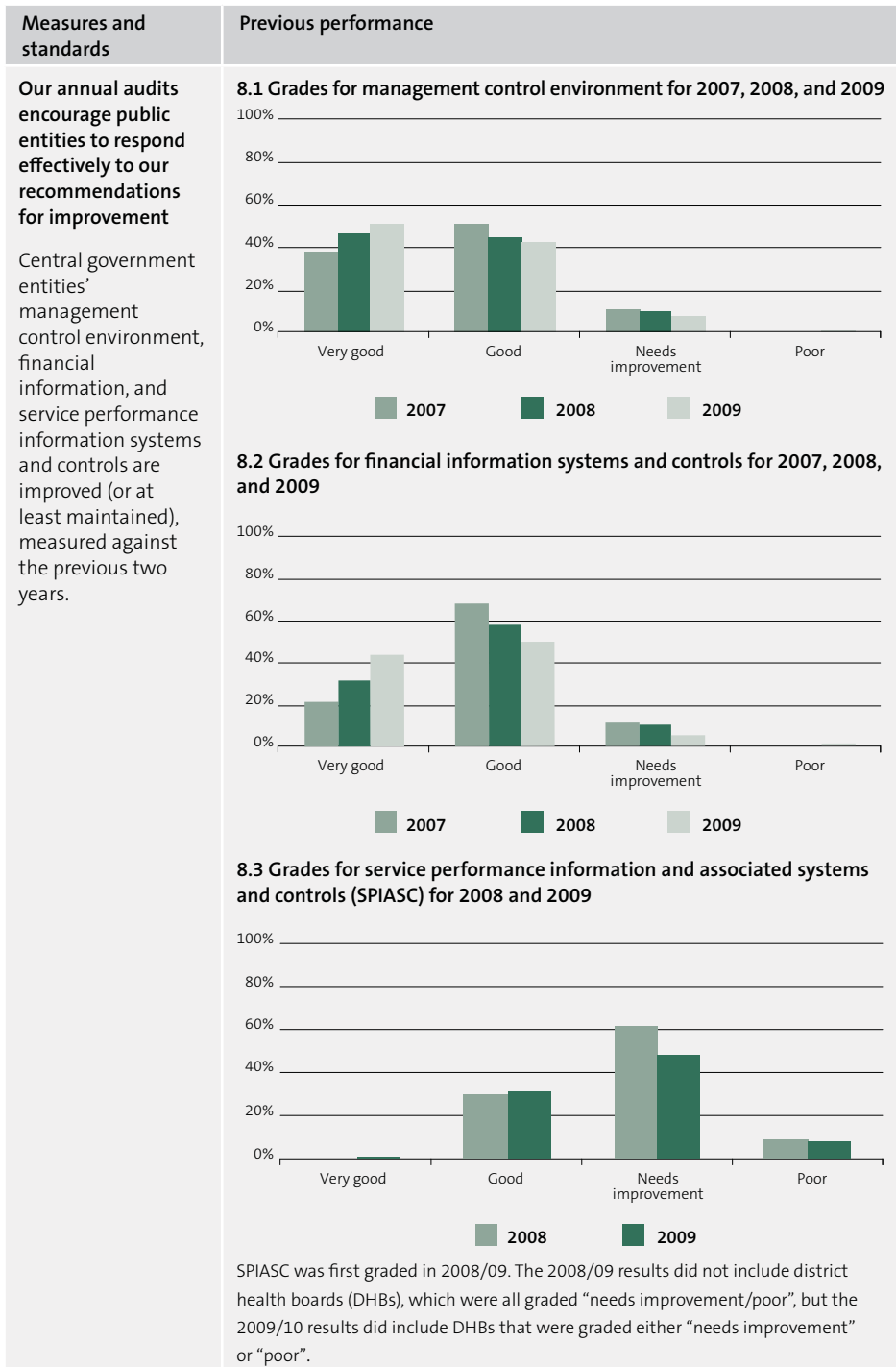
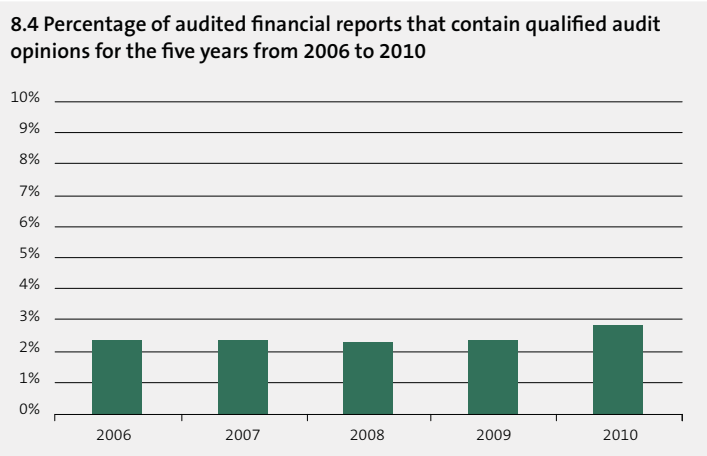


Figure 8
Impact and output measures and standards, and previous performance, for Audit and assurance services



Public entities prepare annual financial statements on time to a high standard

The percentage of public entities' audited financial reports containing qualified opinions is reduced (or at least maintained), measured against the previous two years.



