

Overview of the Auditor-General's work in the transport sector

Briefing provided to the Transport
and Industrial Relations Committee
under section 21 of the Public Audit
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Part 1

Introduction

- 1.1 We decided to prepare this document for the members of the Transport and Industrial Relations Committee because we know that our role in auditing all of the public entities in the transport sector gives us a unique perspective.
- 1.2 This document:
- gives an overview of the role of the Auditor-General and outlines the kind of advice and support that you can expect from us;
 - provides a description of the transport sector and its strategic significance; and
 - describes our work in general and, specifically, in the transport sector.
- 1.3 We provide information about the entities, funding, main assets, and some of the main policy challenges in the sector. You can find more detailed and comprehensive information about these entities and challenges in other documents, such as entities' accountability documents, policy documents such as *Safer Journeys*, and entities' recent briefings to the incoming Minister of Transport.
- 1.4 If you would like further information about our work in the transport sector, please contact Gareth Ellis, Assistant Auditor-General Parliamentary Group (Gareth.Ellis@oag.govt.nz).
- 1.5 We welcome your thoughts on all aspects of our proposed work programme (see Part 4) and areas of potential focus.

About the Auditor-General

- 1.6 The Controller and Auditor-General – more commonly known as the Auditor-General – is an officer of Parliament who audits all (4000 or so) public entities to check whether public money is being spent as Parliament intended. The role and functions of the Auditor-General are set out in the Public Audit Act 2001.
- 1.7 The Governor-General appoints the Auditor-General on the recommendation of Parliament for a non-renewable seven-year term.
- 1.8 The current Auditor-General, Lyn Provost, began her term in October 2009. The Deputy Auditor-General, Phillippa Smith, was re-appointed for a second five-year term in 2010.
- 1.9 The Auditor-General is accountable to Parliament for how she uses public funds to do her job but her investigations and views about the use of public money are objective and free from political influence.

- 1.10 Put simply, the Auditor-General helps you to hold public entities to account for their use of public money. The annual audit of public entities' financial statements forms most of our work by cost. We also:
- carry out performance audits of aspects of public entities' operations;
 - inquire into any matter relating to a public entity's use of its resources;
 - advise Parliament about the performance of public entities;
 - audit local authorities' long-term plans (LTPs);
 - provide auditing standards and guidance for our appointed auditors; and
 - provide audit/assurance services to public entities, on their request.
- 1.11 For more information, see the *MPs' guide to the Auditor-General* on our website, www.oag.govt.nz.
- 1.12 The Office of the Auditor-General can help you by:
- briefing you about examinations of Estimates of Appropriations;
 - helping you to review public entities' performance and operations;
 - providing briefings on the reports that the Auditor-General presents to Parliament; and
 - offering advice.

What to ask transport sector entities

- 1.13 In our audits of transport sector entities, there is a focus on asset management and performance management information.

Asset management

- 1.14 Raising the standard of infrastructure and asset management is a key part of the Government's economic growth agenda.
- 1.15 When you review transport entities, you may wish to get information on:
- whether the entity is clear about the service that its assets support;
 - whether the entity's asset management approach balances the needs of current and future service users; and
 - how the entity knows whether it is managing its assets well.

Performance management information

- 1.16 Performance reporting is an integral part of parliamentary accountability, allowing Parliament to hold Ministers and central government entities to account. Improving performance information and reporting is crucial in helping to improve effectiveness and efficiency of public sector entities.
- 1.17 In recent years, we have reported that the quality of performance reporting needs to improve.
- 1.18 We are phasing in a revised standard for auditing service performance reports. Our revised standard requires our auditors to modify their audit opinion if the performance information in the annual report does not, in their opinion, fairly reflect performance for the year.
- 1.19 We audited 28 departments and Crown entities under the revised standard for 2010/11. For 2011/12, we will apply the revised standard to another group of entities. We will apply the revised standard to all entities in 2012/13.
- 1.20 There has been a clear improvement in the quality of performance reports of those entities being audited under the revised standard, although several entities must improve their reporting further.
- 1.21 You may wish to ask entities whether they are having the effect that they expect. If so, are there opportunities to be more efficient, such as when working with partners to achieve good outcomes? If not, what are they doing to address it and how will they report on future performance?

