



## Summary Annual Report 2011/12



Welcome to my summary annual report for the year ended 30 June 2012.

I am very pleased to report on my Office's achievements and performance during what has been a challenging year for the public sector as it has responded to the need to seek improved effectiveness and efficiency in an uncertain and often volatile global environment.

### Achievements

My Office has performed strongly, maintaining the general quality of our audits in a year in which audits of all local authorities' long-term plans were carried out (with the exception of Christchurch City Council); five major high profile inquiries started; an ambitious reporting programme was implemented; and extensive

consultation on our 2012/13 work programme took place.

Our stakeholders' feedback confirms that my Office is continuing to perform at a high level, and that our sector knowledge and relationship management skills are particularly valued. Our work plays an important part in supporting accountability to Parliament, and we are committed to acting on the very useful feedback from our stakeholders.

We published reports across a range of areas, drawing on expertise from throughout the Office and evidence collected across the public sector, and successfully introduced separate reports for the health and education sectors. Our May 2012 report on *Public entities' progress in implementing the Auditor-General's recommendations* highlighted the effect of our work, and we were pleased that public entities not directly involved in our audits had also adopted lessons and recommendations from the various reports.

Our inquiries work enables us to react to issues of current public concern. The results of this work confirm the value of providing assurance directly to people about how public entities are using their resources, and highlighting areas where change is needed. The past year saw an unusually high number of requests for inquiries into matters of significant public interest, and an unprecedented number of high profile requests for us to inquire into.

We engaged more widely in 2011/12 about our future work. We introduced Facebook and Twitter accounts, and launched a new website for school students and teachers with New Zealand-focused resources. We also initiated a successful online forum for people in public entities involved in preparing accountability and performance information.

We make a significant ongoing contribution to the international auditing community, and 2011/12 was the first year of our funding agreement with the Ministry of Foreign Affairs and Trade, enabling us to provide more support and expertise in the Pacific. We continued our commitment to the work of the International Organisation of Supreme Audit Institution (INTOSAI), including the development of a new INTOSAI standard on the value and benefits of Supreme Audit Institutions.

We make an important contribution to the setting of accounting and auditing standards through our involvement in the work of the External Reporting Board. I am pleased that we are again making a direct contribution to the standard-setting process, and that the public sector voice is being heard in that process.

### Organisational matters

My Office has shown it has a strong foundation of skilled people, effectively working together in a well-run organisation. My staff and contracted service providers performed strongly throughout the year, and client feedback shows that our auditors continue to score well in their ability to help our clients to identify and promote improvements in their operations.

Very good progress was made on addressing our long-term property needs in Wellington and Auckland, and I am thankful for the tolerance of our Christchurch staff who continue to work in unsatisfactory conditions as we endeavour to find them suitable premises.

I thank my staff and our wider community of contracted audit service providers for their excellent work and their contribution towards an effective, efficient, and trusted public sector. With their continued support, I look forward to the challenges and opportunities of 2012/13.



Lyn Provost  
Controller and Auditor-General

28 September 2012

## 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 independently of executive government and Parliament, but is accountable to Parliament for the public resources she uses to do her work. Phillippa Smith, the Deputy Controller and Auditor-General, ably supports that role.

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** 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.

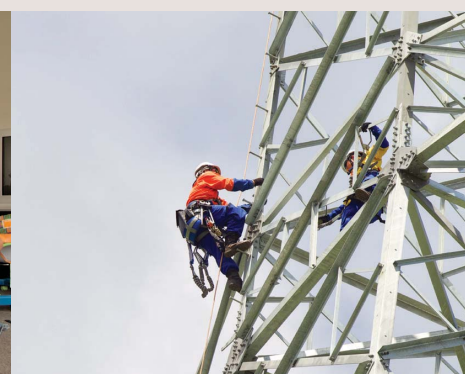
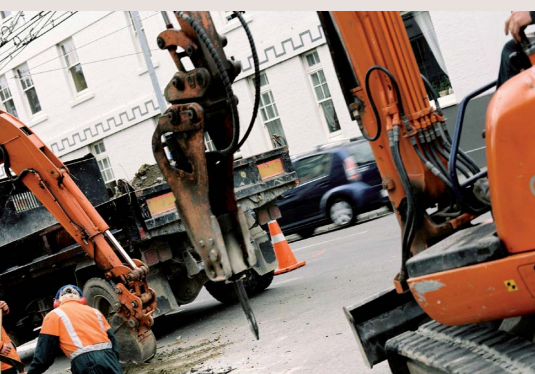
**Audit New Zealand** carries out annual audits of public entities allocated by the Auditor-General and provides other assurance services to public entities.