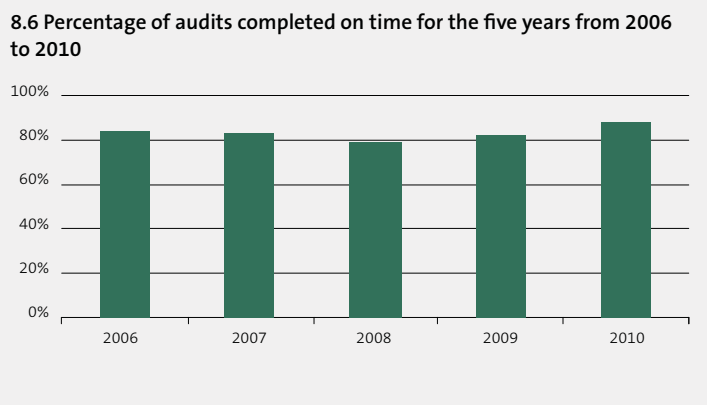
Public entities accept management report recommendations and act on them

Public entities' acceptance of audit service providers' management report recommendations is improved (or at least maintained), measured against the previous two years. (Note – In previous years, this has been assessed against only Audit New Zealand's management report recommendations.)



Audit reports are produced within statutory time frames

The percentage of public entities' audited financial reports issued within the statutory time frame is improved (or at least maintained), measured against the previous two years.



<p>Audit reports are produced within statutory time frames</p> <p>Less than 30% of the outstanding audit reports at 30 June 2010 are because of inaction on our part.</p>	<p>8.7 Percentage of outstanding audit reports at 30 June because of our inaction for the four years from 2007 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>48%</td> </tr> <tr> <td>2008</td> <td>52%</td> </tr> <tr> <td>2009</td> <td>47%</td> </tr> <tr> <td>2010</td> <td>45%</td> </tr> </tbody> </table>	Year	Percentage	2007	48%	2008	52%	2009	47%	2010	45%		
Year	Percentage												
2007	48%												
2008	52%												
2009	47%												
2010	45%												
<p>Management reports are produced within set time frames</p> <p>All management reports are issued within six weeks of issuing the audit report.</p>	<p>8.8 Percentage of management reports issued within six weeks for the five years from 2006 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>92%</td> </tr> <tr> <td>2007</td> <td>91%</td> </tr> <tr> <td>2008</td> <td>90%</td> </tr> <tr> <td>2009</td> <td>90%</td> </tr> <tr> <td>2010</td> <td>91%</td> </tr> </tbody> </table>	Year	Percentage	2006	92%	2007	91%	2008	90%	2009	90%	2010	91%
Year	Percentage												
2006	92%												
2007	91%												
2008	90%												
2009	90%												
2010	91%												
<p>Audit reports on local authorities' long-term plans are produced within statutory time frames</p> <p>No outstanding long-term plan (LTP) audit opinions at 30 June of the year in which LTPs are to be adopted by local authorities are because of inaction on our part.</p>	<p>8.9 Long-term plan audits are carried out on a three-yearly basis. In 2009, there were no outstanding audit opinions at 30 June as a result of inaction on our part.</p>												
<p>Audit reports on local authorities' long-term plans are produced within statutory time frames</p> <p>All LTP management reports are issued within six weeks of issuing the LTP audit opinion.</p>	<p>8.10 Long-term plan audits are carried out on a three-yearly basis. In 2009, 85% of management reports were issued within six weeks of issuing the audit opinion.</p>												

Objective methods are used to allocate audits and set reasonable audit fees

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.

8.11 Results from years 2005/06 to 2009/10 – An annual review was carried out and confirmation provided.

Skilled auditors, with a good understanding of public entities, carry out quality audits

Client satisfaction survey results show that, overall, 75% of respondents are satisfied with the quality of audit work (including the expertise of staff and the quality of the public entity's relationship with their audit service provider).

8.12 Percentage of clients satisfied with the quality of audit work for the five years from 2006 to 2010

Year	Percentage of clients satisfied
2006	72%
2007	65%
2008	72%
2009	78%
2010	80%

Skilled auditors, with a good understanding of public entities, carry out quality audits

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 grade of satisfactory or better.

8.13 Percentage of auditors achieving a grade of satisfactory or better from quality assurance reviews for the five years from 2006 to 2010

Year	Percentage of auditors achieving a grade of satisfactory or better
2006	82%
2007	81%
2008	91%
2009	98%
2010	96%

We have sufficient resources to do audits effectively	8.14 Results: 2009 – A request for an increase in appropriation of \$50,000 for audits of smaller entities was not accepted by the Officers of Parliament Committee.
The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.	2008 and 2010 – No significant proposal made for an appropriation increase in audit fees and expenses.

Output class: Supporting accountability to Parliament

Parliamentary services

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 occurs is through:

- reports and advice to select committees to assist their financial reviews of government departments and Offices of Parliament, State-owned enterprises, and some 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 at least two reports to Parliament on the results of our 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 capability and co-operation in the field of public audit. This includes our role as Secretariat of the Pacific Association of Supreme Audit Institutions, being a member of various committees of the International Organisation of Supreme Audit Institutions, and being executing agent for the Pacific Regional Audit Initiative (funded by the Asian Development Bank, with co-financing from the Japan Special Fund and the Governments of New Zealand and Australia).