Other matters for you to consider

- 1.22 To help your work, you may wish to find out more about:
- local government's role in the transport sector;
 - the New Zealand Productivity Commission's investigation into the efficiency of the international freight system; and
 - how NZTA is working out the value for money of investments in transport.

Part 2

About the transport sector

- 2.1 This Part outlines:
- the main entities in the transport sector;
 - how the transport sector is funded;
 - what transport assets there are and how they are managed; and
 - transport priorities for the Government, local authorities, and other public entities.

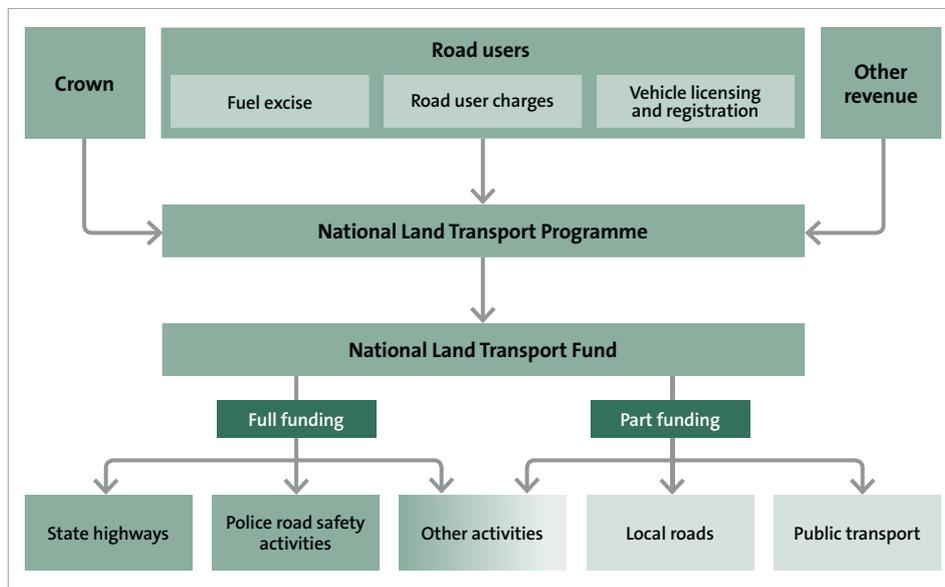
The main entities in the transport sector

- 2.2 The central government part of the transport sector includes:
- two government departments (the Ministry of Transport and New Zealand Police);
 - four Crown entities – the New Zealand Transport Agency (NZTA), the Civil Aviation Authority of New Zealand (including the Aviation Security Service), Maritime New Zealand, and the Accident Compensation Corporation;
 - three State-owned enterprises (SOEs) – Airways New Zealand, the New Zealand Railways Corporation (trading as KiwiRail), and the Meteorological Service of New Zealand Limited;
 - one Crown-established trust – the Road Safety Trust; and
 - one independent Crown entity – the Transport Accident Investigation Commission.
- 2.3 The transport sector's importance to the economy means that other agencies are involved, including:
- the Treasury, including the National Infrastructure Unit (NIU) and Crown Ownership Monitoring Unit;
 - the Ministry of Economic Development;
 - the Ministry for the Environment; and
 - the New Zealand Productivity Commission.
- 2.4 Local authorities play an important role. They own and manage transport infrastructure (including local roads and bridges), write local transport policy, and provide public transport services.
- 2.5 Private and public (central and local government) interests own and invest in aviation infrastructure and air services. Local authorities own most of the country's ports.
- 2.6 Private companies – logistics firms, freight forwarders, public transport service providers, and tourism operators – use and provide transport.

