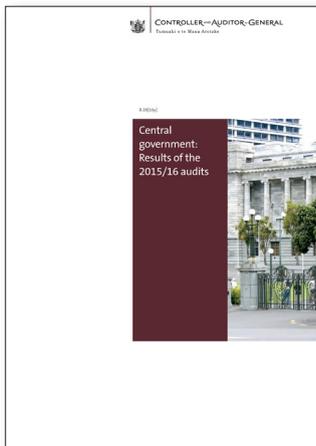




Summary of our report

Central government: Results of the 2015/16 audits



This report discusses the results of the 2016/16 audits of, and the opinion we issued for, the financial statements of the Government.

A seven-year perspective

For this report, we have considered changes and trends affecting the operating environment for central government, the main matters and themes arising from our audits of the Government's financial statements, and trends from our work through the Controller function during Auditor-General Lyn Provost's seven-year term. Some of the recurring matters arising from the audits are the same as this year's key audit matters.

A period of constant change and challenge

The last seven years has been a period of considerable change, resulting from financial legislative reforms, governmental reforms, changes in public sector accounting standards, and the major economic shocks from the global financial crisis and the Canterbury earthquakes from 2010/11 onwards. Some of these factors have significantly affected the Government's resources. The implications of all of these factors have been reflected in the financial statements, with each year presenting new complexities and challenges.

In 2016, the economy had recovered from the major economic shocks of the previous seven years. The Government's balance sheet also shows that its net worth has been restored, increasing slightly since 2010 (from \$94.9 billion to \$95.5 billion), and the financial performance is in surplus.

Key audit matters

For the first time this year, we have reported on "key audit matters" – matters we consider significant in forming our audit opinion. We have voluntarily applied a new requirement under international auditing standard ISA (NZ) 701 to the audit of the Government's financial statements because we consider the introduction of reporting key audit matters to be another step in the evolution of best financial reporting practice. As far as we know, the new form of audit opinion, including key audit matters, is the first of its kind for a sovereign nation.

Vital statistics:

- 56 pages
- Presented to Parliament on 13 December 2016
- Download from www.oag.govt.nz
- Contact: reports@oag.govt.nz

The key audit matters for 2016 are those that are complex, have a high degree of uncertainty, or are otherwise important to the public, such as the cost of rebuilding Canterbury. Accounting for and reporting on the above matters is not straightforward, not least because of the judgements, estimates, and assumptions underpinning the measurement of value.

The key audit matters for 2016 relate to:

- recognition of tax revenue;
- valuing the state highway network, electricity generation assets, and rail network assets;
- valuing the Accident Compensation Corporation's outstanding claims liability and the Government employees' superannuation liability;
- valuing financial assets and liabilities; and
- accounting for the effects of the Canterbury earthquakes.

Overall, we were satisfied that the estimates and judgements were reasonable. We made two recommendations to the Treasury that relate to the key audit matters: to support Inland Revenue on improving the processes for estimating tax revenue receivable at 30 June in each accounting period, and to review the accounting treatment for the freight part of the rail network.

Controller perspective

In 2015/16, there were 12 reported cases of unauthorised expenditure, compared with 19 in 2014/15. The total amount of unauthorised expenditure reported in the financial statements for 2015/16 was \$72.5 million (\$55.8 million in 2014/15). Unauthorised expenditure reported in 2015/16 was 0.08% of the total appropriations for all Votes authorised through the Budget 2015 process (0.07% in 2014/15). We are pleased to note an overall decline in the frequency of unappropriated expenditure during the last seven years, and the low level of unappropriated expenditure relative to the total appropriations.

Financial statements of Government

We issued an unmodified audit opinion on the Government's financial statements. As well as the key audit matters, we reported to the Minister of Finance on three other important audit matters: valuing New Zealand Defence Force assets, valuing housing stock, and accounting for the proposed Crown contribution to the City Rail Link development in Auckland.

We were disappointed to note that the Defence Force did not adequately assess material changes in the fair value of its assets on a timely basis. Without enough assurance on this matter, both the Defence Force and the appointed auditor had to carry out substantial additional work, which led to significant delays. This is unacceptable. We stress that it is important for entities to prepare accounts in a timely manner and to an appropriate level of quality.

The financial statements of the Government are the pinnacle of the public sector's financial reporting. They are something we should take considerable pride in. We encourage the Treasury to continue to innovate in the development of these statements, public entities to commit to quality reporting in a timely manner, and auditors to continue to challenge public entities to continue improving and providing better information to the readers of the financial statements.