Controller and Auditor-General
Tumuaki o te Mana Arotake

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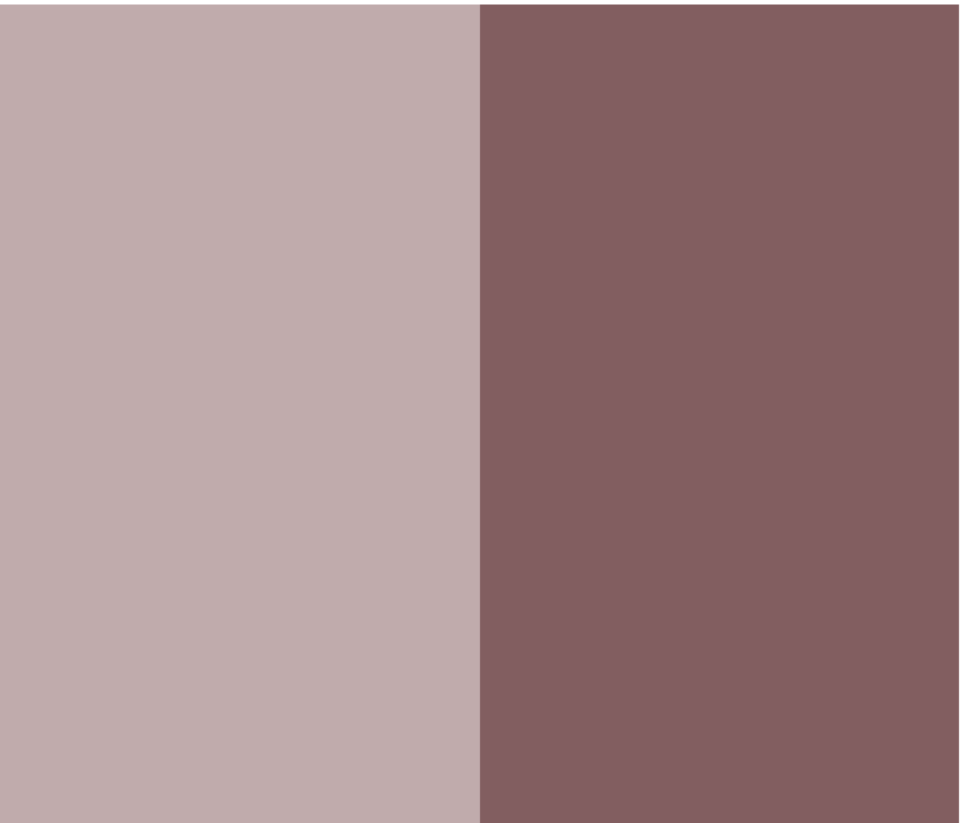
Annual Report 2016/17



Annual Report 2016/17

Presented to the House of Representatives as required by section 37 of the Public Audit Act 2001.

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Contents

About this report

Our annual report informs our stakeholders – Parliament, public entities, and New Zealanders – about our performance for the year 1 July 2016 to 30 June 2017. It has been prepared in accordance with the requirements of the Public Finance Act 1989.

This year, we have made further progress towards our goal of adopting integrated reporting into our planning and reporting processes. This report meets our compliance requirements, and provides greater insight about us, our performance, and our ability to create value over time.

Overview

It has been a year of significant challenges and changes for the Office. It has also been a rewarding year that has seen increasing impact from our work.

Every seven years, the Office transitions from one Auditor-General to their successor. In January this year, former Auditor-General, Lyn Provost, completed her seven-year term. Her outstanding contribution to public sector accountability and transparency, in New Zealand and internationally, was acknowledged in this year's Queen's Birthday honours when she was made a Companion of the New Zealand Order of Merit.

Martin Matthews succeeded Lyn Provost as Auditor-General on 1 February 2017. However, not long into his term, Martin decided to step aside as Auditor-General while a review into his suitability to continue in the role was carried out. This action followed questions raised in Parliament about his former role as Secretary for Transport. Martin later resigned on 2 August 2017.

Despite the challenges that this unprecedented situation has created for the Office, we have continued to deliver high-quality work. Our work can continue because, as Deputy Auditor-General, I have the same powers, duties, and functions as the Auditor-General that are set out in our governing legislation – the Public Audit Act 2001. The Auditor-General's position will remain vacant until Parliament appoints a new Auditor-General.

Influencing our future

A highlight of the year was when staff throughout the Office worked together to help shape *The Auditor-General's strategic intentions to 2025*. This document describes how, during the next eight years, we intend to use our unique perspective and independent voice to influence the changes needed for New Zealand's public sector to operate and be accountable in ways that will meet the needs of Parliament and New Zealanders in the second quarter of the 21st century.

Despite a year of significant challenges and changes, we have seen increasing impact from our work.

Our strategic objectives are:

- **Strengthening the public sector.** We want to use our influence to improve the performance of public entities and the public management system in which they operate.
- **Improving New Zealanders' trust and confidence.** We want to ensure that accountability arrangements work to improve New Zealanders' trust and confidence in the public sector.
- **Leading by example.** We want to be a role model for public sector performance and accountability.

We are currently working on our Strategy 2018-21, which will set out how we intend to contribute to our strategic objectives over the next four years.

Our performance during 2016/17

Despite the challenges facing the Office, we have continued to carry out our core role effectively and, in doing so, have contributed positively to the performance and accountability of the public sector. Parliament and other key stakeholders continue to value the work of the Office, as do the majority of public entities that we audit.

We have published a range of reports on different topics, focused on our work programme themes of *Investment and asset management* (2015/16 theme) and *Information* (2016/17 theme).

We incurred a financial deficit of $2.1 million. A deficit result was planned and is consistent with our use of the memorandum account covering our *Audit and Assurance Services* output class.

Influencing improvement in the public sector

We carefully consider how to deliver the findings from our work in ways that influence improvement in the public sector. For example, we brought together the key messages from our work over five years on Māori education to help effect positive change. We summarised the important lessons and actions from our work on assessing the effectiveness and efficiency of the Canterbury Earthquake Recovery Authority. The lessons were useful for our discussions with those agencies that have responsibility to plan for the next time New Zealand needs to co-ordinate a major recovery effort.

Our reports on reflections from our audits continue to stimulate conversation and action in the public sector. Our April 2016 report, *Reflections from our audits: Governance and accountability*, is still in high demand because of its topical and practical messages. The discussion and debate initiated by our proposal for a *Water*-themed work programme signal a timely topic of keen interest to many New Zealanders.

Through our work, we play an important part in helping the public sector to be transparent and accountable. This year, we completed inquiry work that reinforced the importance of transparency about the use of public resources. It was gratifying to note that Transparency International’s Corruption Perceptions Index recently ranked New Zealand alongside Denmark as the least corrupt countries in the world. However, New Zealand cannot afford to be complacent. We will continue our support to strengthening integrity systems and practices in the public sector.

International influence

Internationally, it was a big year for the Office. We invested significant time and resources into our preparations for leading the Professionalisation theme at the three-yearly Congress of the International Organisation of Supreme Audit Institutions. At the Congress, it was reinforced how highly regarded New Zealand is in the international public sector auditing community.

This year, we chose to assess ourselves against an international framework for public sector auditing, and to publicise the results to show the way for other audit offices. The results of the assessment suggest that we are serving New Zealanders well. We are working on some improvement areas that were identified.

Acknowledgements

Following the Kaikoura earthquake in November 2016, our Wellington office was cordoned off for five weeks as a result of damage to a neighbouring building. Almost 60% of our workforce is based in Wellington. I thank these staff for the resilience and adaptability they displayed as they found ways to continue producing timely, quality work during this period. We were able to continue operating and have learned lessons for the future from this experience.

I am proud of our achievements and how well we have managed the challenges of the year. I am grateful to our senior leadership team for their professionalism and support during what has been an unprecedented year for the Office. I also thank all our people and other audit service providers for their dedication and contribution to the Office's work.

We continue to be well positioned to contribute to a public sector that Parliament and New Zealanders can have trust and confidence in.

Greg Schollum
Deputy Controller and Auditor-General

25 September 2017

1 About us

Who we are

The Office of the Auditor-General of New Zealand.

Our role

The Auditor-General is the auditor of every public sector organisation in New Zealand (about 3700), many of which are funded by rates or taxes. They include, for example, government departments, hospitals, schools, licensing and community trusts, Universities and Polytechnics, the Defence Forces, Air New Zealand Limited, and KiwiRail Limited.

Our purpose

We give Parliament and New Zealanders an independent view about public sector performance and accountability.

Our vision

A high-performing and trusted public sector.

Our strategic intentions

This year, we published a new strategic intentions to guide our work for the next eight years – *The Auditor-General's strategic intentions to 2025*. On pages 22 and 23, we provide an assessment of progress during the year against our previous strategic intentions – *The Auditor-General's strategic intentions 2014/15 to 2017/18*.