Funding the transport sector

- 2.7 The National Land Transport Fund is the main mechanism for funding land transport projects and activities in the National Land Transport Programme (NLTP). The Crown and road users fund the NLTP (see Figure 1).¹ NZTA assigns NLTP funding, which is used only for land transport investments and services. The NLTP funds:
- the full cost of the State highway system and the New Zealand Police's road safety activities; and
 - about half the cost of local roads.
- 2.8 The NLTP provides subsidies for public transport.

Figure 1
National Land Transport Programme funding flows



- 2.9 The other major funder of land transport is local government. Local authorities receive funding, through the NLTP, to maintain, renew, and improve local roads and passenger transport infrastructure. Through the NLTP, local authorities receive about half the cost of maintenance programmes and improvement projects. Local government rates, borrowings, and other revenue pay for those costs.

¹ See NZTA (2009) *National Land Transport Programme 2009-2012*, available at www.nzta.govt.nz.

Transport assets

- 2.10 Transport infrastructure:
- allows freight to move to, from, and around the country; and
 - supports the country's social and economic performance, including its tourism industry.
- 2.11 This country's transport assets – including roads, railways, airports, and ports – are worth more than \$80 billion.

The road network

- 2.12 The Government funds and owns the 11,000 kilometres of state highways, 13% of the entire road network. State highways handle nearly half of all vehicle kilometres and are valued at about \$25 billion.
- 2.13 NZTA has been reviewing how highways are valued. In 2010, we recommended that NZTA keep reviewing its valuation methods to ensure that they stay in line with internationally accepted methods.
- 2.14 NZTA has a current focus on Roads of National Significance (RoNS). Seven highways around the five largest population centres have been identified as RoNS.² All seven RoNS projects should be substantially completed by 2020.
- 2.15 Local authorities own and manage the local road network, which covers about 83,000 kilometres. In 2010, the local road network was valued at about \$35 billion.³

The rail network

- 2.16 KiwiRail owns and manages the rail network, rail freight services, and long-distance passenger services. It has statutory responsibility for managing access to, and safety on, the rail corridor. Commercial revenue, borrowings, subsidies, and equity from its government shareholder fund KiwiRail's operations. KiwiRail has commercial revenue (excluding grants and subsidies) of more than \$500 million a year.⁴
- 2.17 Regional councils, ratepayers, and NZTA subsidise passenger rail services in Auckland and Wellington.
- 2.18 There are 4000 kilometres of railways. In June 2011, KiwiRail assets were valued at \$13.3 billion.

2 The RoNS are listed at www.nzta.govt.nz. There are maps of the RoNS in NZTA (2009) *National Land Transport Programme 2009-2012*, page 13, available at www.nzta.govt.nz.

3 Estimated from local authority annual reports.

4 National Infrastructure Unit data, available at www.infrastructure.govt.nz.

Ports

- 2.19 The country has 14 exporting ports and a few other ports that service trade or fishing vessels. Local authorities largely own most ports. Ports have more than \$3.5 billion of assets.

Airports

- 2.20 The country has 41 airports with paved runways and 80 unpaved airports.⁵ Local authorities own many airports. The Crown holds shares in four airports and is a joint-venture partner in six regional airports. There are some privately owned airports and military airports.

Managing transport assets

- 2.21 The Government wants the country's infrastructure to help to lift economic growth, with higher productivity and better management of Crown assets. The NIU sees continued investment in the transport network and replacement of aged assets as a way to improve productivity, gross domestic product, and road safety.
- 2.22 The main asset management and building projects that public sector entities are delivering include: RoNS, KiwiRail's Turnaround Plan (TAP), the Treasury's Capital Asset Management Project (CAM), and local authorities' LTPs.
- 2.23 Examining entities' asset management plans, systems, and practices is an important part of our annual and performance audit work.