The Controller function

The Controller function of the Controller and Auditor-General provides independent assurance to Parliament that expenses and capital expenditure of government 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 OAG and appointed auditors carry out standard procedures to give effect to the Controller function in keeping with the Auditor-General's auditing standards and a Memorandum of Understanding with the Treasury. This involves reviewing 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.

Our focus

In Supporting accountability to Parliament, in 2011/12, we are focusing on:

- **Performance information** – We are providing advice to parliamentary select committees on how to use performance information from Government departments and Crown entities to assess and enquire into effectiveness and efficiency, particularly in a cost-constrained environment. We are also liaising with Government departments and Crown entities to help them improve their performance information and using it to consider effectiveness and efficiency.
- **Sharing sector knowledge** – We are focusing on how to better use and present information about sectors within the public sector to Parliament, select committees, and public entities.

The Vote estimate for the Supporting accountability to Parliament output class in 2011/12 is \$2.860 million.

Our impacts and outputs for Supporting accountability to Parliament are summarised in Figure 9. Details of our measures and standards, and our previous performance, for this output class are shown in Figure 10.

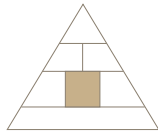


Figure 9
Summary of impacts and outputs for Supporting accountability to Parliament

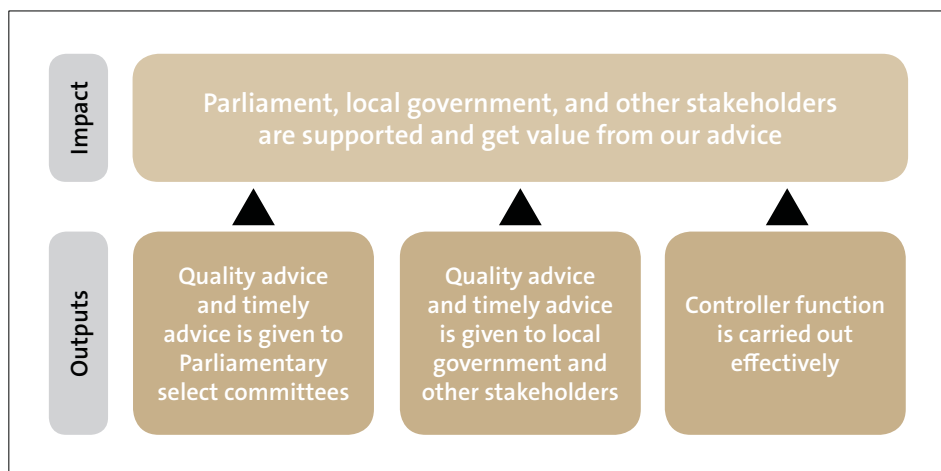
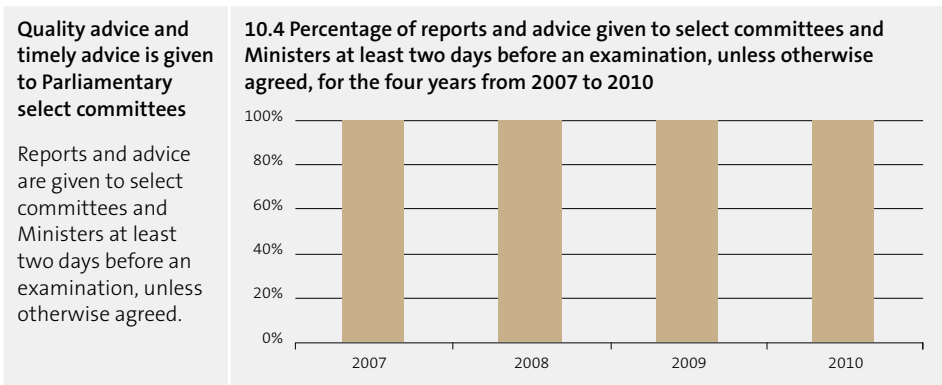
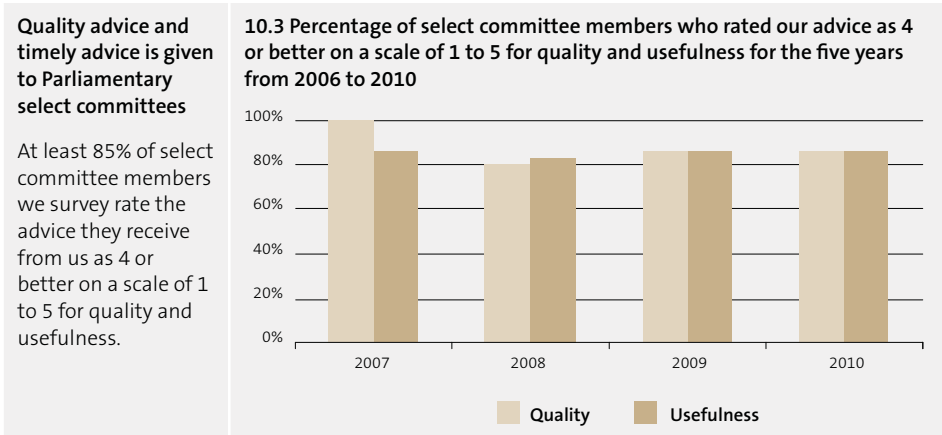
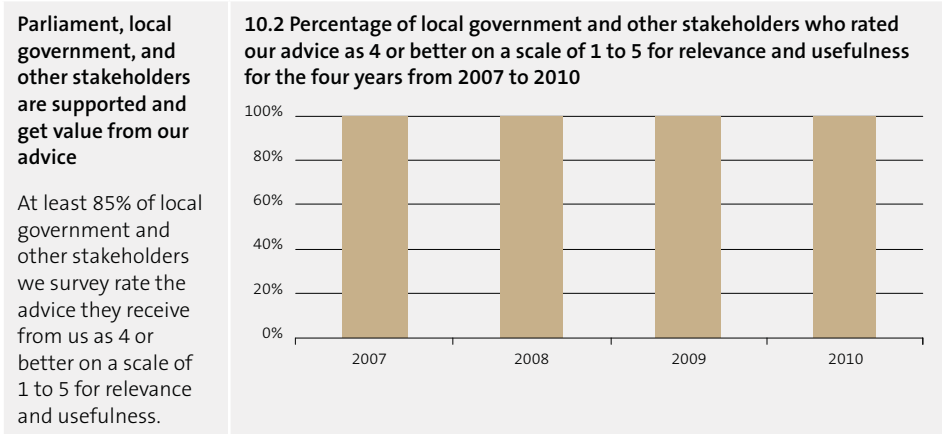