Our strategic risks

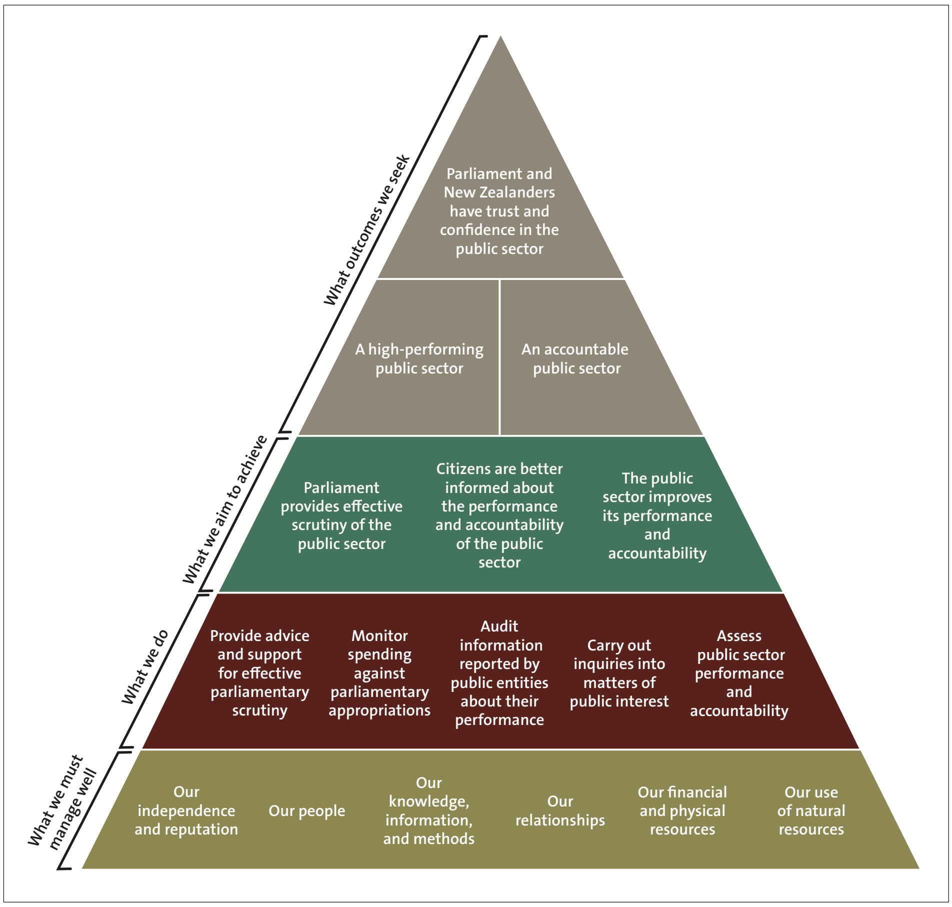
Our strategic risks are:

- loss of independence;
- audit failure;
- loss of capability; and
- loss of reputation.

We manage these risks through the processes that support the work we do. Our Audit and Risk Committee gives further insight and advice to help us identify and manage risk. The Committee's 2016/17 report is available on our website.

Our performance framework

Our performance framework[1] summarises the outcomes we seek, the effects we aim to have, the services we provide, and the resources we must manage well.



1 Revised in June 2017.

2 What we must manage well

Guidance from the International Integrated Reporting Council has helped us to identify six critical resources that we must manage well to be effective and create value.

The six resources are shown at the base of our performance framework on the previous page. Taking a collective view of these resources is helping us to embed integrated thinking and planning in our work. For example, we are working on an organisation development plan that is structured around the six resources. It will identify where we need to improve our systems and capability to support the delivery of our strategic objectives over the next four years.

The six resources that we must manage well are:

1. Our independence and reputation;
2. Our people;
3. Our knowledge, information and methods;
4. Our relationships;
5. Our financial and physical resources; and
6. Our use of natural resources.

We provide below a description of each resource, and how it creates value.

OUR INDEPENDENCE AND REPUTATION

Our independence and strong mandate that underpin all our work and activities.

Our independence is fundamental to everything we do and to our ability to create value over time. The whole point of our governing legislation – the Public Audit Act 2001 – is to provide Parliament with an independent view on how the public sector is operating. Our independence is given statutory recognition and protection under our legislation which is critical to exercising our ongoing role as an Officer of Parliament.

We cannot do our work without being, and being seen to be, independent. Each year, we scrutinise and apply professional judgement to financial audits of the entire public sector – about 3700 public entities – along with numerous performance audits and inquiries, and advice to parliamentary select committees about the Government's proposed spending and audit results.

Our work gives Parliament and New Zealanders an independent view about public sector performance and accountability, and enables Parliament and the New Zealand public to hold public entities to account for their performance.

Our reputation is critical to maintaining Parliament's and the public's trust and confidence in our work. As we cannot enforce our recommendations, our ability to influence is critical. We want our work to be trusted, impartial, and authoritative. To protect the integrity and reputation of the Office, Auditor-General Martin Matthews requested that Parliament review his suitability to continue as Auditor-General. This followed questions about his former role as Secretary for Transport. Martin's subsequent decision to resign helped ensure that Parliament and the public can continue to have trust and confidence in the Office's work.

We make a significant contribution to the international auditing community, particularly to Pacific audit offices. Our strong international reputation was evident when we were asked to lead the Professionalisation theme at the three-yearly meeting of Supreme Audit Institutions held in December 2016.

How we protect our independence and reputation

We identify loss of independence and reputation as two of our more significant strategic risks. We manage these risks through the processes that support our work.

We have high expectations of the independence standards that auditors who work for us must meet. These standards are described in *The Auditor-General's Auditing Standards*. They exceed the minimum independence standards required of auditors operating in the private sector.

All our auditors are expected to have a very good understanding of the requirements and the consequences of not meeting the expected standards. We provide advice, training, and support to help our auditors in maintaining their independence.

Our independence requirements limit the additional work that can be carried out for public entities by auditors who work for us. This eliminates the risk that other work could be seen to compromise the auditor's objectivity and diminish the standing and value of the auditor's report.

We have a range of systems and processes in place to identify and mitigate risks to our independence and reputation. Formal declarations of our independence are required for every audit or assurance engagement we carry out. We regularly report on independence situations and their resolution, and we have monitoring systems to ensure that staff with independence conflicts are not involved in those public entities. The effective relationships we have with public entities and select committees help us to manage reputational risks.

Our senior leadership team regularly discusses and reviews the effect of our work on the public sector and on our reputation. Effective working relationships with all contracted auditors who work for the Auditor-General help to ensure that any potentially difficult independence situations are communicated and resolved before they become a problem.

OUR PEOPLE

Our skills, competence, and engagement that enable us to deliver high-quality work.

Our people are the most important resource we have. Their experience, knowledge, skills, and commitment are vital to our work and our ability to deliver on our strategic intentions. It is essential that we attract, develop, and retain talented staff.

As at 30 June 2017, we employed 364 people from diverse backgrounds and experiences in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand – supported by a team of shared corporate services staff. We also contract auditors from about 50 private sector accounting firms to carry out annual audits on behalf of the Auditor-General.

We invest in the systems, tools, and equipment that our people need to continue to do their jobs safely and easily. We promote an organisational culture based on trust, respect, inclusiveness, and valuing each person's contribution. We consider this to be fundamental to active engagement, motivation, retaining our people, and enabling them do their best work. We also monitor remuneration changes in comparable roles, so we can be confident that we are paying our people fairly.

The principles and practice of equal employment opportunities are embedded in our human resources policies. We have continued to give effect to those principles during the year. Our website has more detailed information about our staff profile (see oag.govt.nz/our-people/staff-profile).

We are placing more emphasis on regularly monitoring our culture and the engagement of our people, and responding to their feedback to strengthen our organisational culture. This year, we identified a new employee culture and engagement tool to be implemented in 2017/18. We support our staff with flexible working arrangements, and we are actively considering how to provide more flexible ways of working. In keeping with our strategic intentions, we will prioritise developing our people's leadership skills and understanding of the Office's purpose and values.

We are recognised as an Approved Training Employer by Chartered Accountants Australia and New Zealand. We provide practical experience and support for about 32 new graduates each year as they work and study to become chartered accountants.

We encourage and support learning and development through on-the-job learning and formal training. Some of our people have been seconded internally, externally, and internationally. We also have staff who have been seconded to us from outside the Office to exchange skills and knowledge.

We continue to identify priorities for developing the skills and capability of our people to achieve our strategic objectives and strongly position ourselves to meet future challenges and changes in auditing.

OUR KNOWLEDGE, INFORMATION, AND METHODS

Our collective knowledge and expertise about the public sector.

Our mandate and independence give us access to a wealth of information, which we read, analyse, and collect as we carry out audits and our other work. This information, the knowledge we gain from it, and the methods we use to store, analyse, and share it are vital to our role and our ability to create value and insight.

We take our responsibilities for protecting and managing that information seriously. Our business processes protect access to the information we gather and help us to actively monitor and manage any risks to our independence.

Our people and their skills and experience – alongside professional standards – help to identify the right information to be gathered. Our methods help to protect the quality of what we collect, and we invest in systems that make the information available in formats that support useful analysis. The unique view we have of the entire public sector and our professional judgement enable us to draw insights that can help to improve the performance of the public sector. We also contribute internationally – our approaches are often held up as examples for others to follow, and other audit offices from around the world come to learn from us. For example, this year we shared information and advice with seven visiting delegations. We were also asked to contribute to the international peer review team tasked with review of the United States Government Accountability Office.

The quality of the relationships we have with others and the ways we communicate help us to use our knowledge to best effect – influencing others to make the improvements that our work has identified as necessary.

We are working on an organisation development plan to make sure that we continue to improve our systems and increase our organisational capability.

Doing so is essential to making full use of the wealth of information we have access to. We are also exploring ways to make our information more accessible and questioning how fit-for-purpose our reporting practices will be for the next generation of New Zealanders.

We know that there are risks to our systems so we take active steps to mitigate them, including keeping our disaster recovery and business continuity plans tested and up to date. There are also risks to our capacity and methods – as well as quality assurance reviews, we are actively considering how fit-for-purpose our approaches and practices will be as we move into the next quarter of the 21st century.

OUR RELATIONSHIPS

Our mutually productive and respectful relationships with all our stakeholders.

Effective working relationships with our many stakeholders are essential to our work and our ability to create value. Our most important external relationships are with Parliament, the organisations that we audit, and other audit institutions around the world (particularly in the Pacific).

As an independent Officer of Parliament, the Office cannot operate without the trust and confidence of Parliament.

Our people advise Parliamentary select committees in support of their work to hold the public sector to account. We help the committees to scrutinise the performance of public organisations on behalf of Parliament. We work hard to support Parliament while maintaining our independence from the Government and the organisations that we audit.

Our relationships with the public entities that we audit support the flow of information, intelligence, and reports that collectively improve efficiencies and, through our recommendations, the delivery of services to New Zealanders.

Good relationships are particularly important when we raise adverse audit findings or discuss complex and technical accounting issues with the public entities we are auditing. Such issues will often not be clear-cut; they can demand much discussion and usually require careful judgement. Although organisations may not always agree with our findings and recommendations, a respectful and trusting relationship helps support this part of the audit process.