Transport priorities for central government

- 2.24 Government policy aims to achieve an effective, efficient, safe, secure, and accessible transport system that supports economic growth to deliver more prosperity, security, and opportunities.
- 2.25 To deliver on its transport objectives, the Government is focusing on:
- 1. Economic growth and productivity**

The Government sees transport as being crucial to economic growth and values the transport system as providing connections, both domestically and internationally, for communities and for business and to meet the travel needs of international tourists.
 - 2. Value for money**

The Government seeks assurance that the sector, especially the parts managed by central and local government, is delivering appropriate infrastructure and services at the best price.

5 National Infrastructure Unit (2010), www.infrastructure.govt.nz/plan/mar2010/39.htm.

3. Road safety

The Government's 10-year *Safer Journeys* strategy, released in 2010, aims for "a safe road system increasingly free of death and serious injury".⁶

- 2.26 At a more detailed level, the Government has had a focus on investing in the RoNS and TAP (a 10-year programme to create a sustainable rail business).

Transport priorities for local government

- 2.27 Local authorities' priorities include more efficient, integrated, reliable, and connected transport networks, road safety, and reducing the effect of transport on the environment.
- 2.28 Local government, through its representative body, Local Government New Zealand, has prioritised better promotion of its infrastructure interests in its 2011/12 work programme. It is concerned that prioritising state highways over local infrastructure may make the transport network less effective.
- 2.29 Auckland Council has prioritised transport infrastructure in its Spatial Plan, which sets out proposed projects to transform transport and other services in Auckland. Auckland's LTP clearly sets out the doubts about funding sources and affordability.
- 2.30 On 15 February 2012, Auckland Council's LTP Statement of Proposal was adopted for consultation. We issued an unmodified audit opinion on the LTP. However, the opinion included an emphasis of matter highlighting the significance of the uncertainties associated with funding transport projects:

Significant forecasting assumptions associated with funding for the City Rail Link project

Without modifying my opinion, I draw your attention to the significant forecasting assumptions on page 87 of volume three of the LTP Statement of Proposal that note the significant level of uncertainty associated with:

- *central government funding \$1.2 billion of the proposed City Rail Link project; and*
- *alternative funding sources to raise \$377 million, from particular types of user charges or regional taxes, many of which would require legislative change.*

The main risks to the City Rail Link project are that central government will not agree to provide direct funding nor enable the Auckland Council to access alternative funding sources.

If the above forecasting assumptions are proven to be materially incorrect, Auckland Council will need to review the project as part of the LTP 2015-25.

⁶ Ministry of Transport (2010), *Safer Journeys*, available at www.transport.govt.nz.

Transport priorities for other public entities

- 2.31 Commercial considerations and stakeholders' wider expectations and dependencies drive other public entities involved in providing the transport services (such as SOEs, council-controlled organisations, ports, and airports).
- 2.32 The Treasury's Crown Ownership Monitoring Unit monitors SOEs for shareholding Ministers. The Government has signalled that it expects SOEs to improve performance by focusing on how they run their businesses and how they compare with their private sector counterparts.
- 2.33 Some initiatives focus on providing better public services generally:
- The NIU leads the CAM regime to improve practice and performance. CAM is focused on capital-intensive departments and Crown entities, including NZTA. The CAM framework has a focus on better capital planning and is based on international best practice.
 - The State Services Commission has carried out a Performance Improvement Framework review of NZTA. NZTA has a focus on providing, and being able to show that it is providing, improved value for money for the services that it provides. By June 2012, Maritime New Zealand and the Civil Aviation Authority of New Zealand will have funding reviews to help put them onto sustainable funding paths and ensure that they deliver better value for money.

Part 3

The Auditor-General's work in the transport sector

Overview

- 3.1 We carry out annual and performance audits of central and local government entities. Every three years, we audit local authorities' LTPs.