Figure 10
Impact and output measures and standards, and previous performance, for Supporting accountability to Parliament

Measures and standards	Previous performance										
<p>Parliament, local government, and other stakeholders are supported and get value from our advice</p> <p>At least 85% of select committee members confirm that our advice assists them in Estimates of Appropriation and financial review examinations.</p>	<p>10.1 Percentage of select committee members who confirmed that our advice assists them in Estimates of Appropriations and financial review examinations for the four years from 2007 to 2010</p> <p>The bar chart shows a consistent 100% performance level for the years 2007, 2008, 2009, and 2010. The y-axis represents the percentage from 0% to 100% in 20% increments.</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>100%</td> </tr> <tr> <td>2008</td> <td>100%</td> </tr> <tr> <td>2009</td> <td>100%</td> </tr> <tr> <td>2010</td> <td>100%</td> </tr> </tbody> </table>	Year	Percentage	2007	100%	2008	100%	2009	100%	2010	100%
Year	Percentage										
2007	100%										
2008	100%										
2009	100%										
2010	100%										



<p>Quality advice and timely advice is given to Parliamentary select committees</p> <p>An internal review of a sample of financial review, Estimates of Appropriations, 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.</p>	<p>10.5 Results: 2009 and 2010 – There was no internal review in these years. 2008 – Confirmed internal review of a sample of reports. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>
<p>Controller function is carried out effectively</p> <p>Internal quality assurance is undertaken to gain assurance that our policies, procedures, and standards for the Controller function have been applied effectively.</p>	<p>10.6 Results: 2008/09 – An internal review was carried out in May 2009, which confirmed that the central work carried out was consistent with the Memorandum of Understanding and that the monthly processes operated effectively. There was considerable improvement in the appropriation audit approach and documentation to demonstrate compliance with the Auditor-General's auditing standard AG-2. (The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>
<p>Controller function is carried out effectively</p> <p>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.</p>	<p>10.7 Results: 2006-10 – All monthly procedures have been followed and agreed time frames achieved.</p>

Output class: Performance audits and inquiries

The Public Audit Act 2001 provides the Auditor-General discretion to carry out performance audits to look at:

- the extent to which activities are carried out effectively and efficiently;
- compliance with statutory obligations;
- any acts or omissions to determine whether waste has resulted or may result; and/or
- any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or its members, office holders, or employees.

Each year, we usually publish 19 to 21 reports on performance audits, inquiries, and good practice guides. We also publish reports on the results of annual audits for the central and local government sectors.

The Act also gives the Auditor-General the ability to inquire into a public entity's use of its resources.

Our inquiry work is largely reactive to issues of public concern. Each year, we usually receive:

- 200 to 300 external requests for inquiries; and
- 50 to 100 enquiries under the Local Authorities (Members' Interests) Act 1968.

The Auditor-General must also respond to requests for approvals about pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act.

Our performance audit and inquiry work allows the Auditor-General to consider and provide advice about the above matters in greater depth than is appropriate within the statutory scope of an annual audit.

Our focus

Within our performance audit and inquiry work, we will be focusing on:

- Choosing a cross-cutting theme for 2012/13: We will carry out consultation and work programme development in 2011/12 to choose the theme for our audit effort in 2012/13. Our aim is for this work to make a lasting difference to the New Zealand public sector.
- Performance information: We will continue to prepare and publish better practice examples during 2010–13 and will look to prepare a performance audit report that demonstrates the uses and usefulness of external performance information.

The Vote estimate for the Performance audits and inquiries output class in 2011/12 is \$6.587 million.

Our impacts and outputs for Performance audits and inquiries are summarised in Figure 11. Details of our measures and standards, and our previous performance, for this output class are shown in Figure 12.

