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Parliamentary paper

# Annual Plan 2013/14

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# Annual Plan 2013/14

including the Auditor-General's  
Statement of Intent 2013–2016

Prepared in accordance with section  
36 of the Public Audit Act 2001

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# Auditor-General's overview

I am pleased to submit this Annual Plan for 2013/14.

During 2012/13, my Office carried out work on the theme *Our future needs – is the public sector ready?* to see how well the public sector was preparing for the future. We will conclude that work by the end of 2013.

For our 2013/14 work programme, we are proposing a focus on *Service Delivery*, to see how well the public sector is providing services to the public of New Zealand. This focus on service delivery is in the context of the shifting shape of the public sector, and changes in the way that services are being delivered that are adding complexity and risk as well as presenting opportunities for the public sector.

We intend to continue our recent practice of producing sector reports to draw on and summarise the results of all the audit and assurance work we carry out. These reports are including greater analysis of the financial and performance results of public entities. By reusing the results of our work through varying ways of reporting and analysis, we are finding that we can provide more insight and information for a greater range of audiences.

As an independent audit institution, we expect to play an important role in promoting transparency and accountability in our society. We aim to have a positive effect on trust in society, by carrying out work that is credible and of high quality.

## Strategy for 2013–17

We have a new Auditor-General's Strategy for 2013–17 and will start implementing it in 2013. The four strategic goals are:

- Stronger public sector – strengthening accountability, integrity, and transparency in the public sector;
- Citizen focus – demonstrating ongoing relevance to citizens and other stakeholders;
- Being a model organisation; and
- Positioning for the future by addressing fundamental questions and issues, and exploring options for auditing in the public sector.

## Consultation with Parliament

I consulted the Speaker and select committees about my proposed work programme, and thank them all for their consideration. The Education and Science Committee, Health Committee, Local Government and Environment Committee,

Primary Production Committee, and Social Services Committee all provided feedback, and this final plan now takes account of the comments they made.

Consultation with Parliament helps me to ensure that the work we do in addition to our annual audit work will be relevant and useful to Parliament, public entities, and the public. It is an important way in which I can continue to ensure that the work of my Office remains relevant and responsive to the needs of my key stakeholders – Parliament and the public.

This *Annual Plan 2013/14* includes my *Statement of Intent 2013–2016* (SOI), which was presented to the House of Representatives at the time of the Budget this year. The SOI includes the forecast financial and service performance for my Office for 2013/14.

### Concluding comments

My staff and audit service providers will continue to strive for reports that contribute positively to more effective and efficient use of public resources. They have the support and confidence of the Deputy Controller and Auditor-General and myself.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost  
Controller and Auditor-General

24 June 2013

# Part 1

## Introduction

### Why is there an Auditor-General?

In New Zealand's system of government, Parliament authorises all government expenditure and gives statutory powers to public entities.

Public entities are therefore accountable to Parliament for their use of the public resources and powers that Parliament gives them. As part of this accountability, Parliament seeks independent assurance through the Auditor-General that public entities are operating and accounting for their performance in the way that Parliament intended.

The need for independent assurance also covers local government. Local authorities are accountable to the public for how they use the resources they collect through rates and other sources.

It is not the role of the Auditor-General to question the policies of the Government or local authorities.

### The role and independence of the Auditor-General

The Auditor-General's role is to assist Parliament to scrutinise the effectiveness, efficiency, and accountability of public entities. To be effective and credible in this role, the Auditor-General must be independent of executive government. To ensure independence, the Auditor-General and the Deputy Auditor-General:

- are appointed by the Governor-General on the recommendation of the House of Representatives;
- report directly to the House of Representatives (and have the power to report to anyone else);
- are paid under a permanent authority from Parliament that does not require the approval of the Government; and
- make requests for funding directly to the Officers of Parliament Committee of the House of Representatives (rather than through the Executive), after which the House commends the sum required to the Governor-General for inclusion in an Appropriation Bill.

Consulting with members of Parliament about the proposed annual work programme is one of the ways in which the Auditor-General is accountable to Parliament.

## The Auditor-General's work

The Auditor-General's work is designed to give assurance to Parliament, public entities, and the public that our public entities fairly reflect the results of their activities in their annual reports. The Auditor-General is the auditor of all public entities.

The Auditor-General also reports on whether public entities are carrying out their activities effectively and efficiently and on matters of waste, probity, legislative compliance, and financial prudence in the public sector.

The Auditor-General reports findings and makes recommendations so that those responsible for making improvements can do so. This includes highlighting examples of good practice that can help improve public sector management and performance.

The work is carried out under sections 15, 16, and 19 of the Public Audit Act 2001 (the Act). The audit processes that give effect to these matters are supplemented by:

- other auditing services, which the Auditor-General may, with the agreement of a public entity, perform for that entity – being any services of a kind that it is reasonable and appropriate for an auditor to perform (under section 17 of the Act); and
- inquiries, which the Auditor-General may carry out into any matter concerning a public entity's use of its resources (under section 18 of the Act).

The appropriate identification, scoping, investigation, and reporting of audits (under sections 15, 16, and 19), other auditing services (under section 17), and inquiries (under section 18) are underpinned by the Auditor-General's auditing standards. The work is facilitated by various processes carried out within the Office of the Auditor-General and by audit service providers contracted to work on behalf of the Auditor-General.



## Part 2

# About the focus of our proposed work programme

### Overview of proposed work on our 2013/14 *Service Delivery* theme

The theme for our 2013/14 work programme is *Service Delivery*. Our planned performance audits and other work for 2013/14 focus on the question of how quality, effective, and efficient service delivery can be optimised to provide for more diverse service supply and access to meet people's different needs.

We intend to report on:

1. delivering services in a digital environment;
2. client-focused service delivery by the Accident Compensation Corporation and the Ministry of Social Development;
3. service delivery through third parties (including Whānau Ora and maternity services);
4. education for Māori educational success – continuing our programme of audits;
5. local government asset and service-level management;
6. Auckland Council – review of service performance for:
  - Watercare Services Limited and its customer services operations; and
  - Auckland Council's building consent processes;
7. governance of council-controlled organisations; and
8. the Primary Growth Partnership.

Themes we will focus on in carrying out this work are:

- how entities are demonstrating their understanding of the services they deliver through their planning for and targeting services;
- how entities are effectively working together across boundaries to deliver services;
- how entities are evaluating the quality and effectiveness of service delivery; and
- how entities are assessing, and working to improve, the value for money they obtain.

We provide a brief description of each proposed audit or study in the Appendix.

### Concluding work on our 2012/13 theme *Our future needs – is the public sector ready?*

In addition to these reports addressing our *Service Delivery* theme, we will complete our reports toward our 2012/13 theme *Our future needs – is the public sector ready?* This will include an overview report on the results of our work on this theme. In addition to the overview report, the reports we expect to conclude during 2013/14 toward the *Our future needs* theme are listed in Figure 1.

**Figure 1**  
***Our future needs* performance audits started in 2012/13 and due to be finished in 2013/14**

1	New migrant settlement and contribution
2	Regional services planning by DHBs
3	Ageing population
4	Statement on New Zealand's Long-term Fiscal Position
5	Board reporting by CRIs and SOEs
6	Justice: Reduction of reoffending
7	Canterbury recovery – the rebuild of Christchurch's horizontal infrastructure
8	Canterbury recovery – EQC's home repair programme

### Sector reports to Parliament on the results of our audits

We will also prepare sector reports under our Public Audit Act 2001 responsibility to report on the results of our audits.

Those reports are likely to cover:

1. central government;
2. local government;
3. health;
4. education (schools);
5. entities in the social sector; and
6. state-owned enterprises.

For each report, we will consider whether to include relevant matters arising from our work monitoring the various Canterbury rebuild projects that involve public funds and resources.

We will also report on the progress of public entities with implementing our previous inquiry and performance audit recommendations.

Our reports to Parliament on the results of annual audits routinely comment on:

- non-standard audit opinions;
- the effectiveness of internal controls;
- the timeliness of financial reporting; and
- financial reporting developments.

### **Inquiry reports**

Our inquiry work is reactive and so we cannot plan the number or topics in advance. We allow for between 3 and 10 substantial public reports each year. For 2013/14, our inquiry work will include reporting on at least two major inquiries:

- into decisions by Delta Utility Services Limited to invest in residential development at Luggate, near Wanaka, and at Jacks Point, Queenstown; and
- completion of our inquiry into the Mangawhai community wastewater scheme.

### **Looking ahead to 2014/15**

In 2014/15, given the proposed changes in legislation, structural form of public entities, service delivery mechanisms, and accounting standards affecting the public sector, we propose to look at governance and accountability.

Alongside this proposed focus on governance and accountability for our 2014/15 work, we will propose a five-year rolling work programme that we will ask members of Parliament to comment on. The work programme will include what we are required to do by law – for example, annual audits of every public entity, our proposed performance audit topics and overall auditing themes for each year, sector reporting schedule, and our resource plans for major inquiries and other reporting.



## Part 3

# Providing assurance

Most of our work (about 87%) comprises annual audits of the financial reports of public entities. This work is required by statute, and we carry it out in keeping with professional standards. The rest of our work is done under the Auditor-General's other reporting powers, and includes:

- promoting improvement on sector and specific entity matters through our in-depth performance audits and other studies;
- responding to enquiries from ratepayers, taxpayers, and members of Parliament;
- advice to Parliament and select committees in support of financial reviews and Estimate examinations;
- building opportunities for co-operative work with other professional and representative organisations working toward integrity, transparency, and accountability for New Zealand, such as Transparency International;
- working with the accounting and auditing profession, including contributing to the international auditing community and to the development of accounting and auditing standards; and
- wider assurance and advice, including liaison with government bodies and other agencies in the public sector.

Our annual audits, which provide assurance about the financial statements and, in some instances, the performance statements of public entities, are our core business. They are the foundation for our ability to have a positive influence on public sector performance. Alongside annual audits, our performance audits, inquiries, and special studies allow us to review in depth how a public entity (or several entities) use resources and to suggest opportunities to improve performance where we have considered specific matters.

We plan to maintain the underlying quality of all our annual audits and performance audits and inquiries, and focus on how to add value to the entities that we audit. We will also focus on improving our reporting and our supporting communications and relationships, and on improving our own effectiveness and efficiency.

Each year, we issue an audit brief for our annual audits of each category of public entities. An audit brief provides instructions for audit emphasis and guidance for the auditors of those entities. Figure 2 shows the categories of entities for which we have issued audit briefs.

**Figure 2**  
**Audit brief categories of public entities**

Government departments	Crown entities
State-owned enterprises	Crown research institutes
Local authorities	Council-controlled organisations
District health boards	Tertiary education institutions
Licensing trusts	Rural Education Activities Programmes
Energy companies	Port companies
Section 19 entities	Airports
Fish and game councils	Schools
Administering bodies and boards	Central government (other)
Local government (other)	Cemetery trustees
Māori trust boards*	

\* Māori trust boards are expected to progressively move out of the Auditor-General's mandate as a result of the Māori Trust Boards Amendment Act 2011.

In 2013/14, alongside the work on our *Service Delivery* theme, we will carry out the following work:

- Recovery from the Canterbury earthquakes, particularly rebuilding of the city of Christchurch and environs, are matters of significant public interest and involve investing a large amount of public money. Over the last two years, we have monitored the situation in Canterbury, resulting in a report to Parliament in October 2012 on the roles, responsibilities, and funding of public entities after the Canterbury earthquakes. We will report on two other pieces of work (see page 8) later in 2013. In 2013/14, our work on the recovery from Canterbury earthquakes will include:
  - Our annual audits of the financial statements of all public entities in Canterbury. There is still considerable uncertainty on asset and liability valuations in these financial statements.
  - Monitoring of the major developments including funding, the housing repairs, procurement processes for the CBD rebuild, and other matters. We will report on those matters we consider to be of interest to Parliament and the public.
- Our auditors will pilot in local government the development of a common approach to auditing asset management information and systems that are critical to the delivery of public services. Asset management is a common area of focus for annual audits across the public sector. This reflects both the financial value of public sector assets and the fact that delivery of many important public services relies on the performance of assets that underlie those services. Although we have frequently reported on asset management

issues for sectors and entities within the public sector in the past, we have not had a shared set of objectives and areas for scrutiny to identify areas of strength and risk across the public sector. We will report on the progress with the pilot in our proposed report on local government asset and service-level management.

- We continue to work with public entities and to provide advice to parliamentary select committees to help improve performance information and use it to consider effectiveness and efficiency. The Auditor-General's revised auditing standard on reporting non-financial performance information now applies to our audits of most public sector entities that are required to include non-financial information in their annual reports. The revised standard was scheduled to apply to all applicable audits for reporting periods beginning on or after 1 July 2013, but we have decided to phase in the approach more slowly in the large and varied council-controlled organisation (CCO) sector. Although we are continuing with the scheduled implementation of the standard for Auckland Council's substantive CCOs for 2013/14, full implementation for other CCOs is deferred until the 2015/16 reporting period. We will do a practice run in 2014/15, when we will follow the approach in the revised standard but without any effect on our audit opinions.

The Auditor-General is the auditor of almost 4000 public entities. Of these, about 3500 are small public entities, including about 2500 schools. The cost to us of carrying out annual audit work is funded mainly by audit fees paid by the entities.

The XRB is establishing tailored reporting requirements for different types of entities, through the reporting standards that it is developing. This approach affects the standards for financial and non-financial performance reporting. We are contributing to the XRB's development work, which we expect will go some way towards improving the fit between entities and their reporting requirements. In 2013/14, we will also help to prepare our auditors to audit in the environment of these new reporting standards, which are expected to become effective in 2014/15.

Legislation amending the Public Finance Act 1989 and the Crown Entities Act 2004 is presently before Parliament. An important part of the implementation will be the guidance that the XRB provides for entities preparing non-financial performance information. We are also contributing to this work by the XRB, to support its development of guidance to enable effective implementation of the new legislation.

The standards of integrity and accountability within our public sector are well-regarded internationally and underpin trust in the Government. We make a significant contribution in the wider Pacific region through our work with the

Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the official association of supreme audit institutions (government audit offices and similar organisations) in the Pacific region. PASAI is one of the regional working groups belonging to the International Organisation of Supreme Audit Institutions (INTOSAI).

As the current Secretary-General of PASAI, New Zealand's Auditor-General provides leadership and guidance to the Secretariat in carrying out PASAI's long-term strategic plans and work programmes, and advises the PASAI Congress and the Governing Board. The strategic goals of PASAI are to:

- strengthen regional co-operation and co-ordination;
- build and sustain public auditing capability;
- conduct co-operative financial and performance audits; and
- strengthen communication, and advocate transparency and accountability.

The Auditor-General is also a member of the Governing Board of INTOSAI, and we actively contribute to a range of INTOSAI projects that are designed to develop guidance for audit offices and similar organisations around the world.



## Part 4

# About our work

### Annual audits

Each public entity is required to prepare and report its annual financial statements and, in many instances, to report on its service performance. The Auditor-General has a statutory duty to audit the information that the public entity must report, as set out in the legislation applying to each public entity. These independent annual audits play an essential role in the stewardship of public resources and corporate governance of public services.

Annual audits account for about 87% of our annual expenditure. In 2013/14, we expect to provide audit opinions on more than 3900 financial statements and about 400 performance statements. The audit opinion sums up the auditor's view on the reliability of the audited information.