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

## Summary of our outcomes

We use a combination of measures for assessing progress towards our outcomes. We maintained or improved results for 2011/12.

Our outcomes	Our impact
<b>Trusted public sector</b>	9.5 out of 10 – New Zealand’s 2011 score on Transparency International’s Corruption Perceptions Index, ranking New Zealand first in the world
<b>Appropriately responsible public sector behaviour</b>	98% – unmodified annual audit opinions (2010/11: 97%) 88% – annual audits completed on time (2010/11: 87%)
<b>High performing public sector</b>	65% 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: <ul style="list-style-type: none"> <li>• 74% of our management report recommendations accepted by public entities (2010/11: 72%)</li> <li>• 93.5% of central government entities whose management and financial controls we graded “good” or better (2009/10: 93%)</li> <li>• 47% of central government entities whose performance management information and controls we graded as “needing to improve” (2009/10: 58%)</li> </ul>
<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 89% of select committee members surveyed confirmed that our advice assisted their examinations (2010/11: 86%)
<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

Our 2011/12 results show a mixed picture:

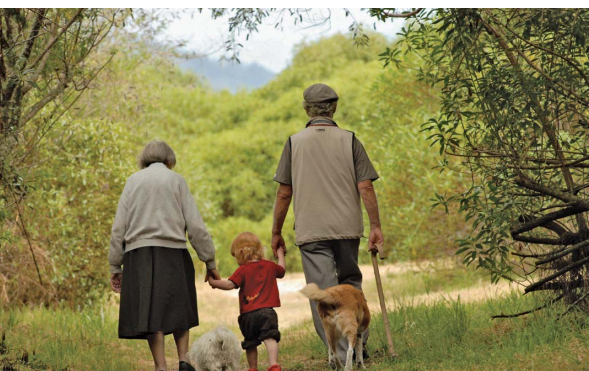
- a high percentage (88%) of audited financial statements completed within statutory deadlines, despite the disruption caused by the Canterbury earthquakes to public entities and auditors alike;
- a low percentage (1.8%) of modified audit opinions maintained;
- a high percentage (74%) of acceptance by public entities of our recommendations for improvement maintained, with a small increase compared with 2010/11 (72%);
- an increase in the number of audits in arrears (from 319 at 30 June 2011 to 348 at 30 June 2012), and a significant increase in the percentage of audit arrears because of inaction on our part (from 20% at 30 June 2011 to 42% at 30 June 2012), reflecting the resourcing pressures of carrying out the audits of all local authorities' LTPs;
- no outstanding LTP audit opinions at 30 June because of inaction on our part;
- a slight reduction in the timeliness of issuing management reports to public entities after the completion of our audits (93%), against an ambitious target of 100%;
- a reduction in the level of client satisfaction as expressed by a sample of public entities (83%), after a record high in 2010/11 (90%).

An independent review confirmed that our processes for auditor appointments and audit fee monitoring were carried out with due probity and objectivity. Our own comprehensive review of audit allocation among the Auditor-General's audit service providers saw the reallocation of some audits, with further changes likely to maintain alignment with the allocation model's key principles.

Audit fees were again affected by entity-specific issues in 2011/12. Some pressure on average charge-out rates increased as a result of auditors using a more senior team mix, and the return of some salary-driven pressure reflecting more demand for accountants and auditors.

### Movement in audit fees 2009/10 to 2011/12

	2010/11 to 2011/12			2009/10 to 2010/11		
	Increase in total fee	Due to hours	Due to charge-out rate	Increase in total fee	Due to hours	Due to charge-out rate
Total	3.0%	1.5%	1.5%	3.9%	2.0%	1.9%



We continued our work to support the change in responsibility for standards setting and approach of the new suite of accounting standards developed by the External Reporting Board, and the phasing in of the Auditor-General's revised auditing standard on reporting service performance.