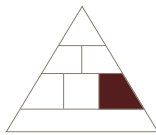


Figure 11
Summary of impacts and outputs for Performance audits and inquiries

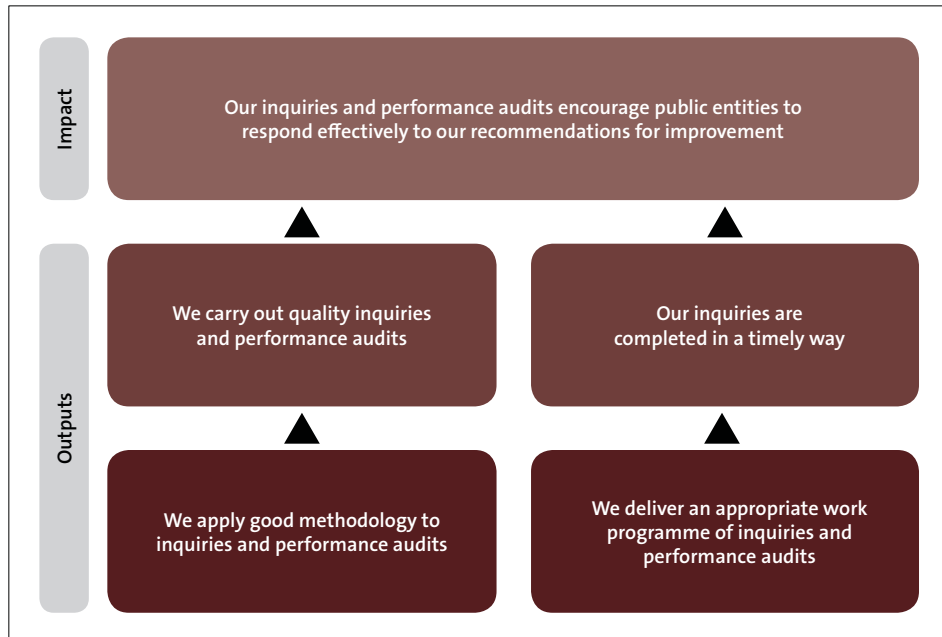


Figure 12
Impact and output measures and standards, and previous performance, for Performance audits and inquiries

Measures and standards	Previous performance
<p>Our inquiries and performance audits encourage public entities to respond effectively to our recommendations for improvement</p> <p>Public entities accept or respond to the recommendations made in our performance audits, as assessed by internal review of performance audit reports published in the previous year. The results are presented to the Officers of Parliament Committee in our annual follow-up report.</p>	<p>12.1 Results: A selection of our performance audit reports was reviewed each year from 2006 to 2010, and the results were presented to the Officers of Parliament Committee. The reviews concluded that our recommendations had been accepted by the relevant public entities and either had been implemented or were being implemented.</p>
<p>Our inquiries and performance audits encourage public entities to respond effectively to our recommendations for improvement</p> <p>Public entities take action in response to concerns identified in inquiry reports, as assessed by follow-up on a sample of sensitive and major inquiries carried out in the previous year.</p>	<p>12.2 Results: 2010 – We followed up on four of our 13 inquiries within these categories from the previous year that contained recommendations or suggestions for action. There was a high acceptance of our views and comments, which were contributing to significant change.</p> <p>2009 – We followed up on four of the 11 inquiries within these categories from the previous year that contained recommendations or suggestions for action. In all instances, we were satisfied with the action taken.</p> <p>2008 – We followed up on the one sensitive inquiry that was carried out in 2006/07 (there were no major inquiries). The entity has taken positive steps to address the comments we made.</p>

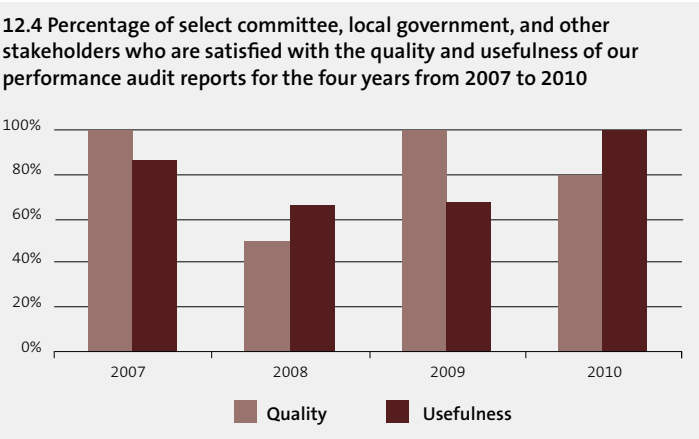
We carry out quality inquiries and performance audits

An independent review of two performance audits each year confirms the quality of the 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.

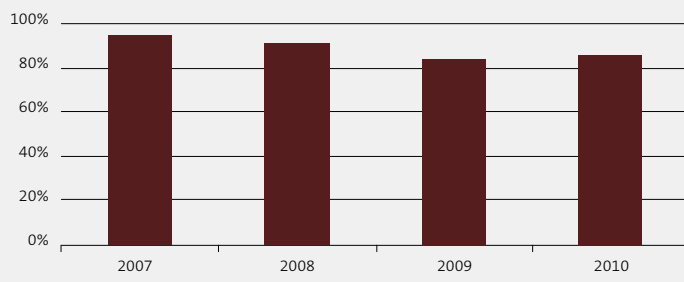
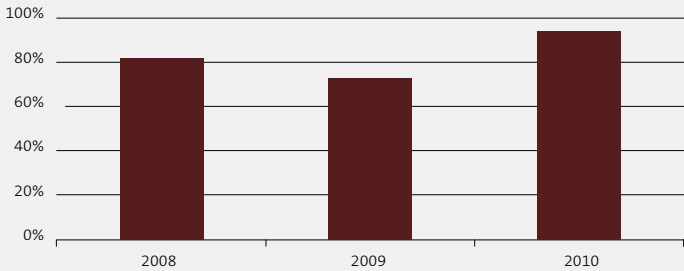
12.3 Results: 2007 to 2010 – Independent reviews of two performance audits confirmed the quality of reports and provided feedback on areas for us to improve.