An annual audit aims to provide assurance to the public about whether a public entity's financial statements (and any other information, such as performance statements, that is required to be audited):

- complies with a recognised framework, usually generally accepted accounting practice; and
- fairly reflects the public entity's performance and position.

Annual audits also provide assurance to managers and governors of public entities about significant matters arising from the audit. We do this by preparing management reports for each public entity to detail our key findings and recommendations, and to give managers and governors an insight into how well their management systems and controls are working. For example, a management report can include our views on how a public entity is managing its resources and performance, including its policies, practices, and risk management.

Forming an audit opinion on financial and performance statements and their accompanying notes requires the auditor to examine the underlying accounts and records, including the systems and processes used to generate this information. In Figure 3, we give examples of auditing standards that set out what our auditors are required to do and consider during an annual audit.

### Figure 3 Examples of what auditors are required to do and consider during an annual audit

1. The auditor has a responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal controls.  
(Auditing Standard 315 (ISA (NZ) 315): *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, paragraph 1)  
The auditor has a responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA (NZ) 315 in an audit of financial statements.  
(Auditing Standard 330 (ISA (NZ) 330): *The Auditor's Responses to Assessed Risks*)
2. The auditor shall, when carrying out the annual audit of the financial and non-financial information of a public entity, take into account the need to maintain alertness and awareness for any indication that:
  - (a) the public entity has not applied its resources effectively or efficiently;
  - (b) waste has occurred, either caused by the public entity itself or as a result of action or inaction on the part of the public entity; or
  - (c) there has been an act or omission that shows or appears to show a lack of probity or financial prudence on the part of the public entity or one or more of its members, office holders, or employees.  
(Auditor-General's Auditing Standard 3 (AG-3): *Effectiveness and efficiency, waste, and a lack of probity or financial prudence*, paragraph 8)
3. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.  
(Auditing Standard 250 (ISA (NZ) 250): *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 13)

We adopt a risk-based approach to gathering and assessing audit evidence, as required by auditing standards. To address identified risks, we look for evidence that balances, results, and disclosures are not materially misstated.

The results of our auditing work, including our understanding of the public entity and its internal control systems, are collated once the audits of the public entities in each significant sector of activity (such as local government) are complete. Comparing the audit results between public entities within each sector then lets us identify and report on any systemic issues.

### Performance audits, inquiries, and other studies

The Public Audit Act 2001 provides the Auditor-General with discretion to carry out performance audits and to inquire into a public entity's use of its resources.

- **Performance audits** 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.
- Our **inquiries** work largely reacts to issues of public concern. If there is general public interest in an inquiry, we may publicly report the results.

Our performance audits, inquiries, and **other studies** (such as those that lead to us publishing examples of good practice) have benefits not only for the audited entities but also for the wider public sector. For example, our work can help to:

- encourage beneficial changes and best practice in the performance of public entities;
- develop methods to evaluate aspects of public sector management; and
- increase understanding of an audited entity, the wider environment in which public entities operate, and/or public sector management.

Our performance audit and inquiries 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.

## Contributing to the international auditing community and to the development of accounting and auditing standards

We make a significant ongoing contribution to the international auditing community. For example, we provide input to the development of accounting and auditing standards and to improving the quality of public sector auditing in the Pacific and beyond.

We take part in a range of national and international organisations, forums, and working groups, which develop guidance and standards for the auditing and accounting professions and provide advice to public sector practitioners. These groups include:

- the XRB's two sub-boards – the New Zealand Accounting Standards Board and the New Zealand Auditing and Assurance Standards Board;
- the Financial Management Working Party of the Society of Local Government Managers; and
- the International Organisation of Supreme Audit Institutions.



## Appendix

# Outline of performance audits and studies contributing to our *Service Delivery* theme

### **Delivering services in a digital environment**

The Government's reliance on technology to deliver public services is increasing and likely to become fundamental in future. A programme of major developments in information and communication technology is under way to enable this future state. Our audit is designed to assess whether current design, delivery, and user experience of digital services is effective and efficient.

### **Client-focused service delivery**

Public services are often delivered through "client-based management" and similar approaches. From the users' point of view, processes should not be overly bureaucratic and services should be accessible in a way that is appropriate to them and their needs.

We intend to carry out a performance audit to look at case management of key public services. The audit will focus on services delivered by the Ministry of Social Development and the Accident Compensation Corporation, and how these services relate to other public services. At this stage, we intend to consider questions including, but not limited to:

- how easy the services are to access and use;
- how "seamless" the services are for the users of the services, especially those at risk of falling between the provisions of several entities;
- how the needs of vulnerable users are met; and
- the effectiveness of the complaints procedures.

We intend to address these questions by looking at groups of service users, such as the Pacific Island community, Māori, youth, and other high users of services.

### **Service delivery through third parties**

Some public services – especially social services – are mainly delivered by third parties. The Government is actively seeking to use third-party funding arrangements and service delivery models, so it is timely for us to consider how effectively and efficiently different arrangements with external parties are delivering various services to the public.

In particular, we will focus on the achievement of outcomes or results and how these are managed, measured, and reported. In this audit, we will look at:

- the Whānau Ora programme. We are interested in how the Whānau Ora approach addresses social service delivery, with a focus on service-user involvement, outcomes from a service-user's perspective, and a family basis rather than an individual basis.
- the allocation and provision of maternity services to families during pregnancy and after birth to improve the health outcomes for babies, children, and their mothers.

### **Education for Māori educational success (third report)**

Many Māori students do not take part in education as well as they might; nor achieve as highly as they could. In 2012, we published a report *Education for Māori: Context for our proposed audit work until 2017*. This report set out the Auditor-General's intention to carry out a programme of work to examine how well the education system is serving Māori students.

We published a report on our first performance audit in that programme of work in May 2013 *Education for Māori: Implementing Ka Hikitia – Managing for Success*. Ka Hikitia is the strategy for Māori education. Our next performance audit in 2013/14 will focus on the partnerships and collaborative work between agencies, education providers, local iwi, Māori organisations, and parents/whānau to ensure quality delivery of education and services to Māori students.

The Auditor-General's Māori Advisory and Reference Group, comprised of eminent Māori education experts and representatives, will continue to advise the Office throughout the five-year Māori education audit programme.

**Local government asset and service-level management**

Local government has been reporting on major infrastructure assets, an essential element of local government services, since the early 1990s. This reporting has also coincided with the development of the discipline of asset management planning and a cycle of substantial reinvestment in existing asset systems. Our audit will seek to analyse and provide an overview of the life cycle maturity of the sector's assets, where and when the major reinvestments are required, and whether asset management practice is adequately keeping pace with the information needs of local authorities to manage service provision into the future.

**Auckland Council – review of service performance**

The Auckland Council legislation requires the Auditor-General to review and report on the Council's service performance. The Auckland Council funds that work.

In considering possible projects, we have taken account of the following principles, which reflect our understanding of the legislative intention of the review of service performance role:

1. Review work should be focused on service delivery and quality;
2. Review work should cover both Auckland Council and CCO activities;
3. The activities of Watercare Services Limited should be addressed, particularly its accountability, transparency, and pricing practices; and
4. Review work should be co-ordinated with the internal mechanisms of Auckland Council for the monitoring of substantive CCOs and assessment of the effectiveness and efficiency of its own activities.

We will do two reviews with Auckland Council:

- Watercare Services Limited and its customer services operations. This review will look at the operation of Watercare's contact centre, the introduction of monthly billing, and meter reading. The review may also look at Watercare's planning for the introduction of a standardised non-domestic wastewater tariff from 1 July 2014.
- Auckland Council's building consent processes. The Auckland Unitary Plan and the Housing Accords and Special Housing Areas Bill identify that there will be a significant increase in the number of new homes built in the Auckland area. Our review will look at Auckland Council's readiness to process an increased number of building consent applications. Specifically, the review will look at workforce planning (including the use and monitoring of contractors), consent processes (including pre-application processes), information systems, and risk-based consenting aimed at improving services to Aucklanders.

**Governance of council-controlled organisations**

We will carry out work on CCO governance, as the local government sector has indicated interest in and support for such work.

The Auditor-General has an ongoing interest in the governance and accountability of CCOs and other subsidiaries, and how effectively they deliver services on behalf of local authorities. The number of such public entities has increased steadily, but there is little research or analysis available about the reasons for this or about how effective the entities are. In some instances, high-profile governance matters have raised questions of interest for local government as a whole.

Our aim is to report on how well the statutory framework for governance and accountability of local government subsidiaries is working, including:

- accountability – who is accountable for CCOs and other subsidiaries;
- alignment of strategic direction – how CCOs and other subsidiaries fit within the overall council strategy, and their awareness of that strategy and their role;
- appointment of directors – including whether councillors and officers are appointed;
- performance monitoring – including the value of the statement of intent framework and reporting, and oversight arrangements (for example, council committees and holding companies);
- engagement and communication; and
- formal and informal accountability mechanisms.

We will use case studies to report on common themes that arise, what is working well, and any issues or problems with the accountability and governance framework. As part of this work, we will look at how many CCOs and other subsidiaries there are, what they do, and (for the larger entities) their financial performance and how they are contributing to effective service delivery.

**Primary Growth Partnership**

The Primary Growth Partnership (PGP) initiative was established in 2009/10 to drive business-led primary sector innovation and the future market success of primary industries.

This audit is yet to be scoped, but may look at the Ministry for Primary Industries' administration, monitoring, and reporting for PGP programmes, which are funded jointly by the Crown and industry.





# Statement of Intent 2013–2016

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of the Public Finance Act 1989.

May 2013

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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 2013–2016* 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 2013–2016* 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 2013/14.



Rt Hon David Carter  
Speaker of the House of Representatives

26 April 2013

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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 2013–2016* for the Controller and Auditor-General.

This information has been prepared in accordance 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 2013/14 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 (2013/14 Estimates) Bill, as presented to the House of Representative in accordance with section 13 of the Public Finance Act 1989, and with existing appropriations and financial authorities.



Lyn Provost  
Controller and Auditor-General

25 March 2013

Countersigned:



Maria Viviers  
Chief Financial Officer

25 March 2013





# Auditor-General's overview and strategic direction

I am pleased to submit my *Statement of Intent 2013–2016*.

## A time of change

Change has been the dominant theme for much of the world during the past couple of years. New Zealand has not been immune from the effects of the scale and pace of change that is happening as a result of the global financial crisis, environmental disasters, and rapidly evolving technology and mass communication platforms.

As a nation, we are still coming to terms with the rebuilding of Canterbury, the fluctuating fortunes of those we do business with, and the changing nature of our communities. The Government responded to pressures on the economy by setting ambitious targets for better outcomes and asking the public sector to find ways to provide better public services for less money.

New Zealand is fortunate to have a strong and capable public sector that is envied by other jurisdictions around the world. However, we cannot take for granted the integrity of, and high level of trust in, the New Zealand system; nor can we expect that our public sector will be unaffected by the demands and pressures of tighter economic circumstances and some structural changes.

## Next three years

During 2012/13, my Office carried out work on the theme *Our future needs – is the public sector ready?* to see how well the public sector was preparing for the future. We will conclude that work by the end of 2013. In 2013/14, we are proposing a focus on service delivery to see how well the public sector is providing services to the public. And, in 2014/15, we propose to look at governance and accountability, given the proposed changes in legislation, structural form, delivery mechanisms, and accounting standards.

We intend to continue a recent development of producing sector reports summarising the results of our financial audits and other work. In 2014/15, we will propose a five-year rolling work programme that we will ask members of Parliament to comment on. The work programme will include what we are required to do by law – for example, annual audits of every public entity, our proposed performance audit topics and overall auditing themes for each year, our sector reporting schedule, and our resource plans for major inquiries and other reporting.

## Strategy 2013-17

Our strategy for 2013-17 will be published in mid-year after final consultation with staff and other interested parties. It draws on a set of strategic goals created for international audit institutions, with some added Kiwi characteristics.

Our four strategic goals for 2013-17 are to strengthen the public sector, focus on the citizen, be a model organisation, and position the Office for the future. Each goal addresses the growing complexity of the public sector and the higher expectations of the public.

To achieve our goals, our whole Office will need to embrace new ways to do our work, connect with others, and integrate, share, and extract value from the information we hold and gather. Investments in our technology platforms and systems during the past year will give us a good starting point, but it will require leadership and commitment from us all to realise the most benefit.

## Accounting and auditing standards

We are taking a supportive role in helping the public sector to prepare for the adoption of a new accounting standards framework during the next three years. We do not expect the change to be a time-consuming or difficult exercise for public entities.

## Our international contribution

My Office continues to be held in high regard for our significant contribution to the international audit community, as part of our commitment to improving the standard of public sector auditing globally. In particular, our support for developing public sector auditing expertise in the Pacific has seen significant progress, and we intend to continue this important role.

## Concluding comments

Midway through my seven-year term as Auditor-General, I am pleased to acknowledge the unwavering commitment of my staff and contracted audit service providers to carrying out the role of this Office for the good of all New Zealanders. We are determined to meet the challenges ahead and, through our audits and other work, to help *“improve the performance of, and the public’s trust in, the public sector”*.

I thank select committees for their consideration of my *Draft statement of intent 2013–2016*, and note that there were no comments on that document.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost  
Controller and Auditor-General

26 April 2013



# Part 1

## About us

### Our purpose

The Controller and Auditor-General (the Auditor-General) carries out audits, performance audits, and inquiries, and reports to Parliament and the public to improve the performance of, and the public's trust in, the public sector.

### The Auditor-General's role

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 – about 4000 entities, such as government departments, local authorities, Crown entities, schools, and State-owned enterprises.

All public entities are accountable for their use of public resources and powers. The Auditor-General's role is 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.

The Auditor-General 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, for 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.

## The organisation

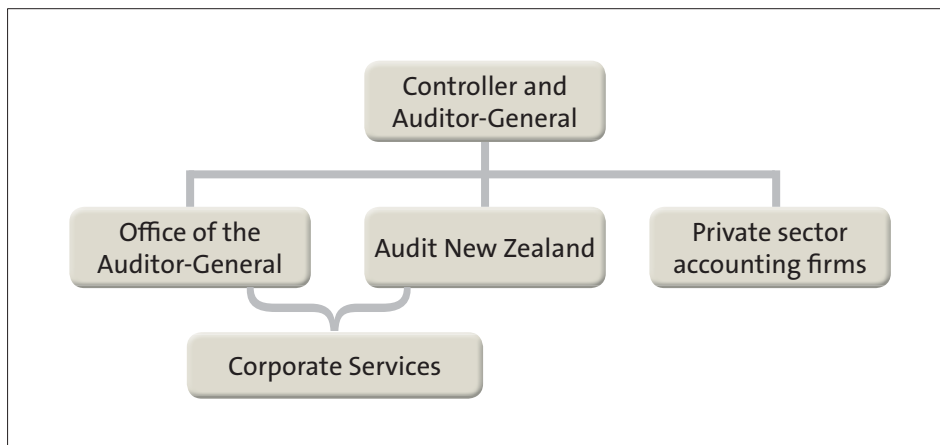
The work of the Auditor-General is carried out by about 350 staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand, supported by a shared team of corporate services staff – and by auditors contracted from about 60 private sector accounting firms.

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 reporting.