Our relationships with other stakeholders also serve to strengthen public sector accountability and promote good governance. For example, we share our skills, information, and advice with other audit organisations throughout the world, particularly in the Pacific. We work with other integrity and accountability agencies – for example Transparency International New Zealand – to influence transparency and accountability in the public sector.

How we invest in maintaining effective relationships

We regularly check – formally and informally – that our stakeholders are satisfied with the relationships they have with us.

One of the challenges to maintaining effective relationships is the pace and scale of change in the public sector. High staff turnover, large-scale organisational transformation programmes, and increasingly complex institutional arrangements all require effort to ensure that our staff are engaging with the right people at the right time. We actively monitor risk across all the organisations we audit.

The challenges also provide opportunities for us to work in new ways with others. We want to make better use of our oversight of the entire public sector so that we can take more of an active "thought leadership" role and to collaborate with others to discuss ways to improve New Zealand's public management and accountability system.

Our people are at the heart of our effective relationships. We will use our organisation development plan to ensure that our people have the skills, resources, and systems necessary to make the most of the relationships that we have with our key stakeholders.

OUR FINANCIAL AND PHYSICAL RESOURCES

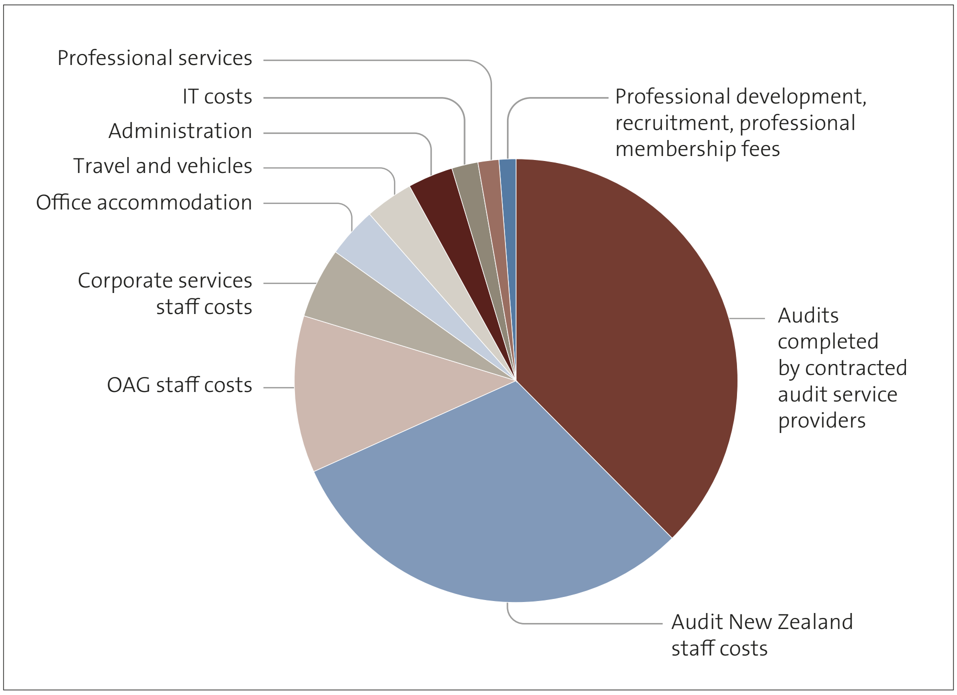
Our use of financial and physical resources to support our work.

The financial and physical resources we use are essential to our work.

Operating costs

Most of our costs are staff-related. Other costs include office accommodation, costs of providing information technology systems, and travel for auditors to work at the premises of the organisations they are auditing.

How our operating funding was spent in 2016/17



Physical assets and software

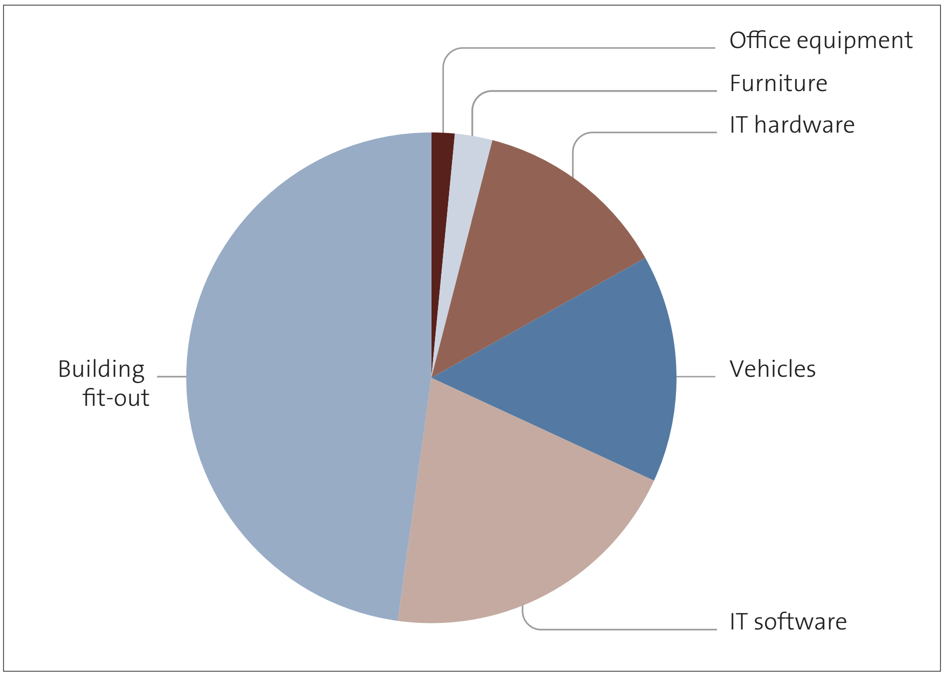
We cannot deliver value without investing in the assets that support our work.

Building fit-out across our seven offices is our largest physical asset.

We maintain and develop our information technology hardware and software, and maintain vehicles because our staff travel for their work.

Our capital expenditure programme is funded through depreciation and amortisation of existing assets. This funding allows for replacement of our assets, but does not always allow for investing in new technology to improve our systems. We may need extra funds for this in coming years.

Breakdown of our physical and intangible assets at 30 June 2017



How we are funded

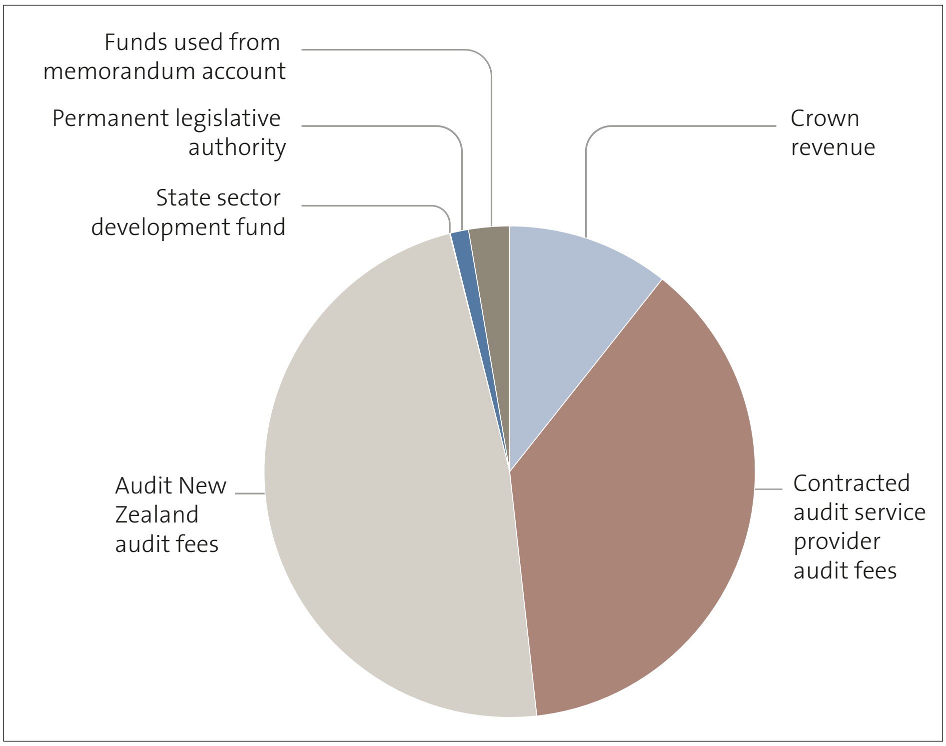
Audit New Zealand and our contracted audit service providers charge fees for the audits they carry out for the Auditor-General. A proportion of those fees are passed on to the OAG, and that money helps to cover the OAG's operating costs.

Audit New Zealand is funded by the audit fees charged to entities, which are set at a reasonable level for the audit work completed. Revenue from audit fees varies from year to year, based on the extent of audit work carried out. In some years we generate a surplus, and in other years a loss. To manage these ebbs and flows, we use a memorandum account. We put surpluses into that account so we can draw on the funds when we make a loss – this helps us to operate sustainably.

We have had the memorandum account since 2013, and 2016/17 was the first year we used funds from the memorandum account to meet our costs.

The money we use to fund performance audits, inquiries, and support to Parliament comes from Parliament (the appropriation is called *Statutory Auditor Function*). A separate source of funding from Parliament (the appropriation is called *Audit and Assurance Services*) covers part of the cost of audits of smaller entities, such as cemeteries and reserve boards. The funding from both appropriations makes up Crown revenue in the following chart.

How our operating costs were funded for 2016/17



Longer-term planning and managing risks

Every three years, we audit the long-term plans of local authorities – which means additional audit fee income every third year. This is the main cause of the surplus and deficit cycle that our memorandum account helps us to manage.

To stay on top of the fluctuations, we regularly update our five-year forecasts for expected fees, costs, and the memorandum account balance. We also keep a close eye on our financial risks.