We carry out quality inquiries and performance audits

At least 85% of the stakeholders that we seek feedback from rate our performance audit reports (relevant to their sector or interest) as 4 or better on a scale of 1 to 5 for quality and usefulness.



<p>We carry out quality inquiries and performance audits</p> <p>Responses to requests for inquiries and our administering of the Local Authorities (Members' Interests) Act 1968 requests are in keeping with relevant policies, procedures, and standards, as confirmed by internal quality assurance review.</p>	<p>12.5 A review was completed in 2010/11 and confirmed that responses to requests were made in keeping with relevant policies, procedures, and standards.</p> <p>No review of our inquiries was undertaken in 2008/09 or 2009/10.</p> <p>A review was completed in 2007/08 and confirmed that responses to requests were made in keeping with relevant policies, procedures, and standards.</p> <p>(The nature, extent, and frequency of the quality assurance review are determined based on risk. The review is carried out during a three-year period.)</p>
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<p>Our inquiries are completed in a timely way</p> <p>80% of our findings on inquiries are reported to the relevant parties within:</p> <ul style="list-style-type: none"> • three months for routine inquiries; • six months for sensitive inquiries (new measure in 2008); and • 12 months for major inquiries (new measure in 2008). 	<p>12.6 Percentage of findings on routine inquiries reported to relevant parties within three months for the four years from 2007 to 2010</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>90%</td> </tr> <tr> <td>2008</td> <td>88%</td> </tr> <tr> <td>2009</td> <td>80%</td> </tr> <tr> <td>2010</td> <td>82%</td> </tr> </tbody> </table> <p>12.7 Percentage of findings on sensitive inquiries reported to the relevant parties within six months for the three years from 2008 to 2010</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>80%</td> </tr> <tr> <td>2009</td> <td>70%</td> </tr> <tr> <td>2010</td> <td>90%</td> </tr> </tbody> </table> <p>Results for major inquiries: 2008 – No major inquiries were carried out. 2009 – Two major inquiries; both reported within 13 months. 2010 – Five major inquiries; four reported within 12 months.</p>	Year	Percentage	2007	90%	2008	88%	2009	80%	2010	82%	Year	Percentage	2008	80%	2009	70%	2010	90%
Year	Percentage																		
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2009	80%																		
2010	82%																		
Year	Percentage																		
2008	80%																		
2009	70%																		
2010	90%																		

<p>Our inquiries are completed in a timely way</p> <p>For enquiries under the Local Authorities (Members' Interests) Act 1968, we complete 80% of enquiries within 30 working days.</p>	<p>12.8 Percentage of enquiries under the Local Authorities (Members' Interests) Act 1968 completed within 30 working days for the five years from 2006 to 2010</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>82%</td> </tr> <tr> <td>2007</td> <td>83%</td> </tr> <tr> <td>2008</td> <td>92%</td> </tr> <tr> <td>2009</td> <td>81%</td> </tr> <tr> <td>2010</td> <td>81%</td> </tr> </tbody> </table>	Year	Percentage	2006	82%	2007	83%	2008	92%	2009	81%	2010	81%
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2010	81%												
<p>We apply good methodology to inquiries and performance audits</p> <p>Our performance audit methodology reflects good practice for carrying out such audits, as assessed every second year by the Australian National Audit Office.</p>	<p>12.9 Results: 2008/09 – The Australian National Audit Office reviewed two performance audits and confirmed areas in which the quality of our reports is strong and areas for us to improve.</p> <p>2006/07 – The Australian National Audit Office reviewed two performance audits and endorsed the quality of the reports.</p>												
<p>We apply good methodology to inquiries and performance audits</p> <p>Internal quality assurance reviews on selected performance audit reports confirm that reports are prepared in keeping with the performance audit methodology.</p>	<p>12.10 There was no internal review in 2008/09 or 2009/10.</p> <p>Internal review in 2007/08 confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.</p> <p>(The nature, extent, and frequency of the quality assurance review are based on risk. The review is carried out during a three-year period.)</p>												

We deliver an appropriate work programme of inquiries and performance audits

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).

12.11 Results 2006-10: Feedback received from select committees and other stakeholders mainly supported our proposals and approach.

Part 4

Forecast financial statements for 2011/12

The Controller and Auditor-General's forecast financial statements have been prepared in accordance with sections 38, 41(1), and 45G of the Public Finance Act 1989 and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Controller and Auditor-General. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here, and that the variations may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Controller and Auditor-General reasonably expects to occur, associated with the actions she reasonably expects to take, as at the date that this information was prepared.

It is not intended that this published material will be updated.