For the first time, we included an emphasis-of-matter paragraph in our audit opinion on the Financial Statements of the Government because of the uncertainty about the financial effect of the Canterbury earthquakes.

### Achievement against measures

2011/12 Forecast	2011/12 Actual	2010/11 Actual	2009/10 Actual
Less than 30% of audits in arrears because of inaction on our part	42%	20%	42–47%*
All management reports sent within six weeks of the audit report being signed	93%	94%	95%
75% of client survey respondents rate overall service as 7 or greater on a scale of 1 to 10	83%	90%	83%
95% of auditors receive a satisfactory or better grading through quality assurance reviews	92%	100%	98%
Independent review confirms the probity and objectivity of our methods for allocating audits and monitoring fees	Confirmed	Confirmed	Confirmed
Costs (2011/12 forecast – \$70.6 million)	\$70.7 million	\$65.0 million	\$62.7 million

\*Note: This year we used an estimate.

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

Each year we seek feedback from a small sample of our stakeholders about the support and value of the advice they receive from us. This year's results show that overall perceptions of the Office are again positive. Our stakeholders told us that they value our professional and impartial advice and guidance, with eight out of nine select committee members surveyed confirming that our advice assists in their Estimates of Appropriation and financial review examinations. All the select



committee members surveyed were satisfied with the quality of our advice, but we saw a decrease in the rating for the usefulness of that advice.

Our stakeholders also encouraged us to engage more systematically with them, and to provide more information about our broader and long-term work plan, including expectations and priorities. This feedback aligns with our focus on developing a more strategic approach to our work programme planning.

Our published reports on performance audits, other studies, and major inquiries encourage ongoing high performance and performance improvement throughout the public sector. A high proportion of our stakeholders surveyed (12 of the total 13) rated the quality of our performance audit reports highly, but only 8 of the 13 were satisfied with the usefulness of the reports. Our intention is to better understand the reason for this decrease, and to find ways to consistently meet our 85% target.

Our May 2012 report on *Public entities' progress in implementing the Auditor-General's recommendations 2012* showed that good progress had been made by public entities in acting on most of our performance audit recommendations. Slow progress in some areas reflected unforeseen changes, and a lack of co-ordination and information sharing between agencies.

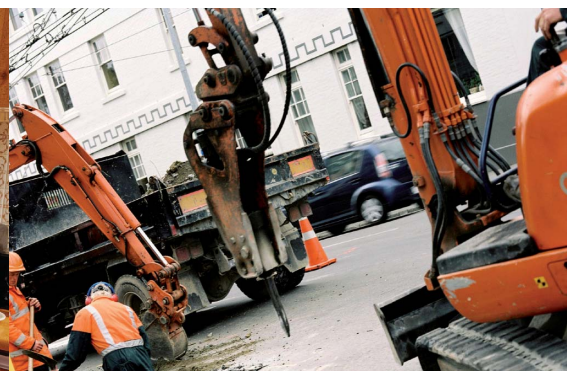
This year, we received numerous requests to carry out inquiries on a range of issues, and decided that five of these warranted major inquiries. We know that our inquiries work contributes to positive change and it is always pleasing to see this in action. Many concerns raised in our report *How the Department of Internal Affairs manages spending that could give personal benefit to Ministers* (December 2010) were addressed in the Members of Parliament (Remuneration and Services) Bill introduced to the House in October 2011. Our inquiries work helps people to understand what public entities are doing, by providing an independent and detailed description of what has happened and assurance over the proper use of public resources.

Providing better public information on our inquiries work during the year has helped people understand what issues we can and cannot look at, and has contributed to the low number of matters resulting in "no inquiries." We now have more effective systems for ensuring that we focus on matters that are appropriate.