There are risks in securing adequate audit fees to fund our operations, and risks to the affordability of having adequate numbers of competent audit staff who can complete our audits to the required standards.

We manage these risks through prudent financial management, monitoring audit fees to ensure fairness to public entities and to auditors, and ongoing work to improve the efficiency of our systems and processes.

Risks to our cash position arise from our reliance on timely invoicing and collection of audit fees, and are managed through monitoring and follow-up of audit contracts and invoicing.

OUR USE OF NATURAL RESOURCES

Our use of natural resources and managing the environmental impact of our activities.

Our environmental impact arises mainly from carrying out our business and in auditing organisations throughout New Zealand.

Our main environmental impact is from greenhouse gas emissions generated by the air travel and vehicle travel required to do our work.

Despite technology advances, most auditing work must be done on site so that our auditors have direct access to records and people. This means unavoidable travel. Our other work also requires travel – for example, our involvement with international auditing organisations.

We use energy, paper, and water in our buildings and we generate waste. We are a tenant in seven buildings. Practices for energy efficiency, paper consumption, and waste management differ depending on the age of the building, how recently it was refitted, and the practices of our landlords. We are investing in technology and practices such as enhancing our video-conferencing facilities to better manage costs and resources. We want to reduce our environmental impact, and we would like to do more.

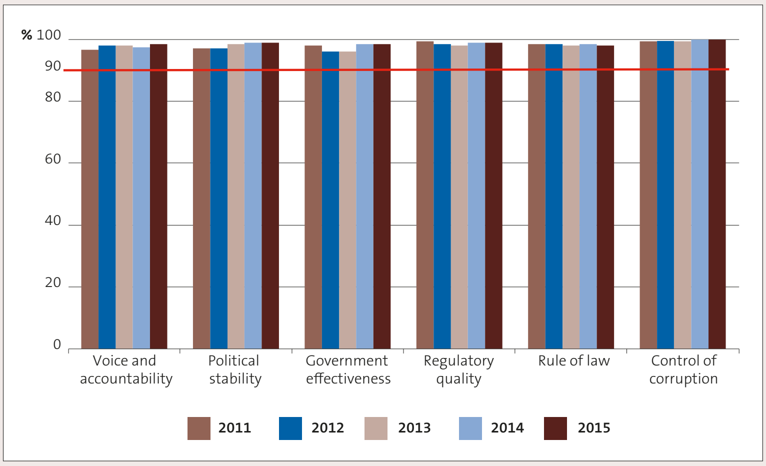
We intend to explore other opportunities to work in a more environmentally responsible manner and be more efficient. We intend to assess our current policies and practices (including our procurement policies) and prepare a framework for measuring and reporting our effect on the environment. We will then consider options for reducing our environmental impact. Over time, we plan to consider the environmental implications of the work locations of the auditors we appoint and how we could further improve our recruitment, travel, and vehicle policies.

3 Progress against our outcomes and strategic intentions

The outcomes we seek to influence are:

1. Parliament and New Zealanders have trust and confidence in the public sector;
2. An accountable public sector; and
3. A high-performing public sector.

In 2016/17, we mostly maintained or improved the outcomes that we seek to influence.

Outcome 1: Parliament and New Zealanders have trust and confidence in the public sector	
Measure	**New Zealand's ranking at or above the 90th percentile of the Worldwide Governance Indicators is improved (or at least maintained).***
Result	Achieved when last assessed in 2015.
Comment	Results for the Worldwide Governance Indicators are usually published every September for the previous calendar year. The 2016 results were not available at the time of drafting this report.
	New Zealand's ranking in the Worldwide Governance Indicators, 2011 to 2015 

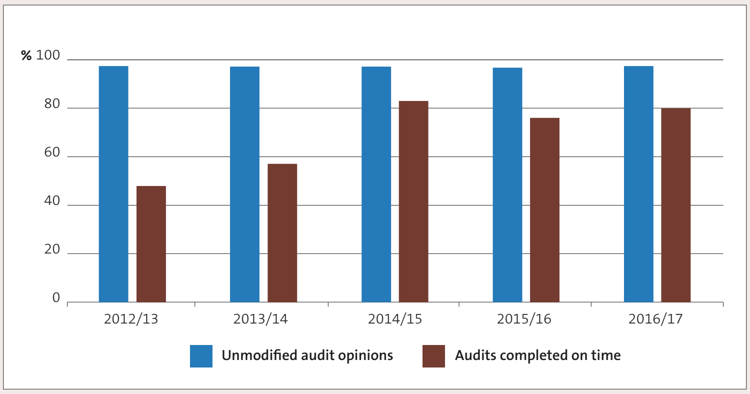
* See the World Bank website, http://info.worldbank.org/governance/wgi/.

Measure	**The State Services Commission's Kiwis Count Survey** shows improved (or at least maintained) rates of:** • perception of trust in public services; and • trust based on the most recent experience with public services.
Result	Achieved for perception of trust. Not achieved for experience of trust.
Comment	The Kiwis Count Survey measures New Zealanders' trust in public services in two ways: by trust in the public service brand (perception) and by experience. Respondents rate their perception of trust in the public service brand and their trust based on their most recent public service experience. Results for the Kiwis Count Survey are now reported on a calendar year basis. They were previously reported on a financial year basis. All results for 2012-2015 have been recalculated, and some results are now slightly different to those previously published. We have aligned our reporting of Kiwis Count Survey results with the recalculated results. This means that some of the results we report this year are slightly different to results we have previously published. New Zealanders' levels of trust in the public service brand (perception) has increased to 45% (2015: 44%, 2014: 45%). Since 2012, perception of trust results have varied between 41% and 45%. New Zealanders' levels of trust in public services based on experience decreased to 79% in 2016 (2015: 81%, 2014: 78%). Since 2012, trust based on experience results have varied between 75% and 81%.

** For survey results, contact the State Services Commission, www.ssc.govt.nz.

Measure	**New Zealand's score on the Transparency International Corruption Perceptions Index*** is improved (or at least maintained)**
Result	Achieved.
Comment	In 2016, New Zealand scored 9.0 out of 10 in the Transparency International Corruption Perceptions Index to rank first equal with Denmark of the 176 countries surveyed. This was an increase from 8.8 in 2015 when New Zealand's ranking dropped from second to fourth least-corrupt country of those countries surveyed. From 2010 to 2014, New Zealand's score was consistently between 9.0 and 9.5.

*** See the Transparency International website, https://www.transparency.org/news/feature/corruption_perceptions_index_2016.

Outcome 2: An accountable public sector	
Measure	**Public sector behaviour is more responsible in the area of accountability for public resources.**
Result	Achieved, based on our assessment of results for our indicators.
Comment	Holding public entities accountable for their use of public resources is a fundamental part of our work. Indicators of responsible behaviour in relation to accountability for public resources include timely and reliable information, sound management, and good governance. Each year, we examine trends for these aspects of public sector behaviour to assess an overall outcome for this measure. Overall, we consider that the results for these indicators show that public sector behaviour in the area of accountability for public resources is improving. We use audits completed on time as a proxy for the timeliness of public entities in completing their financial and performance information within statutory time frames, and we use our issue of unmodified audit opinions as an indicator of the reliability of that information. This year, 80% of public entities' audit reports were signed within the statutory time frame, compared with 76% in 2015/16. We currently collect data about the timeliness of public release of annual reports only for local authorities. For 2015/16, 95% of local authority annual reports were publicly available on time (96% for 2014/15). The percentage of unmodified audit opinions remains relatively steady. This year, 97.5% of our audit opinions were unmodified, compared with 96.7% in 2015/16 and 97.3% in 2014/15. **Percentage of unmodified audit opinions and audits completed on time, 2012/13 to 2016/17** 

Results for the central government sector (excluding schools) show an improving picture for management control environment, financial information systems and controls, and service performance information and associated systems and controls.

Ratings for central government entities, 2012/13 to 2015/16				
	2012/13	2013/14	2014/15	2015/16
Management control environment				
Very good	62%	59%	62%	63%
Good	32%	34%	32%	32%
Needs improvement	6%	7%	6%	5%
Financial information systems and controls				
Very good	52%	48%	53%	54%
Good	45%	43%	42%	42%
Needs improvement	3%	9%	5%	4%
Service performance information and associated systems and controls				
Very good	8%	9%	8%	16%
Good	74%	73%	79%	78%
Needs improvement	18%	18%	13%	6%

In 2014/15, we reported information from the three-yearly Integrity and Conduct Survey carried out by the State Services Commission (SSC) as indicators for our outcome about public sector behaviour and accountability for public resources. The SSC has not since conducted the three-yearly Integrity and Conduct Surveys, and we have not found an alternative indicator for this outcome. We understand that the SSC is working on a new approach to gathering information about integrity and conduct in the public sector. We intend to report the relevant aspects of this information when it is available.

Outcome 3: A 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.**
Result	Not achieved
Comment	The overall service quality score for 2016 is 74, a one-point decrease from 75 in 2015. Overall, service quality scores have fluctuated between 72 and 75 since 2012.

Progress against our strategic intentions

The Auditor-General's strategic intentions 2014/15 to 2017/18 was developed to guide and focus our work from 2014/15 to 2017/18. Overall, we have continued to make good progress against our four strategic goals:

1. contributing to a stronger public sector;
2. leading by example as a model organisation;
3. demonstrating our relevance to citizens and other stakeholders; and
4. positioning our Office for the future.

We have implemented projects and activities that have had long-term effects on strengthening the public sector and our own practices, lifted our citizen focus, and prepared us for the future.

We have used our unique position as the auditor of the entire public sector to help improve public sector performance and promote transparency and accountability by public entities. Specific measures and performance targets for aspects of our strategic intentions are reflected in the measures for our outcomes on pages 18-21.

We are providing greater insight and value from our audits to help improve public sector performance. For example, we brought together our insights and observations from our multi-year work on Māori education and the Canterbury Earthquake Recovery Authority to help effect change. Our reflections reports, which bring together all the lessons from each year's themed work programme, continue to be in high demand.