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

**Figure 1**  
Our operating model



## Our vision and operating intentions

Our vision is to improve the performance of, and the public's trust in, the public sector. In the medium term, our 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.

## Strategic framework

Our strategy for 2013-17 has not altered the three outcomes we aim for, namely:

- a trusted public sector;
- an appropriately responsible public sector; and
- a high-performing public sector.

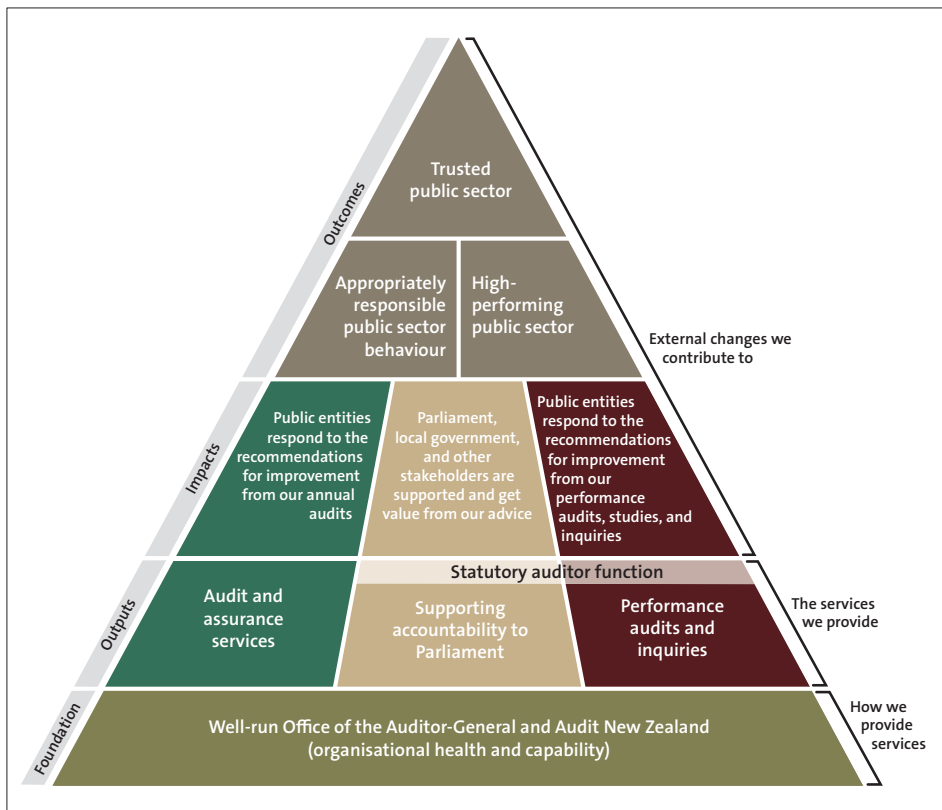
The high-level impacts we seek are that:

- our annual audits, inquiries, and performance audits encourage public entities to respond effectively to our recommendations for improvement; and
- Parliament, local government, and other stakeholders are supported and get value from our advice.

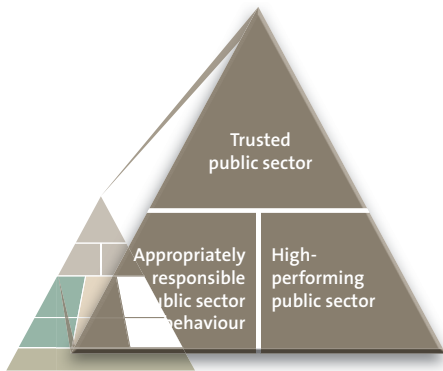
Our outcomes framework diagram in Figure 2 summarises the outcomes we are seeking, the impacts we aim to make, and the outputs we deliver. It also shows that our work is underpinned by our organisational health and capability, which is achieved through a well-run OAG and Audit New Zealand.

We provide details about the standards we use to measure our achievements and the results of those measures for our outcomes, impacts, and outputs in previous years in the pages after Figure 2.

**Figure 2**  
Outcomes framework







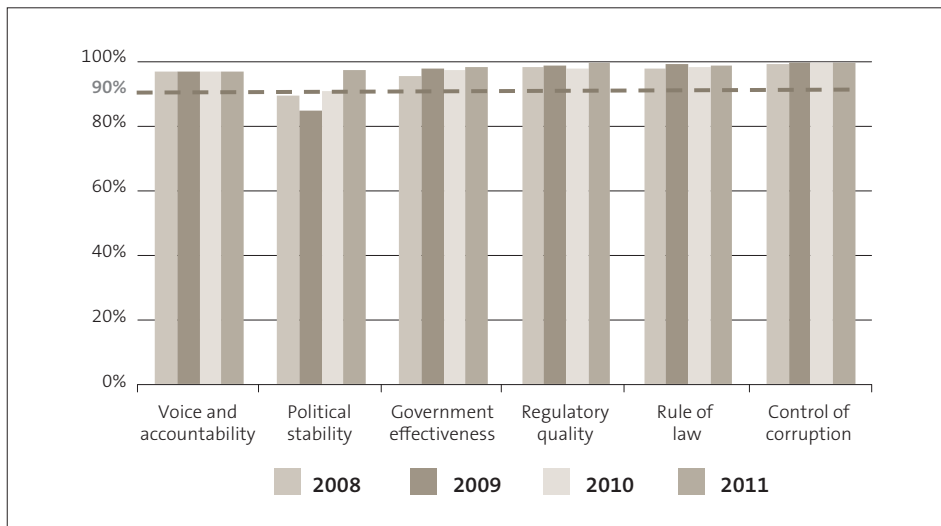
### Measures and standards for achieving our outcomes, and previous performance

#### Trusted public sector

**Measure:** New Zealand is ranked in or above the 90th percentile of the Worldwide Governance Indicators.

**Comment:** The World Bank’s Worldwide Governance Indicators<sup>1</sup> capture six key dimensions of governance and measure the quality of governance in over 200 countries. We use New Zealand’s ranking as an indicator of trust in the public sector. The latest results show New Zealand maintained its ranking above the 90th percentile. Results are shown in calendar years and not yet available for 2012.

**Figure 3**  
New Zealand’s ranking in the Worldwide Governance Indicators, 2008 to 2011



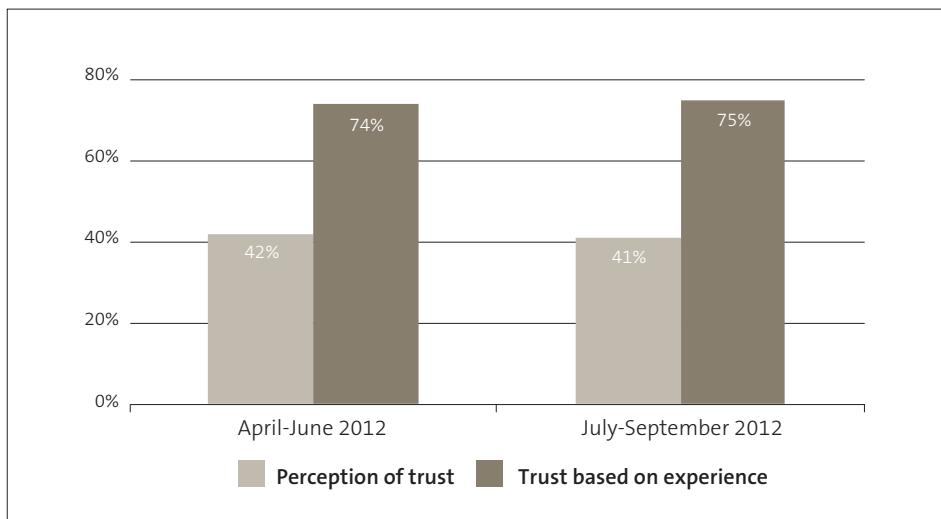
1 See <http://info.worldbank.org/governance/wgi/index.asp>.

**Measure:** The State Services Commission's Kiwis Count Survey<sup>2</sup> shows improved (or at least maintained) rates of public trust with:

- the public service; and
- the public's most recent experience with public services.

**Comment:** The Kiwis Count Survey, which is independently administered by the State Services Commission, tracks improvement in public services. A redesign of the Kiwis Count Survey in 2012 changed the frequency of data collection and some of the survey questions. This year, we have revised our measure for this outcome in keeping with the survey methodology changes. Data collection for this revised measure is reported on a quarterly basis. The variation in percentage points for both questions over this period is not statistically significant.

**Figure 4**  
**Kiwis Count Survey results in June 2012 and September 2012 quarters:**  
**Perceptions of trust in the public sector and trust with most recent service experience**

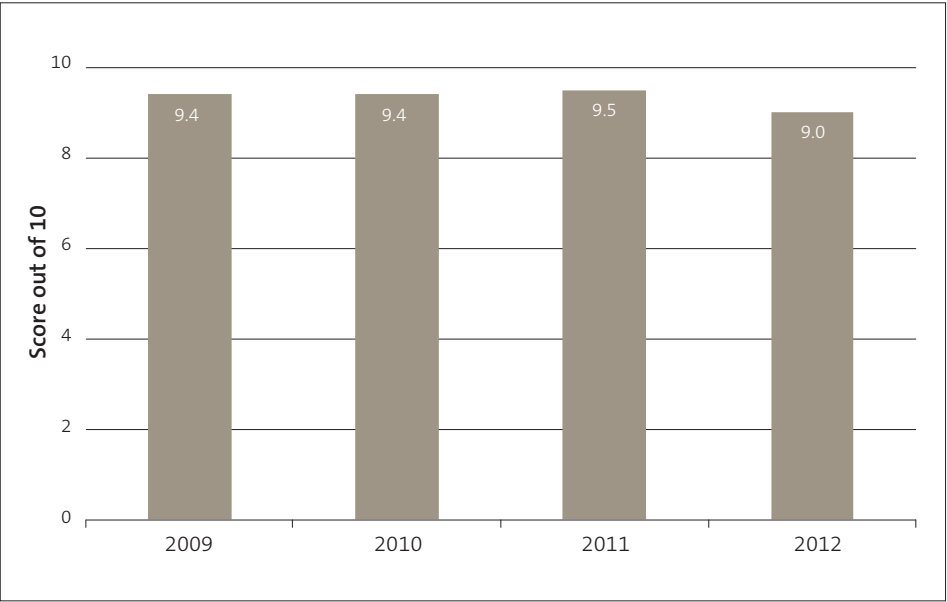


<sup>2</sup> See <http://www.ssc.govt.nz/kiwis-count>.

**Measure:** New Zealand’s score on the Transparency International Corruption Perceptions Index is improved (or at least maintained).

**Comment:** One of the measures available to track perceptions of public trust in government is the Transparency International Corruption Perceptions Index.<sup>3</sup> The index is an aggregate indicator that annually ranks over 180 countries by their perceived levels of corruption in the public and political sectors. In 2012, New Zealand maintained its ranking, and is currently ranked first equal with Denmark and Finland.

**Figure 5**  
**New Zealand’s score on the Transparency International Corruption Perceptions Index, 2009 to 2012**



3 See <http://cpi.transparency.org/cpi2012>.

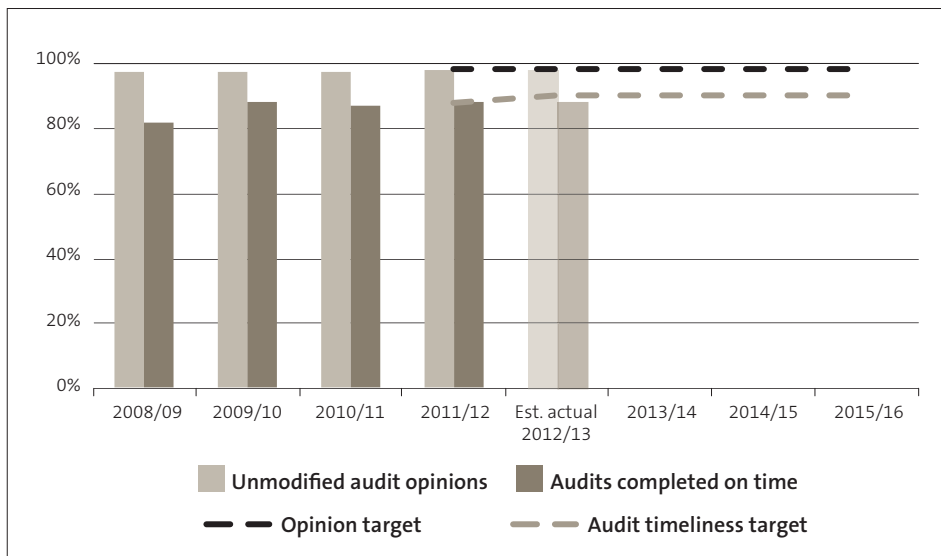
**Appropriately responsible public sector behaviour**

**Measure:** Public entities’ financial reports fairly reflect their actual performance and are publicly available on time.

**Comment:** Responsible public entities provide the public with audited financial reports that are on time and fairly reflect their performance. Audits that are completed on time provide an indicator that public entities are well managed and meeting their reporting responsibilities. An unmodified audit opinion is an indicator that public entities are reporting appropriately and in accordance with standards. We track the percentage of audits completed on time and the percentage of unmodified audit opinions as a measure of appropriately responsible public sector behaviour.

**Results:** Results for the previous four years and the target for 2013/14 to 2015/16 are shown in Figure 6.

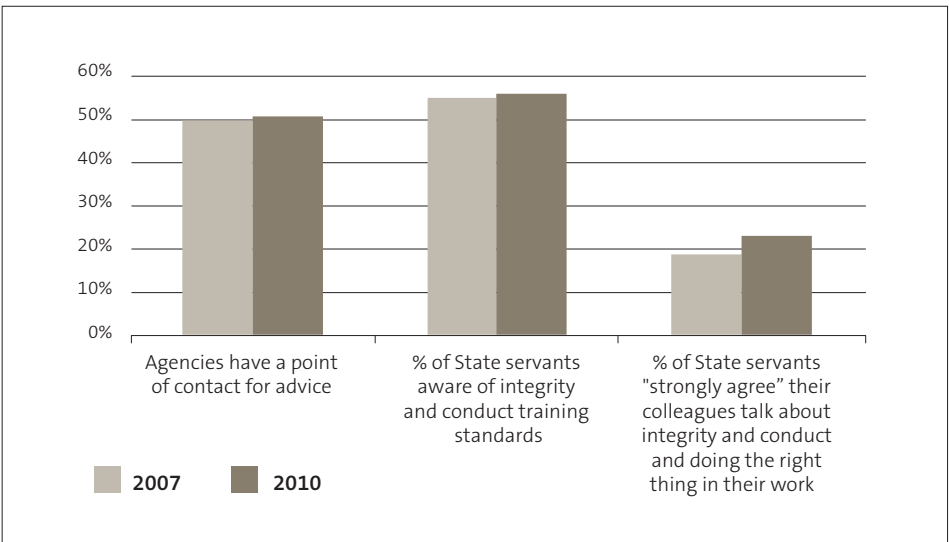
**Figure 6**  
**Percentage of unmodified audit opinions and audits completed on time**



**Measure:** The State Services Commission’s Integrity and Conduct Survey<sup>4</sup> shows improved (or at least maintained) rates of State servants who report that State service agencies promote their standards of integrity and conduct.