**Achievement against measures**

2011/12 forecast	2011/12 Actual	2010/11 Actual	2009/10 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: 100% Usefulness: 78%	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: 93% Usefulness: 62%	Quality: 88% Usefulness: 75%	Quality: 80% Usefulness: 100%
Number of reports issued on performance audits, inquiries, special studies, and results of annual audits	22	26	22
Independent reviews of two performance audits confirm their quality (presentation of context; report structure, presentation, and format; and 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>	96%	94%	86%
	50%	50%	94%
	100%	33% (3 major inquiries – only one was completed within the target time frame)	80%
Costs (2011/12 forecast – \$9.3 million)	\$8.8 million	\$8.4 million	\$8.4 million

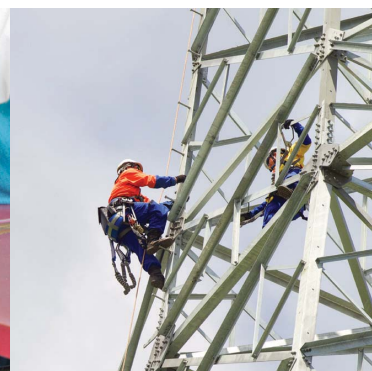




## Summary of financial performance, financial position, and cash flows\*

	2012 Actual \$000	2012 Supp. Estimates \$000	2011 Actual \$000	2010 Actual \$000
<b>The income we earned was:</b>	<b>81,863</b>	<b>80,925</b>	<b>75,195</b>	<b>73,798</b>
<ul style="list-style-type: none"> <li>• \$71.4 million of audit fees from public entities</li> <li>• \$10.0 million from the Crown, which included a funding increase from the previous year of \$45,000</li> </ul>				
<b>Our expenditure was:</b>	<b>80,414</b>	<b>80,925</b>	<b>74,279</b>	<b>71,784</b>
<p>The main items we spent money on were personnel costs \$37.7 million, fees paid to contracted auditors \$29.5 million, and other day-to-day operating costs \$13.2 million</p> <p>All our spending was within the limits set by Parliamentary appropriations</p>				
<b>Our surplus for the year, which is returned to the Crown, was:</b>	<b>1,449</b>	<b>0</b>	<b>916</b>	<b>2,014</b>
<b>Our assets at 30 June were:</b>	<b>16,531</b>	<b>13,682</b>	<b>14,541</b>	<b>14,281</b>
<ul style="list-style-type: none"> <li>• Current assets – including cash \$5.5 million, work in progress \$1.2 million, and receivables \$6.8 million</li> <li>• Non-current assets – the plant, equipment, and intangible assets we own</li> </ul>	14,279	11,389	12,427	12,000
	2,252	2,293	2,114	2,281
<b>Our liabilities at 30 June were:</b>	<b>12,510</b>	<b>9,661</b>	<b>10,520</b>	<b>10,760</b>
<ul style="list-style-type: none"> <li>• Current liabilities – including creditors and other payables \$5.7 million, and provision for employee entitlements \$4.8 million</li> <li>• Non-current liabilities – provision for employee entitlements</li> </ul>	11,942	9,076	9,934	10,196
	568	585	586	564
<b>Movements in our taxpayers' funds were:</b>				
Opening balance at 1 July	4,021	4,021	3,521	3,521
Surplus for the year	1,449	0	916	2,014
Provision for payment of surplus to the Crown	(1,449)	0	(916)	(2,014)
Capital contribution	0	0	500	0
<b>Closing balance at 30 June</b>	<b>4,021</b>	<b>4,021</b>	<b>4,021</b>	<b>3,521</b>
<b>Our net increase/(decrease) in cash held was:</b>	<b>1,196</b>	<b>(1,341)</b>	<b>74</b>	<b>514</b>
<ul style="list-style-type: none"> <li>• Operating activities</li> <li>• Investing activities</li> <li>• Financing activities</li> </ul>	3,086	655	2,357	1,801
	(974)	(1,080)	(769)	(801)
	(916)	(916)	(1,514)	(486)

\* This summary has been extracted from the full financial statements. The full financial statements, dated 28 September 2012, are in our *Annual Report 2011/12* (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 2012

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 2012 on which we expressed an unmodified audit opinion in our report dated 28 September 2012.

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 28 September 2012 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*  
CST Nexia Audit  
Chartered Accountants  
Manukau City, New Zealand  
28 September 2012