We have gained momentum in helping to improve Parliament's scrutiny of public sector performance through our joint project with Parliamentary staff. We now brief select committees in a more timely way about our findings and matters that need attention.

We made good progress on our "model organisation" strategic goal. To show the way for other audit offices around the world, we chose to pioneer the application of an international self-assessment framework and publicly release the results. Our project management and reporting disciplines are improving. For example, timeliness of completing the projects in our work programme is improving, but is still well under target.

Our work to connect more with citizens has progressed. For example, we prepared a video about our work on mental health that was popular on social media channels and effective in reaching more citizens. And our calls on social media for people to comment on our draft annual plan were widely shared – people were supportive of our proposed *Water* theme.

Our work under the "positioning our Office for the future" strategic goal has seen a significant upgrade of our financial management system. Our international recruitment activities are helping us to meet our workforce needs now and in the future. To support our ongoing discussions about the future of auditing, we commissioned independent academic research on the value of public audit. The research findings have provided helpful context as we examine likely changes in public sector auditing. We have continued to encourage and promote financial sustainability and integrated reporting in the public sector.

4 Reporting against appropriations

In this Part, we report on the services that we were funded to deliver in 2016/17 and how well we delivered those services.

Reporting against appropriations

The Office is funded through Vote Audit, which has five appropriations:

1. *Audit and Assurance Services RDA* (revenue-dependent appropriation);
2. *Audit and Assurance Services* (related to audits of small entities funded by the Crown);
3. *Statutory Auditor Function MCA* (multi-category appropriation, which covers Performance Audits and Inquiries and Supporting Accountability to Parliament);
4. *Remuneration of Auditor-General and Deputy Auditor-General PLA* (permanent legislative authority); and
5. *Controller and Auditor-General – Capital Expenditure PLA*.

In the pages that follow, we set out (where relevant) for each appropriation:

- the scope and what is intended to be achieved;
- an assessment of our performance, standards, and results;
- an explanation of our performance; and
- our financial performance.

Appropriation: *Audit and Assurance Services RDA*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to audit and related assurance services as authorised by statute. It is intended to provide for audit services to all public entities (except smaller public entities, such as cemetery trusts and reserve boards) and other audit-related assurance services.

Assessment of our performance, standards, and results

2016/17 results and previous performance for Audit and Assurance Services RDA			
Measure	**Performance standard**	**2016/17 result**	**2015/16 result**
Key recommendations our auditors include in management reports are accepted and acted on.	At least 70%	Achieved* 82%	Achieved 82%
Public entities' audited reports are signed by the statutory time frame.	At least 75%	Achieved 80%	Achieved 76%
Audit reports not signed by the statutory time frame are because of inaction on our part.	Less than 30%	Achieved 14%	Achieved 7%
Management reports are issued within six weeks of issuing the audit report.	100%	Not achieved 96%	Not achieved 96%
Long-term plan (LTP) audit opinions are signed by 30 June (unless held up by the local authority).	100%	Not assessed, as not an LTP year	Not assessed, as not an LTP year
Long-term plan (LTP) management reports are issued within six weeks of issuing the LTP audit opinion.	100%	Not assessed, as not an LTP year	Not assessed, as not an LTP year
Annual independent review confirms the probity and objectivity of the methods and processes we use to allocate and tender audits, and monitor the reasonableness of audit fees.	Confirmation by annual independent review	Achieved Confirmed by independent review	Achieved Confirmed by independent review
Percentage of respondents from our satisfaction survey of public entities who are satisfied with their audit (including the expertise of audit staff and the public entity's relationship with those staff).	At least 85%	Not achieved** 76%	Not achieved 84%

Appointed auditors who have a quality assurance grade of at least "satisfactory", based on our most recent quality assurance review.	100%	Not achieved 97%	Not achieved 97%

* For the year ended 30 June 2017, we assessed a sample of 45 entities against this measure. For the year ended 30 June 2016, we also assessed a sample of 45 entities against this measure.

** We provide more explanation about our client survey results on page 29.

Explanation of our performance

We explain below the 2016/17 results for *Audit and Assurance Services RDA*.

Annual audits

Our job is to independently audit and report on how public entities are performing and reporting that performance, individually and collectively. We apply independent scrutiny and professional judgement to financial audits of all public entities[2] that are required, or choose, to prepare general purpose financial reports – from large government departments and district health boards to every state school and local authority. In 2016/17, our annual audits and other assurance services accounted for 88% of our total expenditure.

We use information about public entities gathered from our annual audits to help us advise Parliament and others, and to assist our other work. For Parliament and New Zealanders to have trust and confidence in the public sector, public entities must fairly report their performance and respond to audit recommendations to improve their systems and controls. They must also prepare their reports within statutory time frames. Reliable and timely information is an important indicator of a high-performing and accountable public sector.

In 2016/17, we achieved our target of at least 75% of our audit reports being signed within the statutory time frame. The reporting obligations were met on time by 80% of public entities. The 20% that did not were mostly subsidiaries of public entities, or small public entities such as schools and cemetery trusts. Schools transitioning to new accounting standards have also contributed to delays.

Our target for audit reports not signed within the statutory time frame due to our inaction is 30% or less. This year, we met our target, with 14% of the audit reports not signed within the statutory time frame being due to our inaction, compared with 7% in 2015/16. Capacity issues for some of our auditors contributed to the 7% difference between this year and 2015/16.

2 In accordance with section 19 of the Public Audit Act 2001, we also audit some organisations that are not public entities. See Appendix 1.

We have a statutory duty to issue audit reports on local authorities' long-term plans (LTPs), which are prepared every three years. We last audited LTPs in 2014/15, and will carry out the next LTP audits in 2017/18.

We measure the timeliness of our auditors' feedback on the final phase of the long-term planning process. After we adopted this measure in 2014/15, the Local Government Act 2002 was amended to include changed requirements for preparing LTPs. The changes shifted the focus on to consultation documents. Our measure will be reviewed to focus on the audit of the consultation documents and preparation of information to support the LTPs in time for the next round of LTP reporting.

Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors from Audit New Zealand and private sector accounting firms to carry out the annual audits of public entities. When appointing these auditors, the Auditor-General follows principles that are designed to ensure that auditors are independent, audits are of a high quality, and audit fees are reasonable. We continually monitor the allocation of audits to Audit New Zealand and private sector accounting firms to ensure that these principles are followed.

Each year, an independent reviewer examines the probity and objectivity of the methods and systems that we use to allocate and/or tender audits, and to monitor the reasonableness of audit fees. This year's independent review confirmed the probity and objectivity of those methods and systems. Appendix 2 contains the review report.

We regularly monitor audit fees to ensure that they are fair to public entities and provide a fair return to auditors for the work required to meet *The Auditor-General's Auditing Standards*. In 2016/17, fees were increased for various reasons. These were:

- changes in the scale of operations of some entities;
- the variable quality of the financial statements and performance information prepared by some entities;
- small changes in auditor charge-out rates (the average hourly cost of carrying out audits); and
- in the case of local authorities, the changed reporting requirements resulting from changes to the Local Government Act 2002, and financial prudence regulations.

Movements in audit fees from 2014/15 to 2016/17 are summarised in the table below. These are based on the audit fees that had been agreed at the time our analysis was prepared. The table shows how changes in the time spent on audits and the average hourly cost of carrying out audits have affected fees. The minor decrease for schools reflects the small reduction in audit work following the transition to new accounting standards in 2015/16. Additional local government audit fees reflect the effect of changes to the Local Government Act and additional financial prudence disclosures. Following changes also to the Education Act 1989 and the Companies Act 1993, some subsidiary entities are now required to report only as part of their group, rather than separately. This has resulted in some reduction in audit fees for "groups".

The figures in the table exclude additional audit fees negotiated with public entities as a result of unforeseen problems arising after audit fees were agreed. These are usually the exception, and each case is considered on its merits.

Changes in audit fees, 2014/15 to 2016/17

	2015/16 to 2016/17				2014/15 to 2015/16			
Sector	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities*	Increase in total fee	Because of changes in time	Because of changes in charge-out rate	Number of entities
	%	%	%		%	%	%	
Central government	1.5	0.4	1.1	364	3.6	3.3	0.3	358
Local government	5.1	6.5	(1.4)	387	2.0	(0.1)	2.1	443
Schools	(0.4)	(1.6)	1.2	2413	11.0	11.2	(0.2)	2401
Total	**2.3**	**1.9**	**0.4**	**3164**	**4.3**	**3.5**	**0.8**	**3202**

* The number of entities are all those entities where audit fees were agreed at the time the analysis was prepared. This number differs from the total number of public sector entities referred to on page 8.

Maintaining auditors' independence

Maintaining our independence is fundamental to our work. The Auditor-General's staff (including Audit New Zealand) and appointed auditors and their staff from private sector accounting firms must meet the high standards of independence required under *The Auditor-General's Auditing Standards*. The Office has processes to monitor compliance with the Auditor-General's independence requirements. We discuss our independence standards and processes more on pages 8-10.

Publishing *The Auditor-General's Auditing Standards*

The Public Audit Act 2001 requires the Auditor-General to publish their auditing standards in a report to the House of Representatives at least once every three years. The Act also requires that each annual report include a description of any significant changes to those standards. *The Auditor-General's Auditing Standards*

2017 were published in March 2017 and are available on our website. No changes have been made to the standards since they were published in March 2017.

Carrying out quality assurance reviews

We carry out quality assurance reviews of all appointed auditors to ensure that they have complied with *The Auditor-General's Auditing Standards*. During a three-year period, we review the quality of the work of all our appointed auditors. As a result, every appointed auditor is reviewed at least once every three years. We expect all our auditors to achieve at least a "satisfactory" grade. This year, 97% of our auditors met this target. The 3% who did not achieve a "satisfactory" grade were auditors of schools from small audit firms. A follow-up review of auditors who do not achieve a "satisfactory" grade is carried out in the year after their review, and where necessary, changes to auditors' portfolios are made.

Public entities' satisfaction with our auditing services

Each year, we survey public entities to assess their satisfaction with the services our auditors provide. We expect at least 85% of the entities we survey to be satisfied with their audit and the expertise of our auditors.