Annual audits

- 3.2 Annual audits are carried out in keeping with the Auditor-General's auditing standards, which incorporate the auditing standards of the New Zealand Institute of Chartered Accountants. Annual audits involve auditing the financial statements and other information (such as performance information) that public entity must have audited. In an annual audit, the auditor:
- examines an entity's financial statements, performance information, and other information that must be audited;
 - assesses the results of that examination against a recognised framework (generally accepted accounting practice); and
 - forms and reports an audit opinion.
- 3.3 The audit involves gathering all the information needed to have reasonable assurance that financial statements and other information do not have material misstatements caused by fraud or error. The auditor evaluates how adequately the information is presented. Also, local authorities often measure and report road safety statistics in their annual report (within the reported statement of service performance). Our auditors will form conclusions and report on whether the information provided in the statement of service performance fairly reflects the service provided by the local authority.

Audits of central government agencies

- 3.4 As part of the annual audit, we examine, assess, and grade Crown entities' environment, systems, and controls for managing and reporting financial and service performance information.
- 3.5 Our auditors recommend improvements to ensure that there are effective internal controls for sound management and good governance, and to help entities to manage risks (such as errors and potential fraud).
- 3.6 In our annual audits of central government entities during the last three years, we have put more emphasis on helping public entities to improve their performance information and reporting.

- 3.7 Good-quality service performance information and reporting enables public entities to account for, and be held to account for, the effective and efficient use of resources and achievement of their objectives. It enables Parliament and the public to see what an entity said it would do, what it achieved, and the difference it made.
- 3.8 These audits found that central government transport entities continue to have effective management control environments and financial systems and controls. Figure 2 summarises our audit findings for the three financial years from 2008/09 to 2010/11 for:
- management control environment (MCE);
 - financial information systems and controls (FISC); and
 - service performance information and associated systems and controls (SPIASC).
- 3.9 Appendix 1 includes a full definition of these terms.

Figure 2
Assessment of management systems for the three financial years from 2008/09 to 2010/11

Airways	MCE	FISC	SPIASC
2008/09	Very good	Good	Not applicable
2009/10	Good	Good	Not applicable
2010/11	Very good	Good	Not applicable
Civil Aviation Authority			
2008/09	Needs Improvement	Good	Needs Improvement
2009/10	Needs Improvement	Good	Needs Improvement
2010/11	Needs Improvement	Very good	Needs Improvement
KiwiRail			
2008/09	Needs Improvement	Needs Improvement	Not applicable
2009/10	Needs Improvement	Good	Not applicable
2010/11	Good	Good	Not applicable
Maritime New Zealand			
2008/09	Very good	Very good	Needs Improvement
2009/10	Very good	Very good	Needs Improvement
2010/11	Very good	Very good	Good

Ministry of Transport			
2008/09	Good	Very good	Needs Improvement
2009/10	Good	Very good	Needs Improvement
2010/11	Good	Very good	Needs Improvement
New Zealand Transport Authority			
2008/09	Good	Good	Needs Improvement
2009/10	Good	Good	Needs Improvement
2010/11	Good	Good	Good
Transport Accident Investigation Authority			
2008/09	Good	Very good	Needs Improvement
2009/10	Good	Very good	Needs Improvement
2010/11	Very good	Very good	Needs Improvement

Part 4

Our intentions for 2012/13

- 4.1 In 2012/13, the Auditor-General will audit and report on how well equipped and supported the public sector is to respond to future (and changing) needs and talk with a wide range of people about our country's future.
- 4.2 The theme – *Our future needs – is the public sector ready?* – will guide our annual work programme for the financial year, with some work starting before 1 July 2012 to allow us to complete it by 30 June 2013. We are considering what transport audit work – such as looking at integrating land-use and transport planning – we might do in 2012/13 to support this theme.

Performance audits

- 4.3 We audit the performance of public entities. Most performance audits are carried out under section 16 of the Public Audit Act 2001. A performance audit can examine:
- how effectively and efficiently a public entity is working;
 - whether a public entity is complying with its statutory obligations;
 - any act or omission that might waste public resources; and
 - any act or omission that might show (or appear to show) a lack of probity or financial prudence by a public entity or one or more of its members, office holders, and employees.
- 4.4 We are planning or carrying out performance audits looking at how effectively:
- the relevant agencies are dealing with road crashes involving alcohol-affected or drugged drivers;
 - Auckland is moving to integrated ticketing; and
 - KiwiRail is improving how it maintains and improves the rail network.
- 4.5 We are also providing assurance about the work that the Civil Aviation Authority is doing in response to our previous recommendations.