**Comment:** The Integrity and Conduct Survey measures levels of trustworthy behaviour observed by State servants within their agencies. We use results from this survey as indicators of appropriately responsible public sector behaviour. This survey is held every three years, and 2013 results are not yet available.

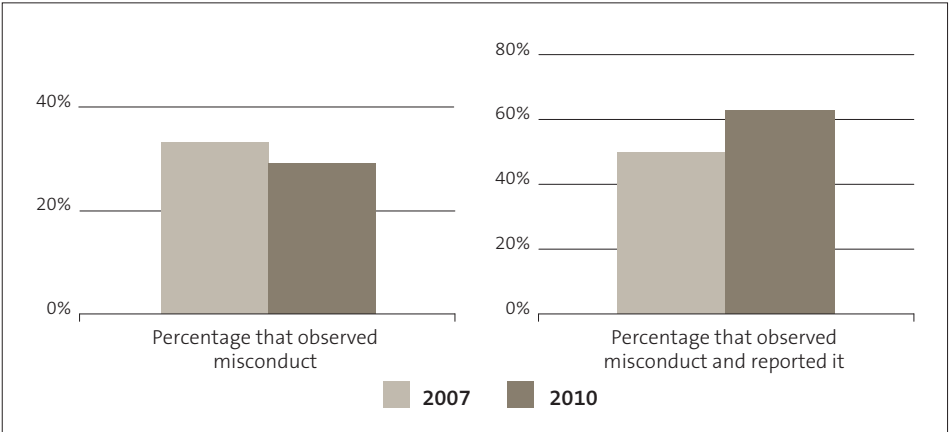
**Figure 7**  
**Integrity and Conduct Survey results in 2007 and 2010: State service agencies that promote their standards of integrity and conduct**



4 See <http://www.ssc.govt.nz/2010-survey-report>.

**Measure:** 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.

**Figure 8**  
**Integrity and Conduct Survey results in 2007 and 2010: State servants’ observation and reporting of misconduct**

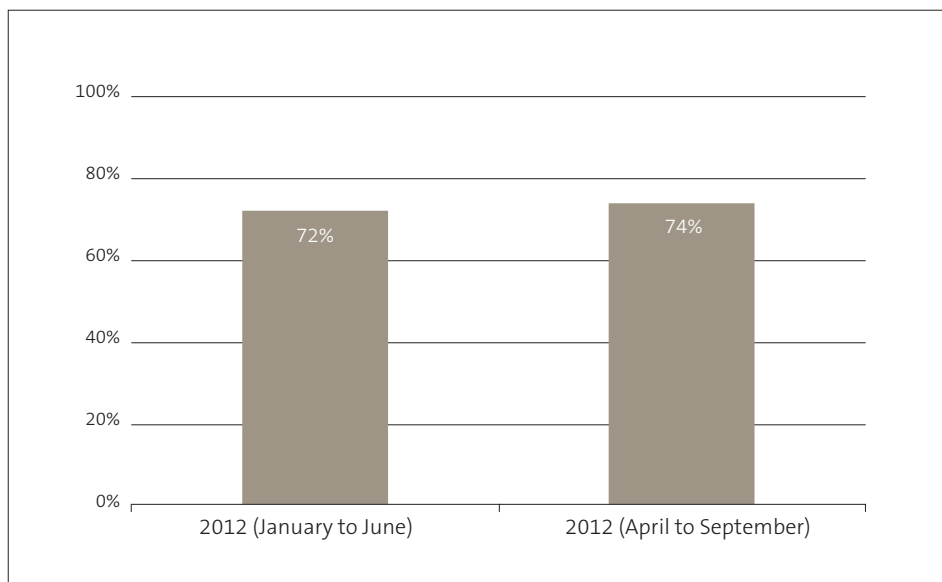


**High-performing public sector**

**Measure:** The State Services Commission’s Kiwis Count Survey shows improved (or at least maintained) rates of service quality for all public services.

**Comment:** This year we have revised our measure for a high-performing public sector to better reflect the Kiwis Count Survey methodology changes. The data for this measure is reported on a six-month rolling average and, while a two-point increase is a positive sign, the movement is not large enough to be statistically significant.

**Figure 9**  
**Kiwis Count Survey results for January to June 2012 and April to September 2012:**  
**Service quality score for all public services**



### Managing in a challenging operating environment

The Auditor-General's overview highlights the fundamental changes happening throughout the world and the New Zealand public sector. These changes continue to influence our environment and will require us to change aspects of how we work as an Office.

Our intention is to use the public resources entrusted in us even more effectively and efficiently. Our response includes a theme-based audit work programme that builds on our previous year's work. The programme will focus on public sector service delivery, and will examine how well the public sector is responding to the need to deliver improved services for less through changing service delivery structures, models, and methods.

Our work will include better use and sharing of our knowledge about the public sector, examining elements of future needs and preparedness through our annual audits, and a study of asset management practice in local government. Our performance audits will examine specific questions about service delivery, such as delivering services in a digital environment and service delivery through third parties. We will continue to respond to the range of structural governance and legislative changes in the public sector, and prepare ourselves for auditing in an environment of new accounting standards. We anticipate implementation of

phase one of our new system to improve the sharing of information and insights collected by our Office.

We are confident our response will enable us to continue to be valued for our audit work and contribute to improving the performance of, and the public's trust in, the public sector.

### **Strategic risks and risk management**

The Auditor-General faces four ongoing strategic risks:

1. loss of independence;
2. audit failure;
3. loss of capability; and
4. loss of reputation.

These risks are primarily managed through processes that support the work we do. Details on how we manage these risks are provided in the Appendix.

The Office will continue its focus on managing risks, particularly strategic risks. The leadership team discusses risk management quarterly, including assessing any environmental or internal changes that may affect the Office's position. The Office's Audit and Risk Committee meets four times a year, and provides additional insight and advice to the Office for identifying and managing risk.



## Part 2

# Forecast statement of service performance for each of the three years 2013/14, 2014/15, and 2015/16

### 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. We also use our annual audits to gather information and knowledge about public entities to assist us in advising Parliament and other stakeholders.

Public entities responding to their statutory public reporting obligations and to findings resulting from audits is fundamental to trust in the public sector. The approach of public entities to public reporting and their responses to audit recommendations help demonstrate their commitment to effective, efficient, and accountable service delivery.

In 2013/14, our annual audits and other assurance services are expected to account for 88% of our total expenditure. The major portion of this output class relates to annual audits of public entities that are required by statute to be carried out. Other work carried out under this output class includes the three-yearly audits of local authority long-term plans and various other assurance work that complements the annual audits of public entities.

For 2013/14, the Office proposes to focus on public sector service delivery, and we intend to consider aspects of this theme during our annual audits and other assurance work. We intend to use the information we gather to help inform other parts of our future work programme and our reporting, and feed into planning for our annual audits in 2014/15 and 2015/16.

### Our annual audits

The Auditor-General is the auditor of every public entity in New Zealand, and is required to audit the information those entities produce that is subject to an audit requirement. Our audits provide an audit opinion on whether the financial statements (and, where applicable, the performance information) fairly reflect the public entity's performance and financial position. *The management report* sets out any significant issues identified by the auditor during the audit and, where relevant, provides recommendations for improving the public entity's controls, systems, and processes.

We expect to carry out audits for 3876 entities for the 2013/14 financial year.<sup>5</sup> This includes the audits of 3854 public entities that produce financial statements (and, in some cases, non-financial performance information). A summary of our current audit portfolio is shown in Figure 10.

<sup>5</sup> Our expectation is based on information as at 15 February 2013.

**Figure 10**  
**Summary of our current audit portfolio**

Public service departments (29) and other government departments (6)	35
Small entities associated with other government departments*	17
Offices of Parliament**	2
District health boards (20), and their subsidiaries and other associated entities (28)	48
Tertiary education institutions (29), and their subsidiaries and other associated entities (113)	142
Crown research institutes (7), and their subsidiaries and other associated entities (27)	34
Schools (2458), and their subsidiaries and other associated entities (37)	2495
Other Crown entities (65)***, and their subsidiaries and other associated entities (92)	157
Organisations named or described in Schedule 4 of the Public Finance Act 1989 <sup>†</sup>	74
State-owned enterprises (17), and their subsidiaries and other associated entities (86)	103
Other public entities in central government <sup>††</sup>	124
Local authorities	78
Council-controlled organisations	212
Airports (19), and their subsidiaries and other associated entities (4)	23
Energy companies (25), and their subsidiaries and other associated entities (49)	74
Port companies (12), and their subsidiaries and other associated entities (22)	34
Licensing and community trusts (21), and their subsidiaries and other associated entities (20)	41
Cemetery trustees	96
Other public entities in local government <sup>†††</sup>	65
<b>Total</b>	<b>3854</b>

\* These are predominantly entities associated with the New Zealand Defence Force, such as Queen Elizabeth II Army Memorial Museum.

\*\* These are the Office of the Ombudsmen and the Parliamentary Commissioner for the Environment. The Office of the Auditor-General is also an Office of Parliament, but the Auditor-General does not audit it.

\*\*\* These include autonomous Crown entities, Crown agents, Crown entity companies, and independent Crown entities.

† These include administering bodies, fish and game councils, and entities such as the Lottery Grants Board.

†† These include the Reserve Bank, Government Superannuation Fund, National Provident Fund, Air New Zealand Limited, Southern Response Earthquake Services Limited, subsidiaries of those entities, and numerous smaller entities such as producer boards, registration boards, and rural education activity programmes.

††† These include Watercare Services Limited, Civic Assurance Limited, New Zealand Local Government Association, Eden Park Trust Board, sinking fund commissioners, and numerous other entities associated with local authorities.

We also expect to carry out audits of the following:

The financial statements of the Government	1
The Government of Niue, its subsidiaries and other associated entities	9
The Government of Tokelau	1
Entities the Auditor-General has agreed to audit under section 19 of the Public Audit Act 2001	11
<b>Total</b>	<b>22</b>
<b>The total number of entities we expect to carry out audits for in the 2013/14 financial year</b>	<b>3876</b>

In addition to annual audits, we expect to carry out an audit of summary financial statements (and, in some cases, summary performance information) for some of these entities. In particular, we are required to audit local authorities' summary annual reports. There are a few schemes and arrangements, such as the student loans scheme, that we separately audit each year.

We also carry out a number of other engagements. These include:

- audits or other assurance for regulatory purposes, such as for the Department of Internal Affairs regarding licensing trusts, forecast financial statements, and the Commerce Commission regarding energy companies' electric power reliability;
- a review of the service performance of Auckland Council and its subsidiaries;
- audits or reviews of interim financial statements, particularly for public entities that are issuers; and
- assurance for trustees of debenture trust deeds, where public entities have borrowed funds from the public.

## Our focus

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

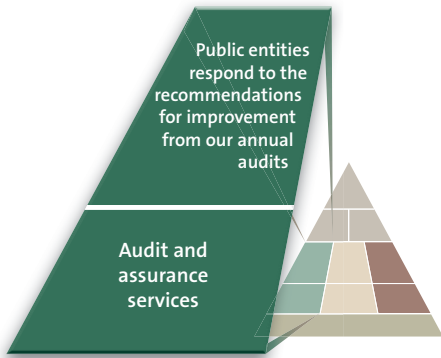
- **Responding to changes in accounting standards** – We will continue to focus on making a positive contribution to the work of the External Reporting Board in setting and implementing accounting standards. In 2013/14, we will also help to prepare our auditors to audit in an environment of new accounting standards, which are expected to become effective in 2014/15.
- **Performance information** – We continue to phase in the Auditor-General's revised auditing standard on reporting non-financial performance information, and the standard now applies to our audits of most public sector entities that are required to include non-financial information in their annual reports. The revised standard was scheduled to apply to all applicable audits for reporting

periods beginning on or after 1 July 2013, but we have decided to phase in the approach more slowly in the large and varied council-controlled organisation (CCO) sector. Although we are continuing with the scheduled implementation of the standard for Auckland Council's substantive CCOs for 2013/14, full implementation for other CCOs is deferred until the 2015/16 reporting period. We will do a practice run in 2014/15, meaning we will follow the approach in the standard but without any effect on the audit opinions. We continue to work directly with public entities to help improve performance information and to enable auditors to apply the revised auditing standard to audits of performance information.

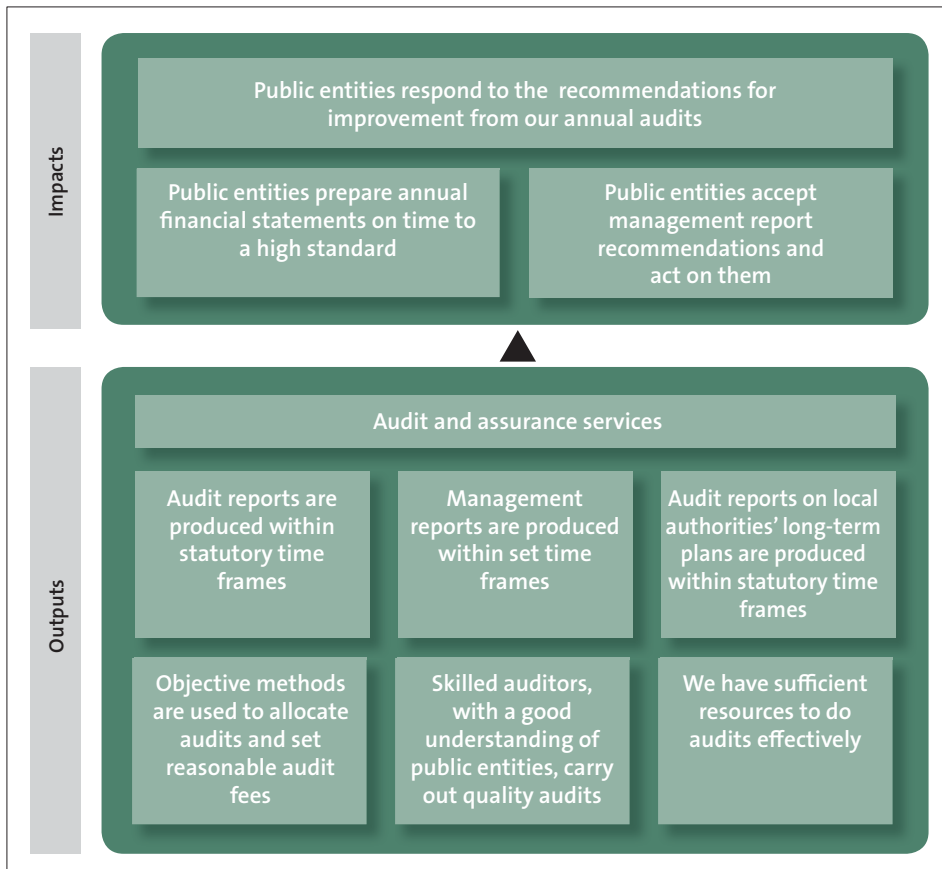
- **Sharing sector knowledge** – We will continue with our initiative to better share knowledge. The initiative consolidates and expands on our previous work to help us better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. We expect the initiative to extend our ability to be flexible, agile, and adaptive in both the way we work and how we report.

The Vote estimate for the Audit and assurance services output class in 2013/14 is \$68.264 million.

Our impacts and outputs for Audit and assurance services are summarised in Figure 11. Details of our measures and standards for this output class, and our previous performance, are shown in the pages after Figure 11.