This year, we did not achieve our target. Only 76% of those surveyed confirmed that they were satisfied with the services our auditors provide compared with 84% in 2015/16. We expected some lowering of the satisfaction rating because we changed our survey method this year from telephone to online. We intend to follow up with those entities that indicated they were not satisfied with their audit service to ensure that we understand where we need to make improvements to our auditing services.

Financial performance for *Audit and Assurance Services RDA*					
	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Income from third parties	76,433	78,335	75,295	75,774	83,162
Expenditure	(76,433)	(77,436)	(75,295)	(75,774)	(83,162)
Surplus**	-	**899**	-	-	-

* All Estimates information is unaudited.

** Note 15 in the notes to the financial statements provides more information about transfer of surpluses and deficits to and from the Office's memorandum account.

Audit and Assurance Services RDA revenue was $0.7 million higher than the supplementary estimates, due to higher estimated value of work to date on audits that were under way at 30 June 2017.

Costs recognised against the revenue-dependent appropriation are capped at the total revenue for the year. The remainder of the costs relating to these outputs are funded from prior year surpluses that were held in a memorandum account. These costs are reported in the *Audit and Assurance Services* appropriation, below.

Appropriation: *Audit and Assurance Services*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. It is intended to provide for audit and related assurance services of smaller entities, such as cemetery trusts and reserve boards funded by the Crown. This appropriation also provides for when costs exceed revenue under the *Audit and Assurance Services RDA*. These deficits are funded by prior year surpluses from this output class, which are held in the Office's memorandum account.

Our performance

We have no specific performance measures relating to this appropriation. However, performance for this appropriation can be inferred through the performance measures for *Audit and Assurance Services RDA*.

Financial performance for *Audit and Assurance Services*

	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Income	150	150	150	150	150
Expenditure	(2,482)	(150)	(1,800)	(3,192)	(150)
(Deficit)**	**(2,332)**	**-**	**(1,650)**	**(3,042)**	**-**

* All Estimates information is unaudited.

** Note 15 in the notes to the financial statements provides more information about transfer of surpluses and deficits to and from the Office's memorandum account.

The deficit in this output class represents the use of prior year surpluses from the *Audit and Assurance RDA*. These costs are funded from the Office's memorandum account, enabling management of audit costs and revenue over multiple years.

The expenditure budget for this output class was increased between the main and supplementary estimates, as a result of changes in forecast of costs to deliver audit work. Actual expenditure was lower than the supplementary estimates appropriation by $0.7 million, because the supplementary estimates includes a buffer of $0.5 million for using additional funds from the memorandum account should this be necessary due to fluctuations in revenue or expense.

Appropriation: *Statutory Auditor Function MCA*

Purpose of the appropriation

The overarching purpose of this appropriation is to support Parliament in ensuring accountability for the use of public resources.

Scope of the appropriation and what is intended to be achieved

Performance Audits and Inquiries

This category 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.

This category is intended to provide Parliament with assurance about how well public entities use resources and manage a range of matters and programmes. We make recommendations where we consider that improvements can be made.

Supporting Accountability to Parliament

This category is limited to reporting to Parliament and others as appropriate on matters arising from audits and inquiries, reporting to and advising select committees, and advising other agencies in New Zealand and abroad to support Parliament and governing bodies in holding their executives to account for the use of public resources.

This category is intended to provide advice and assistance to Parliament and our other stakeholders to assist them in their work to improve the performance and accountability of public entities. Our Controller function provides independent assurance to Parliament that public money has been spent appropriately and lawfully.

Assessment of our performance, standards, and results

2016/17 results and previous performance for *Statutory Auditor Function MCA*			
Statutory Auditor Function			
Measure	**Performance standard**	**2016/17 result**	**2015/16 result**
Quality standards are consistently met: stakeholders surveyed who confirm the relevance of our work to users, and reports independently reviewed that are assessed of high quality.	At least 85% for stakeholders and 100% for reports	Achieved 92% for stakeholders when last assessed* 100% for reports	Achieved 92% for stakeholders 100% for reports
Process standards are consistently met: external review and internal quality assurance review confirm our performance audit process standards are consistently complied with and our policies and procedures for statutory auditor functions meet relevant standards.	Confirmation by external and internal review	Achieved Confirmed by external review Confirmed by internal review**	Achieved Confirmed by external review Confirmed by internal review

Performance Audits and Inquiries			
Measure	**Performance standard**	**2016/17 result**	**2015/16 result**
Entities accept the key recommendations made in our reports, and the recommendations influence improvement.	As assessed in follow up reports	Achieved for performance audits Achieved for inquiries	Achieved for performance audits Achieved for inquiries when last assessed in 2013/14
Findings on inquiries reported to the relevant parties within three months for routine inquiries, six months for significant inquiries, and 12 months for major inquiries.	At least 80%	Not achieved for routine inquiries 76% Not achieved for significant inquiries 50%*** Not achieved for major inquiries 0%	Achieved for routine inquiries 86% Not achieved for significant inquiries 60% Not achieved for major inquiries 0%****
Local Authorities (Members' Interests) Act 1968 (LAMIA) matters that are completed within 30 working days.	At least 80%	Achieved 88%	Achieved 85%

* Our most recent stakeholder survey was carried out in 2016. We have changed the frequency of our stakeholder surveys to every two years. Our next stakeholder survey will be carried out in 2018.

** The internal review found that, overall, our performance audit processes met the required standards. For detailed results, see the report on our website http://www.oag.govt.nz/2016/sai-pmf/detailed-assessment. A follow-up internal review is planned in 2017/18.

*** We worked on two significant inquiries. One was completed within our six-month time frame.

**** One major inquiry (Massey North town centre development) was due to be completed in 2015/16. We did not meet our timeliness target for this inquiry.

Supporting Accountability to Parliament			
Measure	**Performance standard**	**2016/17 result**	**2015/16 result**
Stakeholders we survey who confirm that our advice assists them.	At least 85%	Not achieved when last assessed* 83%	Not achieved 83%
Select committees and other stakeholders are satisfied with the proposed work programme (as indicated by feedback on our draft annual work programme).	Stakeholders are satisfied	Achieved Stakeholders satisfied	Achieved Stakeholders satisfied
Projects in the programme of work under this output class that are delivered within their planned time frames.	At least 75%	Not achieved** 39%	Not achieved 32%
Briefings given to select committees at least two days before an examination, unless otherwise agreed.	100%	Not achieved*** 98.5%	Achieved 100%
Controller function: 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.	All procedures are followed and agreed time frames met	Achieved All procedures followed and agreed time frames met	Achieved All procedures followed and agreed time frames met

* We have changed the frequency of our stakeholder surveys to every two years. Our next stakeholder survey will be carried out in 2018.

** 39% of projects (7 out of 18) were delivered within their planned time frames. We comment on the timeliness of completing the projects in our work programme on page 35.

*** Of the 141 briefings prepared, 2 were late. These briefings were due the day after the Kaikoura earthquake on 14 November 2016 when we were not able to access our Office.

Explanation of our performance

We explain below the 2016/17 results for *Statutory Auditor Function MCA*.

Statutory Auditor Function

Overall, we are satisfied that in 2016/17 we met our quality and process-related targets for our work to support Parliament in ensuring accountability for the use of public resources. For example, an independent assessment of two of our reports concluded that they were of high quality. 92% of respondents in our most recent stakeholder confirmed the relevance and usefulness of our work.

The Australian National Audit Office's review of our compliance with our performance audit standards and methodology found that the two performance audit reports reviewed were supported by sufficient and appropriate audit evidence, and in the most part met the Auditor-General's Auditing Standard 5 and applicable Performance Audit Manual policies.

Performance Audits and Inquiries

Our core business is carrying out annual audits. Alongside annual audits, the Public Audit Act 2001 allows the Auditor-General to carry out performance audits, to inquire into how a public entity uses resources, and to study other matters affecting the public sector.

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

Performance audits

Performance audits are comprehensive examinations of effectiveness and efficiency that the Auditor-General chooses to carry out. We plan our work programme carefully to provide Parliament with assurance about how well public entities manage a range of matters and programmes, making recommendations where we consider that improvements can be made.

We bring together matters arising from our annual audits in our sector reports and carry out other studies that result in a range of published reports and information on topical matters affecting public sector accountability and performance.

In 2016/17, we completed reports on a range of matters. Appendix 3 lists these reports, which are available on our website.

Our reports often highlight complexities to be managed and factors that support good decision-making. Where appropriate, we make recommendations for improvement. Each year, we assess the progress public entities make in implementing the recommendations from some of our previous performance audits and discuss this in articles we publish on our website. The articles we published in 2016/17 showed that, overall, entities were making improvements by acting on our recommendations. Progress was better in some cases than others. There were opportunities for further improvement where progress was slower than expected and where our recommendations were yet to be fully implemented. We will continue to monitor how our recommendations are acted on to achieve the intended improvements.

Our work programme

Our annual audit work gives us direct interaction with, and insight into, how the public sector is operating. We use our unique view of the public sector to inform our work programme. We extract greater value from this information by applying a theme across our work and by signalling future themes. After consulting with Parliament on our proposed programme of work, we publish the work we intend to carry out in our Annual Plan.

Achieving our 2016/17 work programme

The theme for our 2016/17 work programme was *Information*. The Auditor-General selected this theme because of the increasing importance of information to the effective and efficient delivery of public services now and in the future. Through our work, we examined aspects of how well the public sector is both managing and making use of information. We plan to publish a reflections report on our work under the *Information* theme in 2017/18.

Our progress with the performance audits and other work in our 2016/17 work programme is outlined in Appendix 4. Progress with the performance audits and other work that was carried forward from 2015/16 is outlined in Appendix 5.

Timeliness of completing the projects in our work programme is improving, but there is still work to do. We aspire to deliver 75% of the projects in our work programme within their planned time frames. We measure timeliness against our planned time frames for significant pieces of work in our work programme.