Long-term plans

- 4.6 The Local Government Act 2002 (the Act) requires the Auditor-General to audit every local authority's draft and final LTP. Our auditing of LTPs assures New Zealanders that the plans comply with the requirements of the Act and that the underlying information on which each LTP is based is reasonable and

supportable.⁷ We work with our auditors to ensure that consistent standards are applied throughout the sector.

Our focus on transport in Auckland

- 4.7 There is a funding gap between Auckland's transport aspirations and current revenue sources. Auckland's transport network is challenged by the current fiscal environment.
- 4.8 Choices to address the demand and funding imbalance may include:
- changing land-use plans, with bigger outer business districts to reduce central city demand; and
 - introducing and improving viable alternatives to road travel, such as rail, to reduce demand for roads.
- 4.9 Auckland's transport capacity and funding are long-term issues likely to have a large effect on the region's economy. Our annual and LTP audit work looks at how Auckland Council consults with the public on its plans and the quality of information that it uses in asset management planning and financial forecasts.
- 4.10 Other Auckland-related work we may consider includes:
- comparing transport planning and management decisions with overseas equivalents;
 - auditing major projects during planning and procurement; and
 - auditing major projects for effectiveness and value for money.

⁷ See section 84(4) of the Act. Help is available to local authorities through the Society of Local Government Managers, which has produced guides for writing LTPs for local authorities.

Appendix 1

Annual audits of central government agencies

The Auditor-General's appointed auditors measure and compare public sector entities by reviewing the:

- **Management control environment.** Assessing how clear the foundation of the control environment is, including:
 - strategic planning;
 - communicating and enforcing integrity and ethical values;
 - commitment to competence;
 - participation by those charged with governance;
 - management philosophy and operating style;
 - organisational structure;
 - assigning authority and responsibility;
 - human resources policies and practices;
 - risk assessing and managing;
 - main entity-level control policies and procedures;
 - information systems and communication (including planning for and making decisions about information technology);
 - monitoring; and
 - arrangements for complying with legislation.
- **Financial information systems and controls.** Assessing the systems and controls for financial performance and financial reporting. This includes assessing:
 - how appropriate the information that is provided is;
 - how financial information is presented;
 - the reliability of systems;
 - controls; and
 - monitoring.
- **Service performance information and associated systems and controls.** Assessing the quality of the service performance measures selected for reporting against and the systems and controls over service performance reporting. This includes:
 - appropriateness of information provided and reported;
 - presenting of statement of service performance information;
 - reliability of systems;

- control activity;
- monitoring; and
- Statement of Intent and forecast statement of service performance.

Appendix 2

Our recent performance audits on transport issues

New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway network (September 2011)

New Zealand Transport Agency: Information and planning for maintaining and renewing the state highway network (September 2010)

The Civil Aviation Authority's progress with improving certification and surveillance (June 2010)

Inquiry into how the Ministry of Education managed the 2008 national school bus transport tender process (October 2009)

Maintaining and renewing the rail network (July 2008)

Effectiveness of controls over the taxi industry: Follow-up report (November 2007)

Assessing arrangements for jointly maintaining state highways and local roads (June 2007)

Maritime Safety Authority: Progress in implementing recommendations of the Review of Safe Ship Management Systems (December 2005)

Inquiry into the sale of Paraparaumu Aerodrome by the Ministry of Transport (September 2005)

Effectiveness of controls over the taxi industry (June 2005)

Civil Aviation Authority: Certification and surveillance functions (June 2005)

Progress in implementing key recommendations of the 1996 Transport Committee inquiry into truck crashes (March 2005)

For more information about any of our recent performance audits, see our website www.oag.govt.nz.