**Figure 11**  
Summary of impacts and outputs for Audit and assurance services



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

#### Public entities respond to the recommendations for improvement from our annual audits

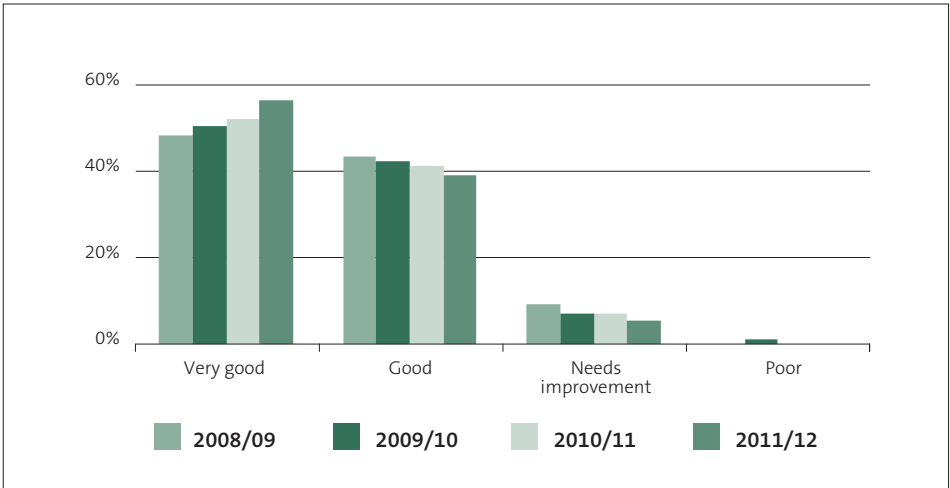
**Measure:** Central government entities’ management control environment (MCE), financial information (FISC), and service performance information systems and controls (SPIASC) are improved (or at least maintained), measured against the previous two years.

**Comment:** We aim to contribute to improved financial and service performance reporting and improved performance management in public entities. We report our observations to entities on their MCE, FISC, and SPIASC, and assign grades accordingly: Very Good, Good, Needs Improvement, or Poor. Movements in the grades provide an indication of whether entities are accepting and responding to our recommendations, and improving their systems and controls.

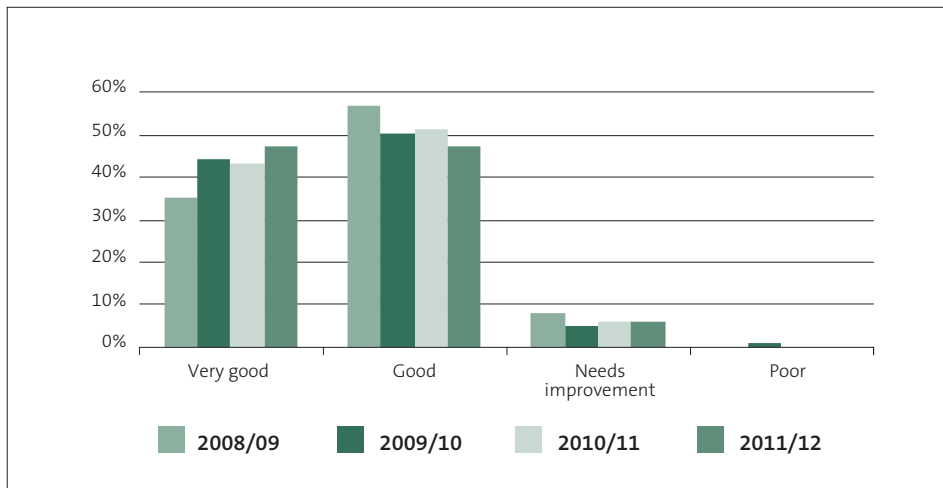
**Results:** Results for the previous four years are shown in Figures 12 to 14.

**Comment:** Figures 12 to 14 show the year-end period for which the audit is carried out. The 2012/13 audits and associated grades are completed during 2013/14.

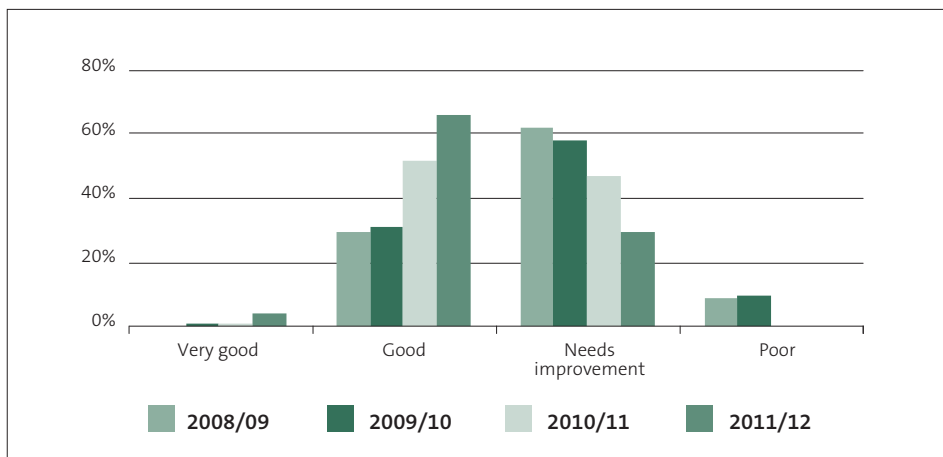
**Figure 12**  
Grade percentages by year for management control environment (MCE), 2008/09, 2009/10, 2010/11, and 2011/12



**Figure 13**  
Grade percentages by year for financial information systems and controls (FISC), 2008/09, 2009/10, 2010/11, and 2011/12



**Figure 14**  
Grade percentages by year for service performance information and associated systems and controls (SPIASC), 2008/09, 2009/10, 2010/11, and 2011/12

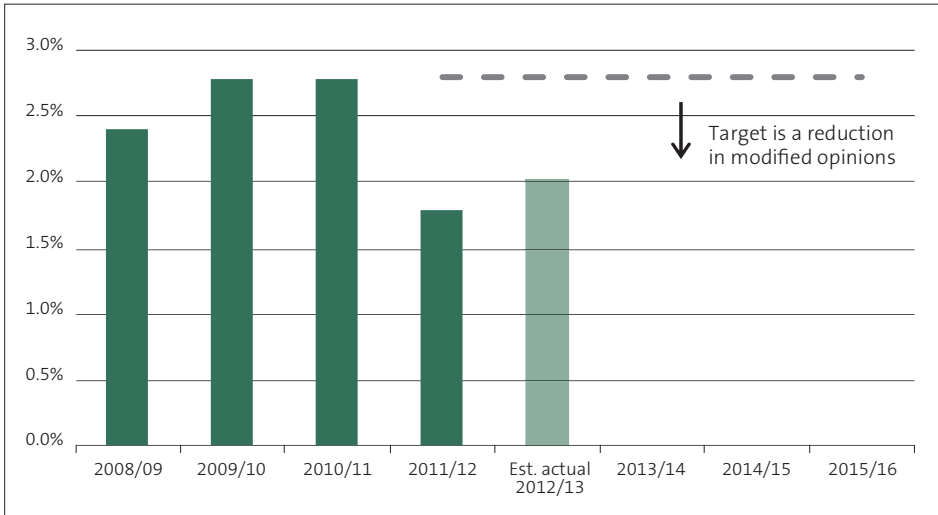


**Public entities prepare financial statements on time to a high standard**

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

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 15.

**Figure 15**  
**Percentage of audited financial reports that contain modified audit opinions**





**Public entities accept management report recommendations and act on them**

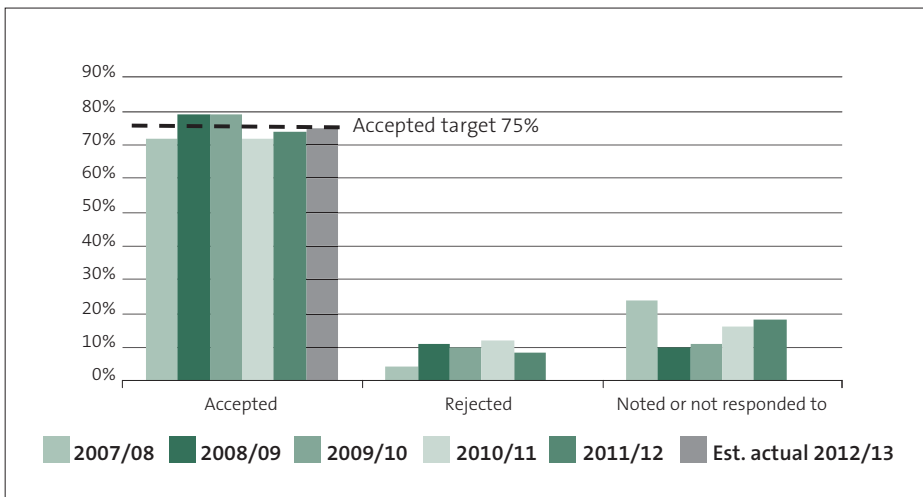
**Measure:** Public entities' acceptance of audit service providers' management report recommendations is at least maintained, measured against the previous two years.

**Comment:** We set a 75% target for the percentage of management report recommendations accepted by public entities. Our experience shows that management quite reasonably will sometimes have different views to the Auditor, and may not act on all recommendations.

For the year ended 30 June 2012, we assessed a sample of 40 entities with audit fees greater than \$50,000 against this performance measure. Before 2011, this was only assessed against a sample of Audit New Zealand's management report recommendations.

**Results:** Results for the previous five years and the target for percentage of accepted management recommendations are shown in Figure 16.

**Figure 16**  
Percentage of management report recommendations accepted by public entities

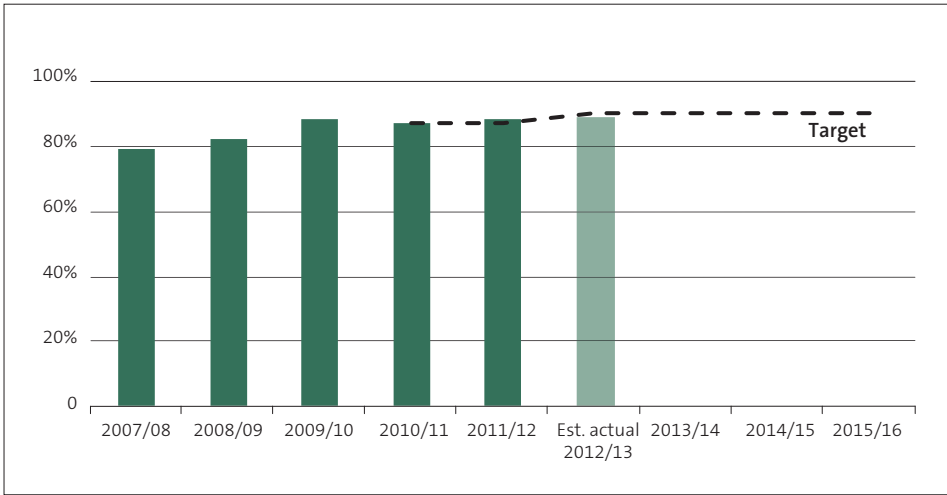


**Audit reports are produced within statutory time frames**

**Measure:** 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.

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 17.

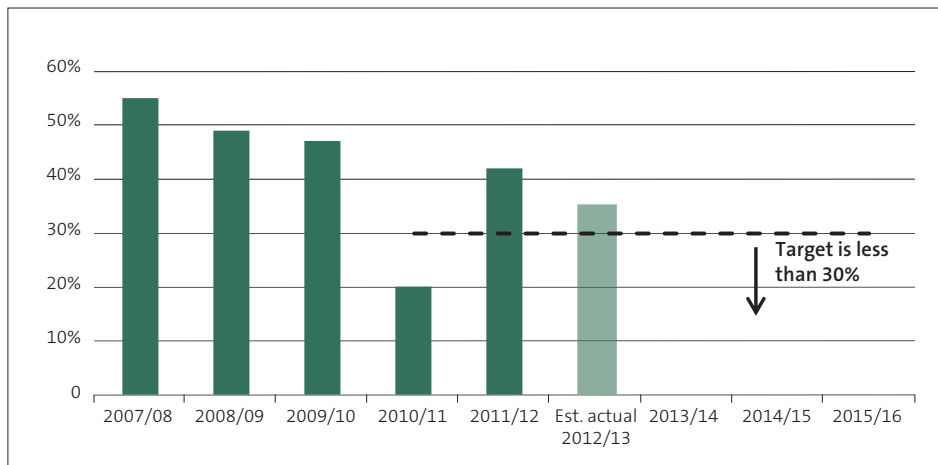
**Figure 17**  
**Percentage of audited financial reports issued on time**



**Measure:** Less than 30% of the audit reports outstanding at 30 June are because of inaction on our part.

**Results:** Results for the previous five years and the target for 2013/14-2015/16 are shown in Figure 18.

**Figure 18**  
 Percentage of audit reports outstanding at 30 June because of our inaction

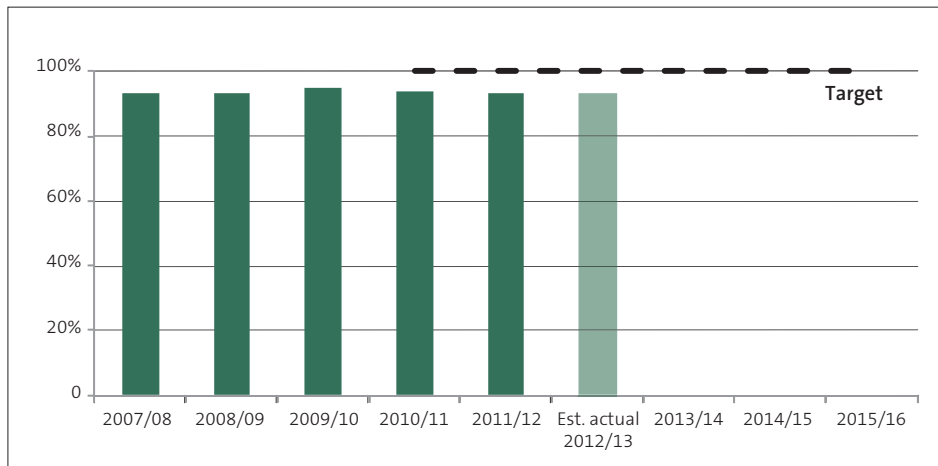


**Management reports are produced within set time frames**

**Measure:** All management reports are issued within six weeks of issuing the audit report.

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 19.

**Figure 19**  
 Percentage of management reports issued within six weeks



### Audit reports on local authorities' long-term plans are produced within statutory time frames

**Measure:** No long-term plan (LTP) audit opinions outstanding at 30 June of the year in which LTPs are to be adopted by local authorities are because of inaction on our part.

**Results:** In 2011/12, there were no LTP audit opinions outstanding at 30 June because of inaction on our part.

**Comment:** LTP audits are carried out every three-years. The last LTP audits were carried out in 2011/12, and the next opinions will be issued in 2014/15.

For the 2012-22 LTPs, 94% of local authorities adopted their final LTP within the statutory deadline. Four local authorities completed their responsibilities after 30 June.