In 2014/15, 17% (4 out of 23) of our projects were delivered on time. In 2015/16, 32% of projects (8 out of 25) were delivered within their planned time frames. This year, 39% of projects (7 out of 18) were delivered within planned time frames. We will continue to seek further improvements in the timeliness of our project completion.

Consultation on our 2017/18 work programme

We consulted the Speaker and select committees about our proposed 2017/18 work programme. Consultation with Parliament and other stakeholders helps ensure that the Office's work is relevant and useful to Parliament, public entities, and the public. Select committees endorsed our proposed 2017/18 work programme and its theme – *Water*. The Māori Affairs Committee highlighted the significance of our *Water* theme to Māori.

Our *Water* theme reflects Parliament's and New Zealanders' growing interest in water. Water is a critical resource that New Zealanders rely on for their long-term health and economic, environmental, social, and cultural well-being. Our aim is that, through our work, we will help improve public management of water now and in the future through sharing our observations of good practice and innovation, and identifying barriers to these.

Inquiries

In contrast to our planned programme of work, our inquiries work is more reactive to matters of current public concern. In 2016, we established a dedicated inquiries team, which manages all inquiry-related issues and carries out any inquiries that the Office decides to undertake. Inquiries issues can arise from our audit or other work, requests from members of Parliament or a public entity, or concerns raised by the public. The work includes determining whether issues raised with us should be subject to further inquiry, and contributing an inquiry perspective to other areas of the Office's work.

When we decide to inquire into an issue, we currently determine whether that inquiry will be a "routine", "significant", or "major" inquiry. The primary distinction between these three categories is scope.

Our work in 2016/17

In 2016/17, we completed two *major* inquiries that were started before 2016/17 and before our inquiries team was established. These inquiries were *Inquiry into the Saudi Arabia Food Security Partnership* and *Inquiry into Aspects of Auckland Council's Westgate/Massey North Town Centre Project*. Due in part to the nature of the issues presented, we did not meet our timeliness target for major inquiries.

We completed two *significant* inquiries – *Inquiry into awarding a management contract for a hotel in Niue* and *Inquiry into state schools requesting payments in connection with out-of-zone places*. We did not meet our timeliness target for significant inquiries. One of the inquiries was not completed within six months because we needed to prioritise other work.

We worked on 25 *routine* inquiries relating to issues in the central and local government sectors. This number does not include correspondence that was counted in previous years. Our target for completion of routine inquiries is at least 80% within three months. We narrowly missed our timeliness target for routine inquiries (76%).

In our inquiries work, we provided comments and guidance on a range of matters. These included the importance of transparency, providing timely and accurate information to governors and stakeholders, following good procurement practice, and central and local government's ability to demonstrate that good decisions have been made (for example, through good business cases and considering value for money). The public entities involved in these issues accepted our findings as part of improving their processes and activities. Our reports have been well received by Parliament and the public.

As our inquiries processes are refined, we continue to look for ways to improve the timeliness of our work, while ensuring impact and considering the obligations of fairness and natural justice inherent in our work.

Local Authorities (Members' Interests) Act 1968

The Auditor-General also administers the Local Authorities (Members' Interests) Act 1968 (LAMIA), which regulates pecuniary interest matters in local government. This year, we received 59 enquiries under the Act. We measure our timeliness for LAMIA matters from the point where we have all the information we require to carry out our work. This year, we completed 52 out of 59 enquiries within 30 working days.

Supporting Accountability to Parliament

Our advice and support assists Parliament in its scrutiny of the performance and accountability of the public sector. Effective working relationships with select committees are essential to our ability to support Parliament in its work.

We use information from our annual audits and from our performance audits to advise and inform Parliament and our other stakeholders. We work closely with select committee chairpersons and clerks to ensure that our work meets the needs of committees.

Our reporting and advice to Parliament identifies issues and risks in the public sector. We provide:

- reports and advice to select committees to help their annual reviews of public entities and their examination of the Estimates of Appropriations; and
- reports to Parliament on matters arising from our annual audits, performance audits, and studies.

We also advise Ministers of the results of the annual audits for entities in their portfolio.

In 2016/17, we provided advice in support of 98 annual reviews, 46 Estimates of Appropriation examinations, and eight sector briefings. We also helped the Regulations Review Committee with its consideration of a complaint about the Shipping (Charges) Amendment Regulations 2013 and the Marine Safety Charges

Amendment Regulations 2013. We completed a significant piece of work which involved many technically complex matters, assisting the committee with its examination of the complaint, and its report to Parliament.

The quality of our relationships with select committees and the effectiveness of our communication help us to use our information and knowledge to best effect. For example, our joint project with the Office of the Clerk of the House of Representatives to improve Parliamentary scrutiny continues to make a difference to committees' uptake of our reports. Select committees now frequently report to Parliament on the matters we raise. Reports of our work on improving Parliamentary scrutiny in New Zealand were well received by the Australasian Public Accounts Committees and the Canadian Audit and Accountability Foundation.

We also regularly check – formally and informally – that select committees are satisfied with our work and the relationships they have with us. We commission an independent survey of a sample of our key stakeholders, including all select committee chairpersons, about how they perceive the quality and usefulness of our work.

Our most recent survey in 2015/16 indicated that, overall, the Office is highly regarded as an organisation of integrity, professionalism, and expertise and is staffed by a strong team of proactive communicators. All those interviewed agreed that we act with integrity and independently of the Government. The Office was credited with improving public trust in government agencies and driving better performance across the public sector. Of the select committee chairpersons interviewed, 92% agreed that our advice is relevant and useful, and all agreed that our advice assists their committee in its work.

There was a more mixed picture with senior public servants. Eight of the 12 interviewed agreed that our advice assists their organisation.

Our stakeholder survey used to be carried out every year. Based on feedback from some previous interviewees, we have decided to survey our stakeholders every two years. Our next stakeholder survey will be carried out in 2018.

Controller function

The Controller function provides independent assurance to Parliament that expenditure by government departments and Offices of Parliament is lawful, and is within the scope, amount, and period of the appropriation or other authority.

The Office of the Auditor-General and appointed auditors carry out standard procedures for the Controller function in keeping with *The Auditor-General's*

Auditing Standards and a Memorandum of Understanding with the Treasury. We review monthly reports that the Treasury provides. We inform the Treasury of any problems and advise the action to be taken.

Each year, we report to Parliament on any significant matters related to the Controller function. Our report on the results of the 2015/16 central government audits showed that there were 12 instances of unauthorised expenditure, amounting to $72.5 million (2014/15: 19 instances amounting to $55.8 million). This equated to 0.08% of the total funding approved through Budget 2015. Most of the unauthorised expenditure reported in 2015/16 arose from errors in previous years that were discovered in 2015/16. This indicates a significant improvement in departments' budget management in 2015/16.

International contribution

Each year, we invest significant time and resources into the international auditing community. Through our international work, we aim to strengthen public sector accountability and promote good governance throughout the world, particularly in the Pacific region. We share our knowledge and expertise with others. In turn, we develop our own knowledge, enhance our strong international reputation, and maintain the effective working relationships we have with other international auditing organisations.

2016/17 was a big year in terms of our commitment to the International Congress of Supreme Audit Institutions (INCOSAI). New Zealand chaired the Professionalisation theme at the December 2016 INCOSAI in Abu Dhabi. The discussions focused on how the International Organisation of Supreme Audit Institutions (INTOSAI) could become a more influential international organisation acting in the public interest. It was a privilege to work with our international colleagues to advance the professionalisation agenda within the international auditing community.

We support accountability, transparency, and good governance in the Pacific through our commitment to the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the regional organisation of 28 audit institutions in the Pacific. The Auditor-General is Secretary-General of PASAI and represented PASAI on the governing board of INTOSAI until December 2016. We have mentored and supported the Auditor-General of Samoa to take on the role of representing PASAI on the governing board of INTOSAI.

As part of PASAI's Pacific region support initiatives, we continued the support and development work we started in Samoa and the Cook Islands in 2015/16. We also assisted PASAI to deliver a development programme for young leaders in Pacific

SAIs, and a communication workshop for Heads of SAIs. We are working with PASAI to develop a programme to assist PASAI members to implement quality assurance processes across their audits and their operations. Our support to PASAI is funded by a contract that is provided by the Ministry of Foreign Affairs and Trade as part of New Zealand's Official Development Assistance programme.

Hosting international delegations provides opportunities to exchange information and build on our professional networks. This year, we assisted visiting representatives from the New South Wales Audit Office, the Welsh Audit Office, the National Audit Office Republic of China (Taiwan), the People's Liberation Army (People's Republic of China), Centro de Estudios Publicos (Chile), the Samoan Ministry for Public Enterprises, and the Indonesian Financial Services Authority.

Our significant ongoing involvement in other INTOSAI activities continued in 2016/17. We are a member of the INTOSAI Professional Standards Steering Committee, which is charged with overseeing the development of international public sector auditing standards. We have also been a member of the project team revising the INTOSAI code of ethics. We continue our membership of the working group on environmental auditing.

In addition, we are a member of the Forum for INTOSAI Professional Pronouncements. The Forum has a mandate to review all of INTOSAI's professional pronouncements as part of a review by INTOSAI of its standard-setting arrangements.

Our three-year term as expert panel member on the Organisation for Economic Co-operation and Development's Audit Committee finished at the end of 2016.

Financial performance for *Statutory Auditor Function MCA*

	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Income					
Crown	9,615	9,627	9,627	9,615	9,611
Other	130	167	230	230	230
Expenditure	(9,524)	(9,758)	(9,857)	(9,845)	(9,841)
Surplus	**221**	**36**	**-**	**-**	**-**

* All Estimates information is unaudited.

Statutory Auditor Function MCA costs were close to budget because of an ongoing high volume of work during the year.

Appropriation: *Remuneration of Auditor-General and Deputy Auditor-General*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to remuneration expenses for the Auditor-General and the Deputy Auditor-General as authorised by clause 5 of the Third Schedule of the Public Audit Act 2001.

This permanent appropriation provides for payment to the Auditor-General and Deputy Auditor-General as determined by the Remuneration Authority.