Statement of significant underlying assumptions

The forecast financial statements on pages 47-62 have been compiled on the basis of existing government policies and after the Controller and Auditor-General consulted with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Controller and Auditor-General's portfolio of entities will remain substantially the same as for the previous year.
- The Controller and Auditor-General will continue to deliver the range of products currently provided and will also be in a position to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of annual audits will remain substantially the same. The audits of local authorities' long-term plans will be carried out in 2011/12, which affects both our revenue and our expense expectations.
- The balance of activity associated with inquiries and with advice to Parliament and others will continue to vary because of increases in demand and the effects of the Public Audit Act 2001.
- The Controller and Auditor-General will continue to use audit expertise from Audit New Zealand and private sector accounting firms.

These assumptions are adopted as at 30 March 2011.

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, is an Office of Parliament for the purpose 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).

Measurement base

The forecast 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. The functional currency of the Office is New Zealand dollars.

Statement of compliance

This Statement of Intent complies with Financial Reporting Standard No. 42: *Prospective Financial Statements*.

The forecast financial statements for 2011/12 comply with the applicable financial reporting standards, which include NZ IFRS and other applicable financial reporting standards, as for a public benefit entity.

Changes in accounting policies

There have been no changes from the accounting policies adopted in the last audited financial statements.

Accounting policies

Income

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

Fee revenue generated by the Office for audit and assurance services is recognised as the work progresses and time is allocated within work in progress to public entities.

Income of audit service providers

Fee revenue generated by contracted audit service providers for audits of public entities 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.

Expenditure

Expenses of audit service providers

Fees for audits of public entities carried out by 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 surplus or deficit.

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 surplus or deficit.

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 surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Plant and equipment

Plant and equipment consists of furniture and fittings, office equipment, information technology 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. If 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 surplus or deficit.

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 down 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 to 5 years (20% to 40%)
- Information technology hardware 2.5 to 5 years (20% to 40%)
- Motor vehicles 3 to 5 years (20% to 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 licences 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 when the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful life and associated amortisation rate of computer software is estimated at between 2.5 and 5 years (20% to 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 surplus or deficit. Any reversal of an impairment loss is also recognised in the surplus or deficit.

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 future absences are expected to be greater than the sick leave entitlements earned in the future.

The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that the Office anticipates that these unused entitlements 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 surplus or deficit 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.

If 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 for 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.

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: 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, and 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.

Forecast comprehensive income statement for the year ending 30 June 2012

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This statement reports the revenue and expenses relating to all outputs (goods and services) that we produce. A supporting statement showing the revenue and expenditure of each output class is on page 62.

	2010/11		2011/12
	Budgeted* \$000	Estimated actual \$000	Forecast \$000
Income			
Crown funding	9,948	10,000	10,000
Audit fees – Departments	8,145	10,003	10,388
Audit fees – Other	27,455	28,060	33,027
Income of contracted audit service providers	26,143	26,734	28,436
Total income	71,691	74,797	81,851
Expenditure			
Personnel costs	33,467	34,285	37,568
Operating costs	10,624	12,095	14,507
Depreciation and amortisation	1,117	914	1,071
Fees paid to contracted auditors for audits of public entities	26,143	26,734	28,436
Capital charge	302	269	269
Total expenditure	71,653	74,297	81,851
Total comprehensive income for the year	38	500	0

* Budgeted figures reflect the Main Estimates of Appropriations for 2010/11.

Forecast statement of movements in taxpayers' funds (equity)

for the year ending 30 June 2012

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Taxpayers' funds brought forward at 1 July	3,521	3,521	4,021
Surplus for the year	38	500	-
Provision for repayment of surplus to the Crown	(38)	(500)	-
Capital contribution	500	500	2,200
Taxpayers' funds at 30 June	4,021	4,021	6,221

Forecast statement of financial position as at 30 June 2012

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

	Budgeted as at 30 June 2011 \$000	Estimated actual as at 30 June 2011 \$000	Forecast as at 30 June 2012 \$000
Taxpayers' funds			
General funds	4,021	4,021	6,221
Total taxpayers' funds	4,021	4,021	6,221
Represented by:			
Current assets			
Cash and cash equivalents	3,271	3,348	4,379
Prepayments	205	180	185
Work in progress	2,201	2,200	2,200
Debtors and other receivables	4,514	5,440	5,601
Total current assets	10,191	11,168	12,365
Non-current assets			
Plant and equipment	1,604	1,412	1,646
Intangible assets	1,014	855	1,280
Total non-current assets	2,618	2,267	2,926
Total assets	12,809	13,435	15,291
Current liabilities			
Creditors and other payables	4,165	4,666	4,783
Repayment of surplus	38	500	0
Employee entitlements	4,055	3,678	3,707
Total current liabilities	8,258	8,844	8,490
Non-current liabilities			
Employee entitlements	530	570	580
Total non-current liabilities	530	570	580
Total liabilities	8,788	9,414	9,070
Net assets	4,021	4,021	6,221

Forecast statement of cash flows for the year ending 30 June 2012

This statement summarises the cash movements in and out during the year. It takes no account of money owed to or owing by the Office, and therefore differs from the Forecast comprehensive income statement.