Christchurch City Council originally obtained a one-year extension due to the Canterbury earthquakes. Then, in March 2013, the requirement for Christchurch City Council to complete an LTP for the nine years commencing 1 July 2013 was suspended, and the Council will now produce and adopt a new planning document – a three-year plan for which there is no audit requirement. The next LTP opinion for Christchurch City Council will be issued in 2014/15.

**Measure:** All LTP management reports are issued within six weeks of issuing the LTP audit opinion.

**Results:** 82% of management reports were issued within six weeks of issuing the LTP audit opinion.

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

**Measure:** 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.

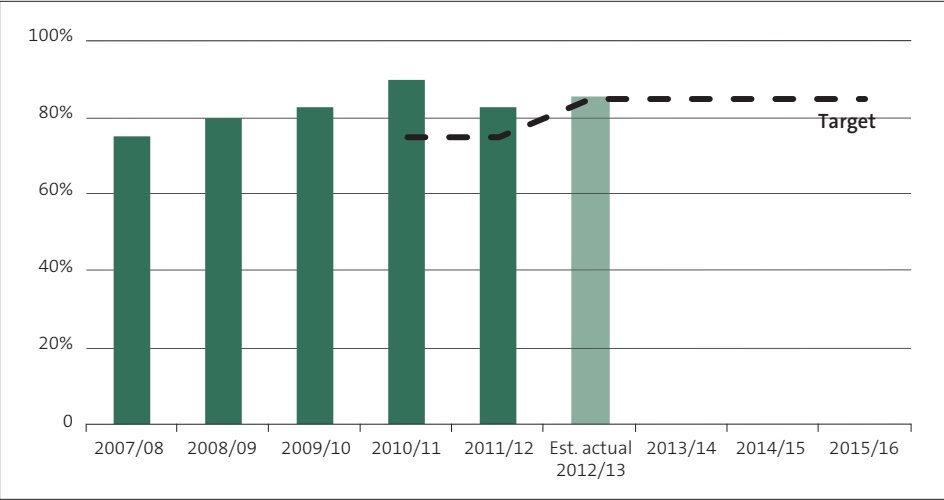
**Result:** Results from reviews for the previous five years confirm we achieved our forecast standard.

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

**Measure:** Client satisfaction survey results show that, overall, 85% 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).

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 20.

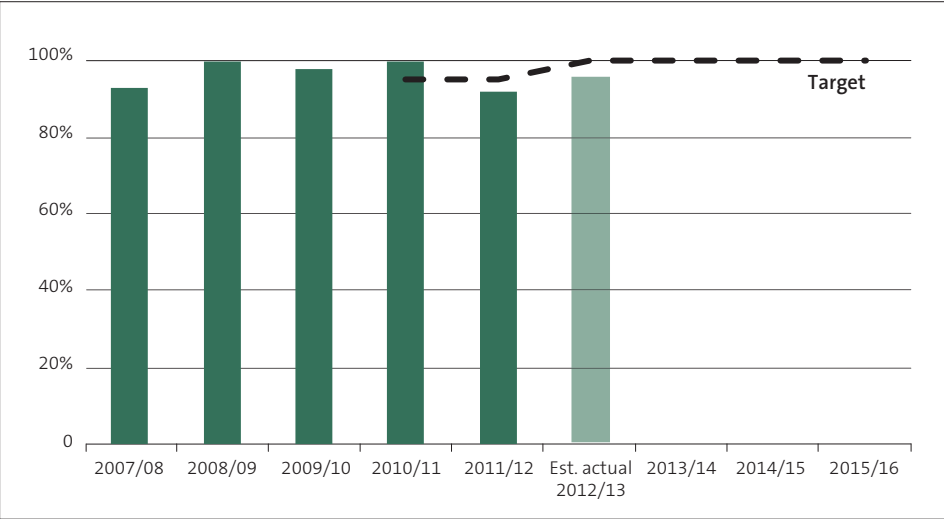
**Figure 20**  
**Percentage of clients satisfied with the quality of audit work**



**Measure:** Quality assurance reviews for all appointed auditors are completed during a three-year period. Of the auditors reviewed in any given year, 100% achieve a grade of “satisfactory” or better.

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 21.

**Figure 21**  
**Percentage of auditors achieving a grade of satisfactory or better from quality assurance reviews**



**We have sufficient resources to do audits effectively**

**Measure:** The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.

**Result:** No significant proposal was made for an appropriation increase in audit fees and expenses in 2009/10, 2010/11, and 2011/12.

## Multi-class output: Statutory auditor function

This multi-class output includes the following:

- **Services to Parliament** – providing advice and assistance to select committees and other stakeholders;
- **Controller function** – providing assurance to Parliament that spending has been properly incurred with Parliament’s appropriations; and
- **Reports, studies, and inquiries** – reporting on the results of annual audits, performance audits and other studies and inquiring into a public entity’s use of its resources.

### Services to Parliament

We provide advice and assistance to Parliament and to other stakeholders 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 and to assist Select Committees with their examination of the Estimates of Appropriations;
- reporting to responsible Ministers on the results of the annual audits and to Parliament and other constituencies on matters arising from our annual audits;
- responding to requests and participating in working parties on matters related to financial management and accountability with 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. We will continue to support good governance and accountability in the Pacific through our role as Secretariat of the Pacific Association of Supreme Audit Institutions (PASAI), and the Auditor-General’s representation of the PASAI region on the governing board of the International Organisation of Supreme Audit Institutions (INTOSAI). We are members of various committees of INTOSAI, including the Professional Standards Steering Committee, and we expect to continue our involvement in chairing various working groups tasked with developing guidance for supreme audit institutions.

### 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.

### Reports, studies and inquiries

Each year, we publish around 20 reports on the results of our annual audits, performance audits, major inquiries, and other studies. Through this reporting to Parliament and other stakeholders we consider matters related to the use of resources in greater depth than is appropriate within the statutory scope of an annual audit and look for ways that public entities can perform better.

We usually receive around 200 to 300 requests for inquiries annually, spanning a wide range of concerns about central and local government entities. The Auditor-General also administers the Local Authorities (Members' Interests) Act 1968, which regulates pecuniary interest questions in the local government sector. Each year, we usually receive 50 to 100 enquiries under that Act.

### Our focus

In our Statutory auditor function work in 2013/14, we will focus on:

- **Public sector service delivery** – Building on our previous work, we will report to Parliament on how well the public sector is responding to the need to deliver improved services for less through changing service delivery structures, models and methods.
- **Performance information** – We will continue to provide 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 will also continue to liaise with government departments and Crown entities to help them improve their performance information and use it to consider effectiveness and efficiency.
- **Sharing sector knowledge** – We will make further progress on the better use and presentation of information about sectors within the public sector to Parliament, select committees, and public entities.

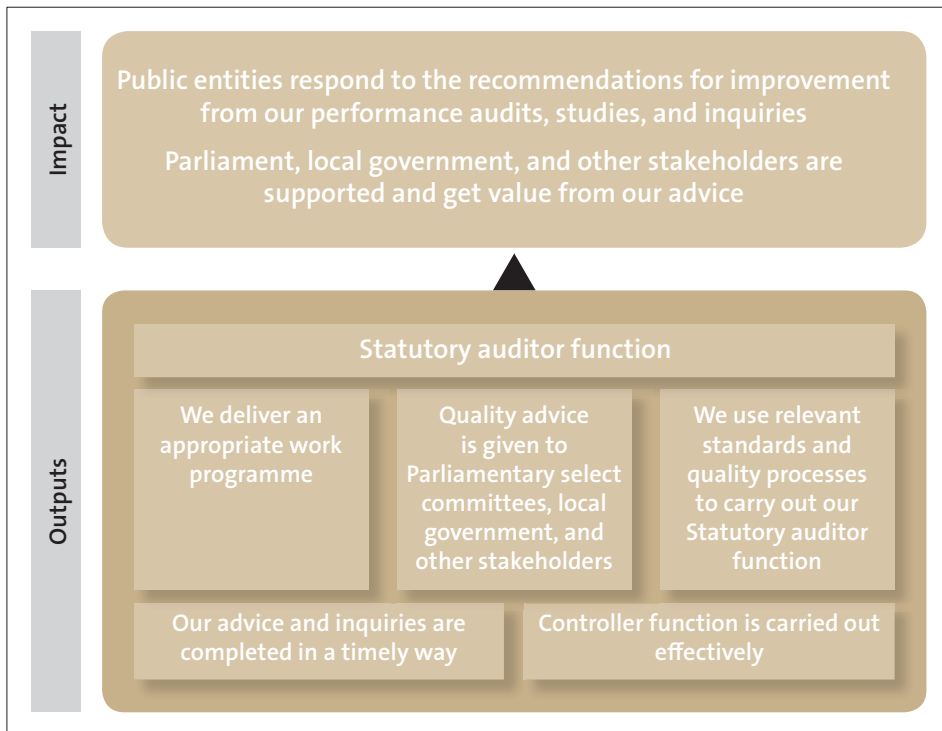
Our impacts and outputs for multi-class output Statutory auditor function are summarised in Figure 22. Details of our measures and standards for this multi-class output, and our previous performance, are shown in the pages after Figure 22.

The Vote estimate for multi-class output Statutory auditor function in 2013/14 is \$9.322 million.





**Figure 22**  
Summary of impacts and outputs for Statutory auditor function



## Impacts and output measures and standards, and previous performance, for Statutory auditor function

- Public entities respond to the recommendations for improvement from our performance audits, studies and inquiries
- Parliament, local government, and other stakeholders are supported and get value from our advice

### Measures:

- Entities accept or respond to the recommendations made in our reports, studies, and inquiries.

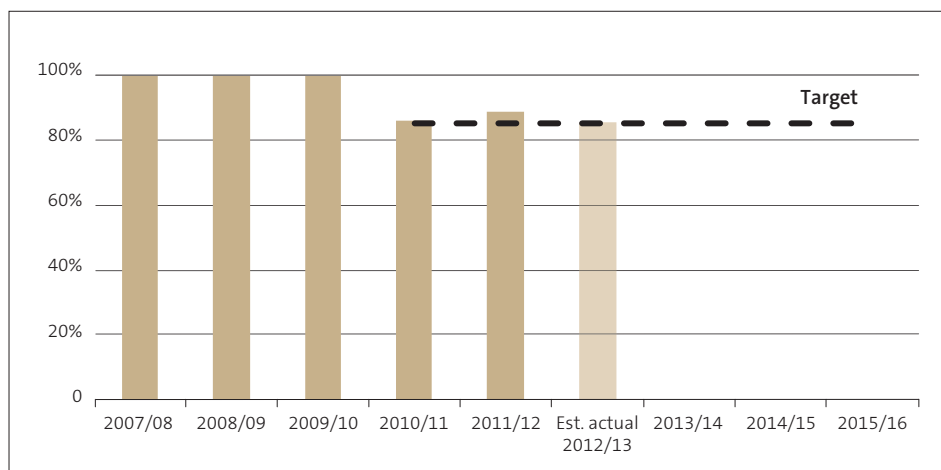
**Comment:** Every two years, we review how entities have responded to a selection of our reports, studies, and inquiries and present the results to Parliament in a combined progress report. Up until last year, these reviews were undertaken annually.

- At least 85% of select committee members we survey confirm that our advice assists them in Estimates of Appropriation and financial review examinations.

### Results:

- In May 2012, we reported to Parliament on how well public entities had acted on the recommendations that we made in six performance audit reports published in 2009 and 2010. Our report *Public entities' progress in implementing the Auditor-General's recommendations 2012* showed good progress had been made in implementing most recommendations. In April 2011, we reported to Parliament on how well five public entities implemented our recommendations. The entities had generally accepted our recommendations, but progress in implementing them had been faster for some recommendations than others.
- Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 23.

**Figure 23**  
**Percentage of select committee members who confirmed that our advice assists them in Estimates of Appropriations and financial review examinations**



**We deliver an appropriate work programme**

**Measure:** Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme).

**Results:** 2012 – Feedback received from select committees and other stakeholders mainly supported our proposed work programme, and enabled us to clarify the proposed scope of some specific pieces of work.  
 2011 – Feedback received from select committees and other stakeholders mainly supported our proposals and approach, with a specific suggestion that in future years we look at the performance of the New Zealand Police in road safety enforcement.  
 2007 to 2010 – Feedback received from select committees and other stakeholders mainly supported our proposals and approach.

### Quality advice is given to Parliamentary select committees, local government, and other stakeholders

**Measures:**

- At least 85% of select committees and other stakeholders we survey rate the advice they receive from us through our Statutory auditor function work as 4 or better on a scale of 1 to 5 for relevance and usefulness.
- Independent reviews of two performance audits confirm the quality of our reports.

**Results:**

- We are considering changes to the way we survey our stakeholders about the advice they receive from us through our Statutory auditor function work. We will retain a target for 85% for the percentage of stakeholders who rate our advice as 4 or better on a scale of 1 to 5 for the period of this Statement of Intent.
- Overall independent review results have confirmed the quality of reports and provided feedback on areas for improvement. In 2010/11, two of our reports were independently reviewed by a panel of reviewers used by the Australasian Council of Auditors-General (ACAG) and two New Zealand reviewers. Overall, the reviewers' ratings showed that one report was rated higher than reports from other audit offices that the ACAG panel had reviewed over the past three years, and higher than the average for our reports reviewed over the past three years. The other report was rated below the average for reports from other offices and below the average score for our reports.

### We use relevant standards and quality processes to carry out our Statutory auditor function

**Measures:**

- Internal quality assurance is carried out to gain assurance that our policies, procedures, and standards for our Statutory auditor functions have been applied appropriately and that they meet relevant standards and procedures. Review is carried out over aspects of our Statutory auditor functions at least once every three years. The nature, extent, and frequency of these reviews are based on risk.
- Our performance audit methodology reflects good practice for carrying out audits, as assessed every second year by the Australian National Audit Office.

**Results:**

- Internal quality assurance reviews were carried out:
  - in June 2012 of our Controller function. This review confirmed that our policies, procedures and standards for the Controller function were applied appropriately.
  - in 2010/11 of our performance audits. This review confirmed that appropriate systems and controls are in place and that reports are prepared in keeping with the performance audit methodology.
  - in 2010/11 of our responses to requests for inquiries and our administering of the Local Authorities (Members' Interests) Act 1968. This review confirmed that responses to requests were provided in keeping with relevant policies, procedures, and standards.
- The next Australian National Audit Office (ANAO) peer review of our methodology and reports will be completed by the end of June 2013. There was no review in 2011/12. In 2010/11, the ANAO reviewed two performance audits and found that they met most of the review criteria and were generally conducted in keeping with key OAG processes and practices.