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Cash flows from operating activities			
Receipts from the Crown	9,948	10,000	10,000
Receipts from Departments	8,145	8,156	8,104
Receipts from other public entities	27,778	29,906	34,911
Payments to suppliers	(7,031)	(8,391)	(10,043)
Payments to employees	(33,367)	(34,178)	(37,459)
Capital charge paid	(302)	(269)	(269)
Net GST paid	(3,750)	(3,714)	(4,205)
Net cash flow from operating activities	1,421	1,510	1,039
Cash flows from investing activities			
Receipts from sale of plant and equipment	155	188	92
Purchase of plant and equipment	(1,202)	(917)	(950)
Purchase of intangible assets	(350)	(128)	(850)
Net cash flow from (used in) investing activities	(1,397)	(857)	(1,708)
Cash flows from financing activities			
Capital contribution	500	500	2,200
Repayment of surplus to the Crown	(18)	(2,014)	-
Net cash flow from (used in) financing activities	482	(1,514)	2,200
Total net increase/(decrease) in cash held	506	(861)	1,531
Cash at the beginning of the year	2,765	4,209	2,848
Cash at the end of the year	3,271	3,348	4,379

* The Forecast statement of cash flows does not include the contracted audit service provider audit fees because these do not involve any cash transactions within the Office.

Reconciliation of surplus in the Forecast comprehensive income statement to the forecast net cash flow from operating activities

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for the year ending 30 June 2012

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Forecast comprehensive income statement on page 54 to arrive at the net cash flow from operating activities disclosed in the Forecast statement of cash flows on page 57.

	2010/11		2011/12
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Surplus	38	500	0
Non-cash items			
Depreciation and amortisation	1,117	914	1,071
Total non-cash items	1,117	914	1,071
Working capital movements			
(Increase)/decrease in receivables and prepayments	269	46	(166)
(Increase)/decrease in work in progress	92	(75)	0
Increase/(decrease) in payables	(122)	232	95
Increase/(decrease) in current employee entitlements	55	(113)	29
Total net working capital movements	294	90	(42)
Investing activity items			
Loss/(profit) on disposal of assets	(38)	0	0
Total investing activity items	(38)	0	0
Movements in non-current liabilities			
Increase/(decrease) in employee entitlements	10	6	10
Net cash flow from operating activities	1,421	1,510	1,039

Statement of forecast capital expenditure for the year ending 30 June 2012

This statement discloses the forecast capital expenditure for the 2011/12 financial year (incurred in accordance with section 24 of the Public Finance Act 1989) that is primarily routine replacement and upgrade of the Office's information technology, office equipment, and furniture and fittings.

	Actual June 2007	Actual June 2008	Actual June 2009	Actual June 2010	Budget June 2011	Estimated actual June 2011	Forecast June 2012
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Plant and equipment							
Furniture and fittings	77	125	63	42	80	20	210
Office equipment	17	7	20	16	20	33	10
Motor vehicles	429	382	184	361	509	434	380
Computer hardware	445	114	318	258	593	430	350
Intangible assets							
Computer software	254	151	927	245	350	128	850
Total	1,222	779	1,512	922	1,552	1,045	1,800

Forecast details of non-current assets by category as at 30 June 2012

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	As at 30 June 2011		Forecast position as at 30 June 2012		
	Budgeted net book value \$000	Estimated actual net book value \$000	Cost \$000	Accumulated depreciation \$000	Net book value \$000
Plant and equipment					
Furniture and fittings	152	93	2,470	2,205	265
Office equipment	341	30	280	278	2
Motor vehicles	705	798	1,212	364	848
Computer hardware	406	491	2,923	2,392	531
Intangible assets					
Computer software	1,014	855	4,232	2,952	1,280
Total	2,618	2,267	11,117	8,191	2,926

Forecast appropriation statement for the year ending 30 June 2012

This statement breaks down the expenditure reported in the Forecast comprehensive income statement (on page 54) and the Forecast output class operating statements (on page 62) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2011/12 in the Estimates of Appropriations (parliamentary paper B.5, Vol. 1).

	\$000
Appropriations for output expenses	
Legislative auditor (multi-class output appropriation):	
Supporting accountability to Parliament	2,860
Performance audits and inquiries	6,587
Total legislative auditor	9,447
Audit and assurance services (revenue-dependent appropriation)	71,451
Audit and assurance services – Crown-funded small entity audits	150
Total appropriations for output expenses	81,048
Other expenses to be incurred by the Office	
Remuneration of the Auditor-General and Deputy Auditor-General	803
Total other expenses	803
Total	81,851

Forecast output class operating statements for the year ending 30 June 2012

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	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Surplus \$000
Output expenses						
Audit and assurance services (revenue-dependent appropriation)						
Scope: This appropriation is limited to the performance of 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. 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.						
	-	9,988	61,463	71,451	71,451	0
Audit and assurance services						
Scope: This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute for smaller entities such as cemetery trusts and reserve boards.						
	150	-	-	150	150	-
Statutory auditor function (multi-class output appropriation)						
Basis – these output expenses use the same resources and contribute to the same outcome.						
Performance audits and inquiries						
Scope: This output class is limited to undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities (Members' Interests) Act 1968.						
	6,587	-	-	6,587	6,587	-
Supporting accountability to Parliament						
Scope: This output class is limited to reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the Executive to account for its use of public resources.						
	2,460	400	-	2,860	2,860	-
Total output expenses	9,197	10,388	61,463	81,048	81,048	0
Other expenses to be incurred by the Office						
Remuneration of the Auditor-General and Deputy Auditor-General						
	803	0	0	803	803	0
Total operating expenses	10,000	10,388	61,463	81,851	81,851	0