**Our advice and inquiries are completed in a timely way**

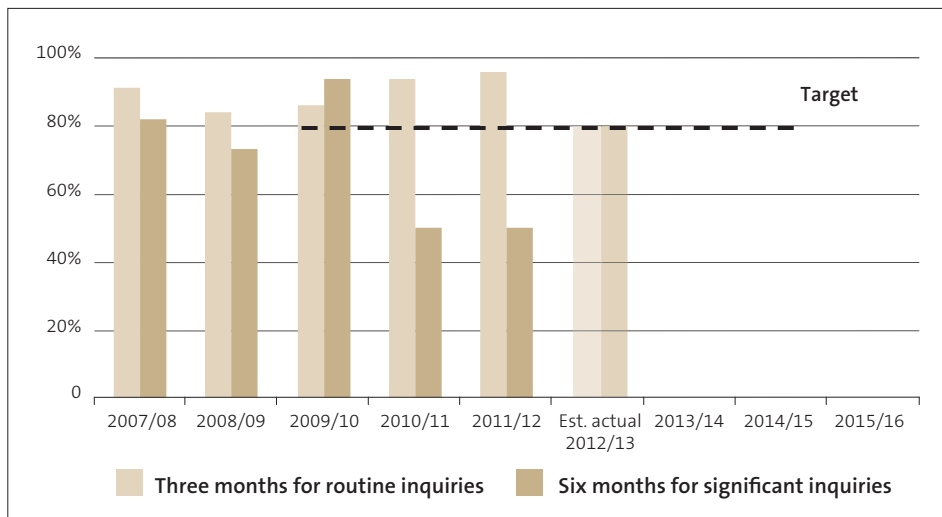
**Measures:**

- Reports and advice are given to select committees and Ministers at least two days before an examination, unless otherwise agreed.
- 80% of our findings on inquiries are reported to the relevant parties within three months for routine inquiries, six months for significant inquiries, and 12 months for major inquiries.
- We complete 80% of enquiries under the Local Authorities (Members’ Interests) Act 1968 (LAMIA) within 30 working days.

**Results:**

- We have consistently achieved 100% in timely delivery of reports and advice for select committee examinations over the last five years. Our target is to continue to do so.
- Results for inquiries and LAMIA for the previous five years and the target for 2013/14 to 2015/16 are shown in Figures 24 to 26.

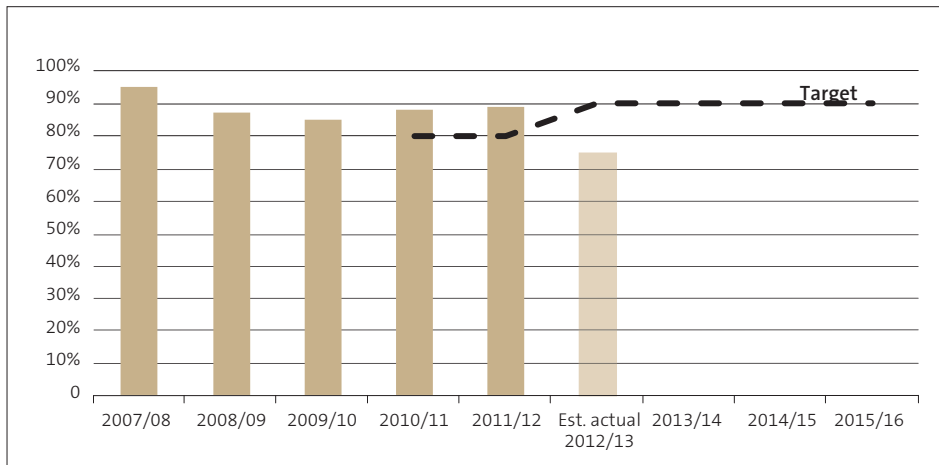
**Figure 24**  
**Percentage of findings on routine inquiries reported to relevant parties within three months and on significant inquiries reported to the relevant parties within six months**



**Figure 25**  
**Number of findings on major inquiries reported to relevant parties within 12 months**

Year	Completed major inquiries	Reported within 12 months
2012	1	1
2011	3	1
2010	5	4
2009	2	Both reported within 13 months

**Figure 26**  
**Percentage of enquiries under the Local Authorities (Members’ Interests) Act 1968 completed within 30 working days**



**Controller function is carried out effectively**

**Measure:** 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.

**Results:** 2007–2012 – All monthly procedures were followed and agreed time frames achieved.





## Part 3

# Organisational health and capability

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

### Our people

We will continue to recruit a number of new staff each year. Some of these will be experienced professionals – replacing those who have left us – but we also hire a number of accounting graduates. We expect to see our staff develop both their vocational and leadership expertise, strengthening their contribution to the Office and the public sector.

We will continue our focus on each individual's needs in developing skills identified in our competency frameworks, on our leadership development programmes, and on improving the level of engagement of our people (as measured by our annual staff engagement survey). We use a number of indicators to measure the engagement, capability, and effectiveness of our people, and we aim to improve or at least maintain these results during the next three years.

Our people and their skills are in high demand among domestic and overseas organisations. We will continue to work on our staff-retention activities and also continue to recruit experienced staff from within New Zealand and overseas. Turnover is influenced by the New Zealand economy, and by the worldwide demand for qualified auditors. During recent years, our turnover has been as high as 23%, falling to a low of around 11% after the global financial crisis. In the last year, this has stabilised somewhat to between 15 and 20%, and overall we are comfortable with this level.

### Equal employment opportunities

The Office's programme for addressing equal employment opportunities is through its recruitment and employment policies. 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.

We note that our recruitment reflects the increasingly diverse workforce in New Zealand, with a greater representation of people from Asian countries in particular. We expect that this trend will continue.

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

### **Business practices**

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

Our internal audit function uses the services of an external expert to advise our management team on the internal audit programme. The internal audit programme is agreed to by our independent Audit and Risk Committee, which provides oversight of the programme's outcomes.

### **Facilities**

The Office received additional capital funds in 2011/12 to fit out replacement premises for our staff in Wellington, allowing us to consolidate all Wellington staff into one location. The refurbishment of 100 Molesworth Street is now well advanced and we expect to complete the relocation of all staff by the end of 2012/13. Auckland staff were successfully relocated into newly refurbished premises in July 2012.

Our Christchurch staff have been working in unsuitable temporary offices since the February 2011 Canterbury earthquake. After extensive searching for suitable premises, an agreement has now been signed to lease space in a new building on the outskirts of Christchurch's CBD, and we anticipate our Christchurch staff will relocate to this building in August 2013.

### **Information systems**

To ensure an effective, efficient, and customer-focused service, our audit staff working in the field use laptop computers running specialist auditing and remote access tools. By the end of 2012/13, we expect to have completed a major upgrade of the laptops' software as well as an upgrade of the specialist audit tool. We expect that the upgrade will also contribute to improvements in the efficiency and effectiveness of our auditors in their fieldwork.

We anticipate implementing phase one of our Enterprise Content Management system (ECM) in 2012/13. This new system will allow the collection, storing, analysis, sharing, reuse, and reporting of the information the Auditor-General and her staff and Appointed Auditors collect during their work. We recognise the significant value this information and insight could bring to improving the performance of the public sector, and we intend to make the collection, analysis, and use of this information and insight as effective and efficient as we can. Enhancements to the ECM are anticipated in future years to keep pace with the changing information management environment.

We summarise our measures and standards for organisational health and capability in Figure 27, and show details with our previous performance in the pages following Figure 27.



**Figure 27**  
Summary of measures and standards for organisational health and capability



## Measures and standards and previous performance, for organisational health and capability

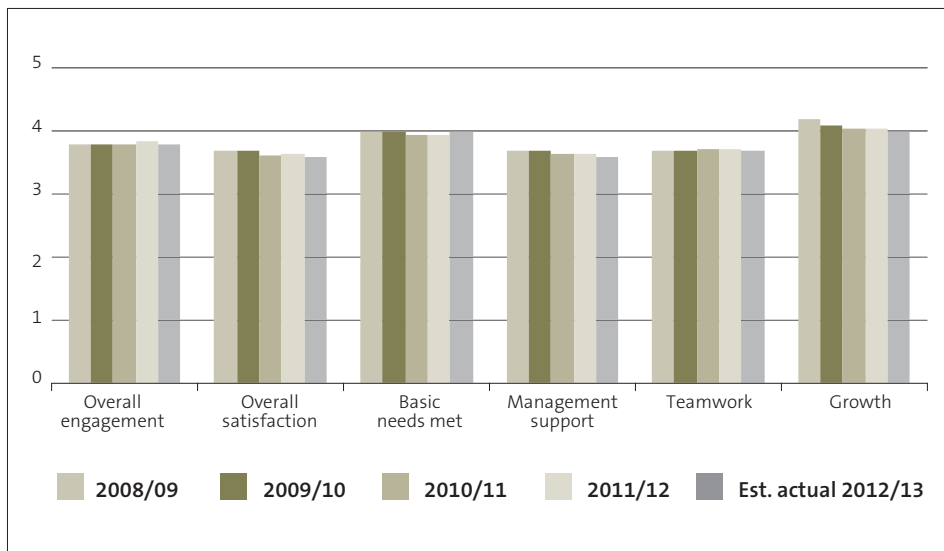
### Staff are engaged and satisfied

**Measure:** Improve (or at least maintain) the engagement and satisfaction of our staff, measured against the previous two years.

**Comment:** The Office’s staff engagement survey is based on responses to statements on a 5-point scale, with 1 being the lowest score and 5 being the highest.

**Results:** Results for the previous four years are shown in Figure 28.

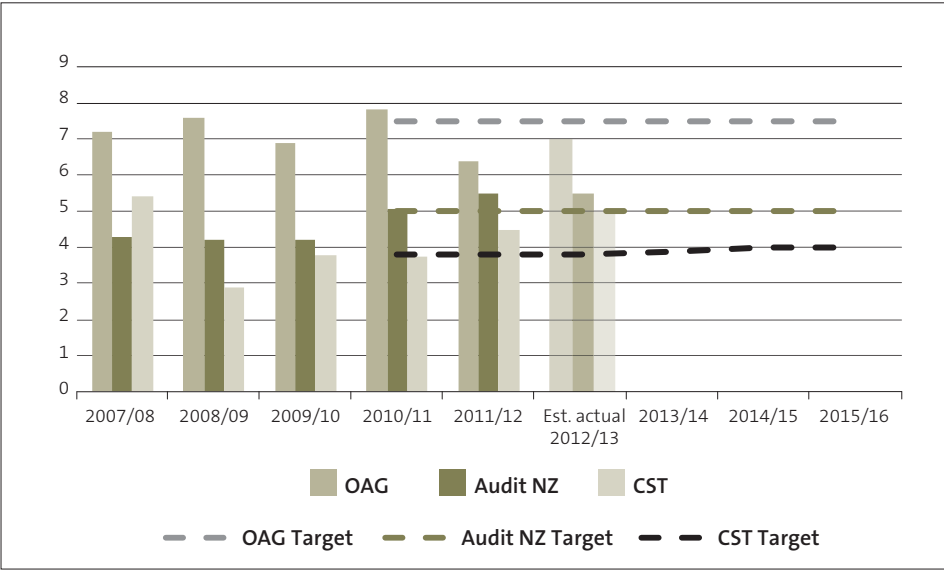
**Figure 28**  
The Office’s staff engagement survey scores



**Measure:** Improve (or at least maintain) the average years of experience of our staff, measured against the previous two years.

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 29.

**Figure 29**  
Average number of years staff have been employed by the Office

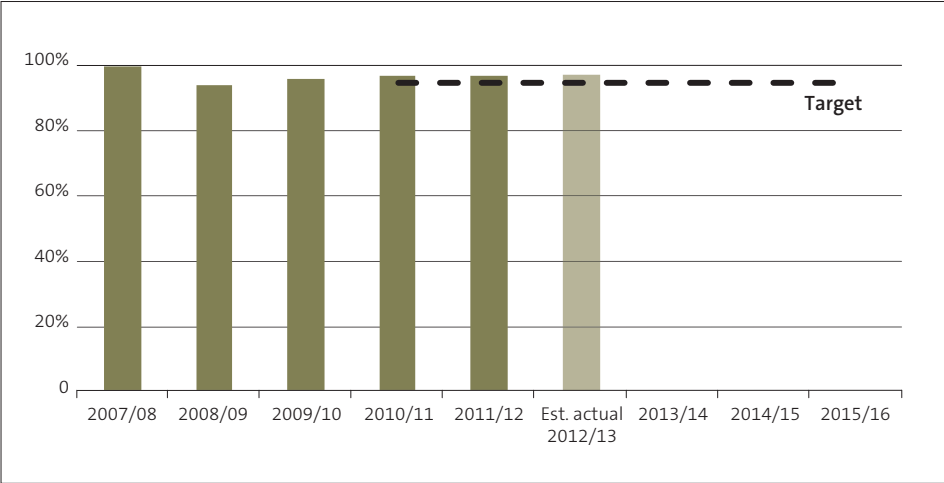


**Audit staff have high levels of expertise**

**Measure:** Achieve a pass rate by staff undertaking accreditation examinations of not less than 95%.

**Results:** Results for the previous five years and the target for 2013/14 to 2015/16 are shown in Figure 30.

**Figure 30**  
**Percentage of audit staff passing NZICA accreditation examinations**

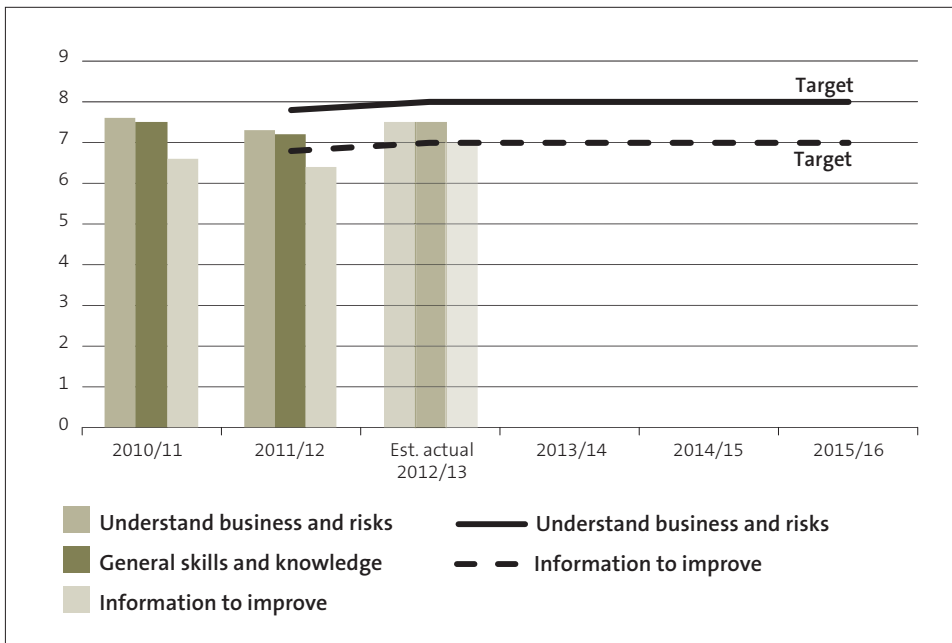


**Measure:** Client survey feedback shows that auditors’ knowledge of entities’ business and operating context is improving, and that auditors are investing in work to understand that context. Our clients give us improved (or at least maintained) ratings (on a scale of 0 to 10) compared with the previous two years for their auditors’:

- understanding of the client’s business and the risks that clients face;
- general skills and knowledge required to conduct their audit; and
- provision of information to help clients identify and promote improvement in their operations.

**Results:** Results for the previous two years and the target for 2013/14 to 2015/16 are shown in Figure 31.

**Figure 31**  
Ratings for expertise of Audit New Zealand staff



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

**Measure:** Our quality assurance reviews of our audit and assurance work confirms that auditors are carrying out the requirements of AG-4 (Revised).

**Comment:** AG-4 (Revised) is the Auditor-General’s revised auditing standard on auditing non-financial performance information.

**Results:** For 2011/12, quality assurance reviews of our audit and assurance work confirmed that auditors are carrying out the requirements of AG-4 (Revised). The reviews identified some areas where the audit of this information could be improved in future.

During 2010/11, a quality assurance review was carried out of a selection of local authority audits, the first sector where we applied AG-4 (Revised). The review found that auditors understood the new requirements and were suitably trained to audit performance information in keeping with AG-4 (Revised).





## Part 4

# Forecast financial statements for 2013/14

The Controller and Auditor-General's forecast financial statements have been prepared in keeping 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 58–74 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, and audits of most local authorities' long-term plans are not carried out in 2013/14.
- 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 25 March 2013.

## 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 purposes 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 2013/14 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with NZ IFRS and other applicable financial reporting standards, as appropriate 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 mainly 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**

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

*Fee revenue generated by the Office for audits and other assurance work*

Fee revenue is recognised when earned, by reference to the stage of completion of audit and other assurance work, if the outcome can be estimated reliably. Revenue accrues as the audit activity progresses by reference to the value of work performed, and as direct expenses that can be recovered are incurred. If the outcome of an audit cannot be estimated reliably, revenue is recognised only to the extent of the direct costs incurred in respect of the work performed. If there are significant uncertainties regarding recovery, or if recovery is contingent on events outside our control, no revenue is recognised.

*Fee revenue generated by contracted audit service providers for audits*

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.

*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 (including those for which forward foreign exchange contracts are held) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### *Capital charge*

The capital charge is recognised as an expense in the period to which the charge relates.

### **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 funds on deposit with banks and is measured at its face value.

### **Work in progress**

Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents unbilled revenue.

### **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.

### **Plant and equipment**

Plant and equipment consists of furniture and fittings, leasehold improvements, office equipment, IT 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.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

#### *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 4 years (25% to 33%).

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

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**

Property, 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.

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 amounts billed are in excess of the amounts recognised as revenue.

**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.

### *Presentation of employee entitlements*

Sick leave, annual leave, time off in lieu of overtime worked, and vested long service leave are classified as a current liability. Non-vested long service leave and retiring/resigning leave expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

### **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.

### **Provisions**

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

### **Taxpayers' funds**

Taxpayers' funds are the Crown's investment in the Office and are 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 Forecast 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



Forecast 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 Forecast 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 those costs that cannot be identified in an economically feasible manner with a specific output. These costs include: corporate services 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 audit fee revenue and work in progress value is the most significant area where such judgements, estimations, and assumptions are made.

## Forecast statement of comprehensive income for the year ending 30 June 2014

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 74.

	2012/13		2013/14
	Budgeted*	Estimated actual	Forecast
	\$000	\$000	\$000
<b>Income</b>			
Crown funding	10,045	10,080	10,080
Audit fees – Departments	10,175	8,744	8,574
Audit fees – Other	30,427	32,251	31,047
Income of contracted audit service providers	28,491	27,917	28,768
<b>Total income</b>	<b>79,138</b>	<b>78,992</b>	<b>78,469</b>
<b>Expenditure</b>			
Personnel costs	36,989	37,573	37,723
Operating costs	12,088	11,599	10,156
Depreciation and amortisation	1,204	1,057	1,324
Fees paid to contracted auditors for audits of public entities	28,491	27,917	28,768
Capital charge	366	366	498
<b>Total expenditure</b>	<b>79,138</b>	<b>78,512</b>	<b>78,469</b>
<b>Total comprehensive income for the year</b>	<b>0</b>	<b>480</b>	<b>0</b>

\* Budgeted figures reflect the Main Estimates of Appropriations for 2012/13.

## Forecast statement of movements in taxpayers' funds (equity)

for the year ending 30 June 2014

	2012/13		2013/14
	Budgeted \$000	Estimated actual \$000	Forecast \$000
Taxpayers' funds brought forward at 1 July	4,021	4,021	6,221
Surplus for the year	-	480	-
Provision for repayment of surplus to the Crown	-	(480)	-
Capital contribution	2,200	2,200	-
<b>Taxpayers' funds at 30 June</b>	<b>6,221</b>	<b>6,221</b>	<b>6,221</b>

## Forecast statement of financial position as at 30 June 2014

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

	Budgeted as at 30-Jun-13 \$000	Estimated actual as at 30-Jun-13 \$000	Forecast as at 30-Jun-14 \$000
<b>Taxpayers' funds</b>			
General funds	6,221	6,221	6,221
<b>Total taxpayers' funds</b>	<b>6,221</b>	<b>6,221</b>	<b>6,221</b>
Represented by:			
<b>Current assets</b>			
Cash and cash equivalents	2,394	4,533	4,515
Prepayments	185	400	400
Work in progress	1,800	1,200	1,200
Debtors and other receivables	5,794	5,650	5,650
<b>Total current assets</b>	<b>10,173</b>	<b>11,783</b>	<b>11,765</b>
<b>Non-current assets</b>			
Plant and equipment	4,692	4,765	4,411
Intangible assets	1,108	1,108	907
<b>Total non-current assets</b>	<b>5,800</b>	<b>5,873</b>	<b>5,318</b>
<b>Total assets</b>	<b>15,973</b>	<b>17,656</b>	<b>17,083</b>
<b>Current liabilities</b>			
Creditors and other payables	5,161	5,540	5,339
Repayment of surplus	-	480	-
Employee entitlements	3,994	4,818	4,914
<b>Total current liabilities</b>	<b>9,155</b>	<b>10,838</b>	<b>10,253</b>
<b>Non-current liabilities</b>			
Employee entitlements	597	597	609
<b>Total non-current liabilities</b>	<b>597</b>	<b>597</b>	<b>609</b>
<b>Total liabilities</b>	<b>9,752</b>	<b>11,435</b>	<b>10,862</b>
<b>Net assets</b>	<b>6,221</b>	<b>6,221</b>	<b>6,221</b>

## Forecast statement of cash flows for the year ending 30 June 2014

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 statement of comprehensive income.

	2012/13		2013/14
	Budgeted \$000	Estimated actual \$000	Forecast \$000
<b>Cash flows from operating activities</b>			
Receipts from the Crown	10,045	10,080	10,080
Receipts from Departments	8,078	7,331	7,075
Receipts from other public entities	32,298	33,438	32,270
Payments to suppliers	(7,455)	(10,428)	(10,084)
Payments to employees	(40,997)	(37,479)	(37,629)
Capital charge paid	(366)	(366)	(498)
Net GST paid	0	102	-
<b>Net cash flow from operating activities</b>	<b>1,603</b>	<b>2,678</b>	<b>1,214</b>
<b>Cash flows from investing activities</b>			
Receipts from sale of plant and equipment	43	43	65
Purchase of plant and equipment	(4,144)	(3,921)	(617)
Purchase of intangible assets	(250)	(498)	(200)
<b>Net cash flow from (used in) investing activities</b>	<b>(4,351)</b>	<b>(4,376)</b>	<b>(752)</b>
<b>Cash flows from financing activities</b>			
Capital contribution	2,200	2,200	-
Repayment of surplus to the Crown	(864)	(1,450)	-
<b>Net cash flow from (used in) financing activities</b>	<b>1,336</b>	<b>750</b>	<b>0</b>
<b>Total net increase/(decrease) in cash held</b>	<b>(1,412)</b>	<b>(948)</b>	<b>462</b>
Cash at the beginning of the year	3,806	5,481	4,053
<b>Cash at the end of the year</b>	<b>2,394</b>	<b>4,533</b>	<b>4,515</b>

\* 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 statement of comprehensive income to the forecast net cash flow from operating activities

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for the year ending 30 June 2014

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Forecast comprehensive income statement on page 60 to arrive at the net cash flow from operating activities disclosed in the Forecast statement of cash flows on page 69.

	2012/13		2013/14
	Budgeted \$000	Estimated actual \$000	Forecast \$000
<b>Surplus</b>	-	480	-
<b>Non-cash items</b>			
Depreciation and amortisation	1,204	1,057	1,324
<b>Total non-cash items</b>	<b>1,204</b>	<b>1,057</b>	<b>1,324</b>
<b>Working capital movements</b>			
(Increase)/decrease in receivables and prepayments	468	1,541	0
(Increase)/decrease in work in progress	200	7	0
Increase/(decrease) in payables	(178)	(530)	(218)
Increase/(decrease) in current employee entitlements	(79)	94	96
<b>Total net working capital movements</b>	<b>411</b>	<b>1,112</b>	<b>(122)</b>
<b>Investing activity items</b>			
Loss/(profit) on disposal of assets	0	0	0
<b>Total investing activity items</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Movements in non-current liabilities</b>			
Increase/(decrease) in employee entitlements	(12)	29	12
<b>Net cash flow from operating activities</b>	<b>1,603</b>	<b>2,678</b>	<b>1,214</b>

## Statement of forecast capital expenditure for the year ending 30 June 2014

This statement discloses the forecast capital expenditure for the 2013/14 financial year (incurred in accordance with section 24 of the Public Finance Act 1989), which is primarily routine replacement and upgrade of the Office's information technology, office equipment, and furniture and fittings.

	Actual June 2009	Actual June 2010	Actual June 2011	Actual June 2012	Budget June 2013	Estimated Actual June 2013	Forecast June 2014
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Plant and equipment</b>							
Furniture and fittings	63	42	4	284	3,453	3,038	20
Office equipment	20	15	43	1	100	150	0
Motor vehicles	184	406	396	367	216	304	228
Computer hardware	318	258	333	304	375	429	369
<b>Intangible assets</b>							
Computer software	927	200	76	198	250	498	200
<b>Total</b>	<b>1,512</b>	<b>921</b>	<b>852</b>	<b>1,154</b>	<b>4,394</b>	<b>4,419</b>	<b>817</b>

## Forecast details of non-current assets by category as at 30 June 2014

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	As at 30 June 2013		Forecast position as at 30 June 2014		
	Budgeted net book value \$000	Estimated actual net book value \$000	Cost \$000	Accumulated depreciation \$000	Net book value \$000
<b>Plant and equipment</b>					
Furniture and fittings	3,296	3,251	5,445	2,413	3,032
Office equipment	83	131	891	820	71
Motor vehicles	758	796	1,320	621	699
Computer hardware	555	587	2,500	1,891	609
<b>Intangible assets</b>					
Computer software	748	1,108	3,989	3,082	907
<b>Total</b>	<b>5,440</b>	<b>5,873</b>	<b>14,145</b>	<b>8,827</b>	<b>5,318</b>



## Forecast appropriation statement for the year ending 30 June 2014

This statement breaks down the expenditure reported in the Forecast statement of comprehensive income on page 66 and the Forecast output class operating statements on page 74 with the corresponding appropriations appearing in Part B1 of Vote Audit for 2013/14 in the *Estimates of Appropriations* (parliamentary paper B.5, Vol. 1).

	\$000
<b>Appropriations for output expenses</b>	
Statutory auditor function (multi-class output appropriation):	
Supporting accountability to Parliament	2,735
Performance audits and inquiries	6,587
<b>Total statutory auditor</b>	<b>9,322</b>
Audit and assurance services (revenue-dependent appropriation)	68,114
Audit and assurance services – Crown-funded small entity audits	150
<b>Total appropriations for output expenses</b>	<b>77,586</b>
<b>Other expenses to be incurred by the Office</b>	
Remuneration of the Auditor-General and Deputy Auditor-General	883
<b>Total other expenses</b>	<b>883</b>
<b>Total</b>	<b>78,469</b>

## Forecast output class operating statements for the year ending 30 June 2014

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	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Surplus \$000
<b>Output expenses</b>						
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.						
	-	8,299	59,815	68,114	68,114	0
<b>Audit and assurance services</b>						
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	-
<b>Statutory auditor function (multi-class output appropriation)</b>						
Basis – these output expenses use the same resources and contribute to the same outcome.						
<b>Supporting accountability to Parliament</b>						
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	275	-	2,735	2,735	0
<b>Performance audits and inquiries</b>						
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	-
<b>Total output expenses</b>	<b>9,197</b>	<b>8,574</b>	<b>59,815</b>	<b>77,586</b>	<b>77,586</b>	<b>0</b>
<b>Other expenses to be incurred by the Office</b>						
Remuneration of the Auditor-General and Deputy Auditor-General	883	0	0	883	883	0
<b>Total operating expenses</b>	<b>10,080</b>	<b>8,574</b>	<b>59,815</b>	<b>78,469</b>	<b>78,469</b>	<b>0</b>

## Appendix

# Our strategic risks and risk management

	Risk	Management of risk
1	<p><b>Loss of independence</b> – independence underpins the value of the Auditor-General's work and reporting. 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 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, implementing measures to mitigate conflicts of interest.</p> <p>Senior managers in the Office monitor and regularly assess any factors that may threaten auditor independence. We are satisfied that the Office has appropriate plans to reduce the effect of these factors to an acceptable level.</p>
2	<p><b>Audit failure</b> – 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 and the External Reporting Board, supplemented by the Auditor-General's auditing standards to address public sector matters not covered by general auditing standards.</p> <p>We monitor adherence to auditing standards through external quality assurance regimes (such as participating in New Zealand Institute of Chartered Accountants' practice reviews and, from time to time, international peer reviews). Our internal quality control procedures include carrying out quality assurance reviews of all our appointed auditors and our Office products on a risk basis and to ensure reviews of all auditors and products over a three-year period.</p> <p>Before performance audits are presented to Parliament, a process of external report clearance and internal substantiation and review is observed.</p>
3	<p><b>Loss of capability</b> – the risk that we are unable to retain, recruit, or access people with the technical and other skills our audit work requires.</p>	<p>We carry out ongoing training and development of our staff and our appointed auditors and their staff on matters necessary for audit work. We provide management programmes, leadership development initiatives, and professional development programmes for our own staff.</p>

4	<p><b>Loss of reputation</b> – 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 risk areas listed 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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• the Office’s Combined Leadership Team meets on a regular basis to discuss issues and feedback from key stakeholders and public entities on our audit work;</li> <li>• senior staff liaise with public entities and key stakeholders;</li> <li>• we carry out regular stakeholder and client feedback surveys; and</li> <li>• we monitor the media to identify where the Office could communicate more effectively about its role and the results of its audit work.</li> </ul>
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# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Learning from public entities' use of social media
- Managing public assets
- Insuring public assets
- Evolving approach to combating child obesity
- Public sector financial sustainability
- Education for Māori: Implementing *Ka Hikitia – Managing for success*
- Statement of Intent 2013–2016
- Central government: Results of the 2011/12 audits
- Health sector: Results of the 2011/12 audits
- Transport sector: Results of the 2011/12 audits
- Local government: Results of the 2011/12 audits
- Crown Research Institutes: Results of the 2011/12 audits
- Inquiry into decision by Hon Shane Jones to grant citizenship to Mr Yang Liu
- Ministry for Primary Industries: Preparing for and responding to biosecurity incursions
- Inquiry into the Government's decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre
- New Zealand Police: Enforcing drink-driving laws
- New Zealand Defence Force: The civilianisation project
- Effectiveness and efficiency: Stories from the public sector

## Website

All these reports, and many of our earlier reports, are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz). Most of them can also be obtained in hard copy on request – [reports@oag.govt.nz](mailto:reports@oag.govt.nz).

## Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our RSS feed, Twitter account, Facebook page, and email subscribers service.

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The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

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