Our performance

The Auditor-General and Deputy Auditor-General lead the performance of the Office. The performance of the Office's activities, including this appropriation, is reflected in the information provided in this report.

Financial performance for *Remuneration of Auditor-General and Deputy Auditor-General PLA*					
	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Income	1,052	972	958	1,052	1,052
Expenditure	(1,052)	(972)	(958)	(1,052)	(1,052)
Surplus	-	-	-	-	-

* All Estimates information is unaudited.

The former Auditor-General, Martin Matthews, elected not to be paid after stepping aside on 24 May while a review into his suitability to continue in the role was carried out. Following Martin's resignation on 2 August, the Speaker determined that he should be paid for the period from 25 May to 2 August. The actual 2016/17 results include the amount relating to the period from 25 May to 30 June.

Appropriation: *Controller and Auditor-General – Capital Expenditure PLA*

Scope of appropriation and what is intended to be achieved

This appropriation is limited to the purchase of assets by, and for the use of, the Controller and Auditor-General, as authorised by section 24(1) of the Public Finance Act 1989. It is intended to achieve the renewal and replacement of assets that support the delivery of the Controller and Auditor-General's operations.

Our performance

Financial performance for *Controller and Auditor-General – Capital Expenditure PLA*	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Property, plant, and equipment	427	531	375	362	191
Intangibles	777	179	220	669	670
Other	227	390	190	357	370
Total capital expenditure	**1,431**	**1,100**	**785**	**1,388**	**1,231**

* All Estimates information is unaudited.

Our capital expenditure programme provides for the purchase of facilities and tools to enable our staff to carry out their work – for example, hardware and software for information systems, vehicles, building fit-out, and furniture and fittings. This year, we met our objectives for maintaining these assets.

Expenditure on software in 2016/17 was higher than the supplementary estimates because of increased investment in development of the Office's document management system. Section 24(1) of the Public Finance Act 1989 allows the purchase or development of assets from working capital and asset disposal proceeds, without any further appropriation.

The increase in budget between the main and supplementary estimates for 2016/17 reflects a combination of changed timing and increased costs of the upgrade to the Office's financial management information system, and investment in analytical tools to support audit work.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Office for the year ended 30 June 2017.

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations

for the year ended 30 June 2017

This statement reports actual expenses incurred against each appropriation administered by the Office.

End-of-year performance information for all appropriations is reported in this annual report.

Annual and permanent appropriations for Vote Audit	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Output expenses					
Audit and Assurance Services RDA (revenue-dependent appropriation)**	76,433	77,436	75,295	75,774	83,162
Audit and Assurance Services	2,482	150	1,800	3,192	150
Total appropriations for output expenses	***78,915***	***77,583***	***77,095***	***78,966***	***83,312***
Other expenses					
Remuneration of Auditor-General and Deputy Auditor-General PLA (permanent legislative authority)***	1,052	972	958	1,052	1,052
Multi-category appropriations					
Statutory Auditor Function MCA					
Performance Audits and Inquiries	6,406	6,442	6,587	6,578	6,576
Supporting Accountability to Parliament	3,118	3,316	3,270	3,267	3,265
Total Statutory Auditor Function	***9,524***	***9,758***	***9,857***	***9,845***	***9,841***
Total appropriations for operating expenditure	**89,491**	**88,316**	**87,910**	**89,863**	**94,205**
Capital expenditure					
*Controller and Auditor-General – Capital Expenditure PLA*****	1,431	1,100	785	1,388	1,231
Total annual and permanent appropriations	**90,922**	**89,416**	**88,695**	**91,251**	**95,436**

* All Estimates information is unaudited.

** The Office is permitted to incur expenditure up to the amount of revenue earned for this appropriation. In 2016/17, revenue under this appropriation was $76.433 million – See page 30, Financial performance for *Audit and Assurance Services RDA*.

*** Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

****Costs incurred pursuant to section 24(1) of the Public Finance Act 1989.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

for the year ended 30 June 2017

The Office did not incur any expenses or capital expenditure without, or in excess of, appropriation or other authority for the year ended 30 June 2017 (2016: Nil).

Statement of capital injections without, or in excess of, appropriation or other authority

for the year ended 30 June 2017

The Office did not receive any capital injections without, or in excess of, appropriation or other authority for the year ended 30 June 2017 (2016: Nil).

Our financial results

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Contents

Overview of our financial results

Operating result

For 2016/17, we budgeted for, and had, an operating deficit. We drew on the funds in our memorandum account, which was set up to help us manage the peaks and troughs in our income cycle. Our net operating result was a deficit of $2.1 million. Our net operating results by output are summarised below.

	Audit and Assurance Services $000	Supporting Accountability to Parliament $000	Performance Audits and Inquiries $000	Remuneration of Auditor-General and Deputy $000	Total $000
Funding	76,583	3,166	6,579	1,052	87,380
Costs	(78,915)	(3,118)	(6,406)	(1,052)	(89,491)
Surplus/(Deficit)	(2,332)	48	173	0	(2,111)
				Gain on sale of assets	47
				Net deficit per Statement of comprehensive revenue and expense	**(2,064)**

Deficit funded from our memorandum account

The deficit for the year was consistent with planned use of funding from our memorandum account for the costs of audit and assurance services.

Audit and Assurance Services memorandum account	$000
Opening balance at 1 July 2016	3,244
Funding applied to Audit and Assurance Services deficit	(2,332)
Closing balance at 30 June 2017	**912**

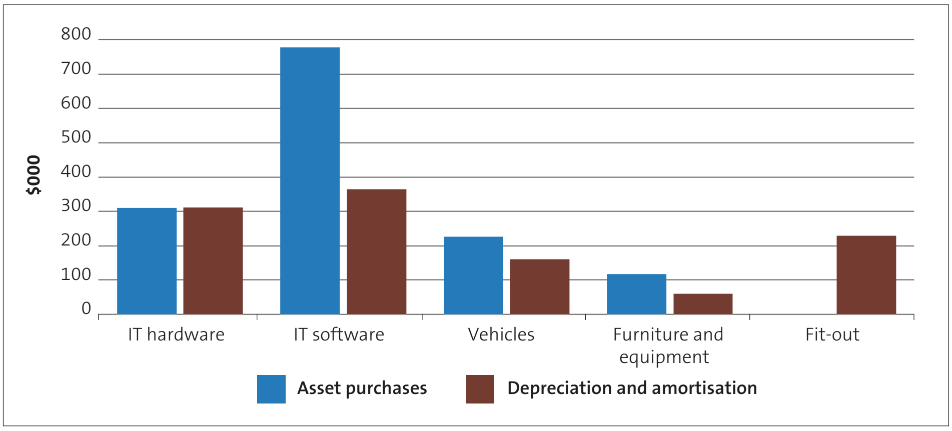
The funding in the memorandum account came from previous years' surpluses.

Investment in our assets

In 2016/17, we invested in modernising our computer systems, including the upgrade of our financial management system, purchase of analysis software, and improvements to our document management centre.

We also maintained our replacement programme for IT hardware, vehicles, and furniture and equipment.

Asset purchases and depreciation



Statement of responsibility

I am responsible, as Deputy Controller and Auditor-General, for:

- the preparation of the Office's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Office is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Office, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Office as at 30 June 2017 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Office as at 30 June 2018 and its operations for the year ending on that date.

Greg Schollum
Deputy Controller and Auditor-General

25 September 2017

Countersigned:

Maria Viviers
Chief Financial Officer

25 September 2017

Statement of comprehensive revenue and expense
for the year ended 30 June 2017

This statement reports the revenue and expense relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expense of each output class are on pages 29, 30, 40, 41, and 42.

	Notes	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Revenue						
Crown funding	2	10,817	10,749	10,735	10,817	10,813
Audit fee revenue	3	76,414	78,298	75,295	75,774	83,162
Other revenue		149	204	230	230	230
Gain on sale of plant and equipment		47	41	18	46	18
Total revenue		**87,427**	**89,292**	**86,278**	**86,867**	**94,223**
Expenditure						
Personnel costs	4	43,252	41,649	42,654	42,118	43,960
Other operating costs	5	44,709	45,081	43,313	45,642	46,597
Depreciation and amortisation expense	10, 11	1,126	1,088	1,102	1,199	1,191
Capital charge	6	404	498	498	404	373
Total expenditure		**89,491**	**88,316**	**87,567**	**89,363**	**92,121**
Surplus/(deficit)		**(2,064)**	**976**	**(1,289)**	**(2,496)**	**2,102**
Other comprehensive revenue and expense		-	-	-	-	-
Total comprehensive revenue and expense for the year		**(2,064)**	**976**	**(1,289)**	**(2,496)**	**2,102**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

The accompanying notes form part of these financial statements.

Statement of financial position
as at 30 June 2017

This statement reports total assets and liabilities. The difference between the total assets and total liabilities is called equity.

	Notes	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Current assets						
Cash and cash equivalents	7	2,695	5,632	4,818	3,961	6,626
Receivables	8	7,087	6,979	5,750	5,722	6,750
Prepayments		781	579	446	579	579
Work in progress	9	1,737	1,848	2,000	2,000	1,201
Total current assets		**12,300**	**15,038**	**13,014**	**12,262**	**15,156**
Non-current assets						
Plant and equipment	10	3,682	3,852	3,661	3,709	3,415
Intangible assets	11	938	526	672	708	1,028
Total non-current assets		4,620	4,378	4,333	4,417	4,443
Total assets		**16,920**	**19,416**	**17,347**	**16,679**	**19,599**
Current liabilities						
Payables and deferred revenue	12	4,785	5,477	5,372	5,466	6,216
Repayment of surplus due to Crown	13	268	77	-	-	-
Employee entitlements	14	4,195	3,910	4,027	3,837	3,914
Total current liabilities		**9,248**	**9,464**	**9,399**	**9,303**	**10,130**
Non-current liabilities						
Payables and deferred revenue	12	22	34	-	-	-
Employee entitlements	14	517	453	558	453	462
Total non-current liabilities		539	487	558	453	462
Total liabilities		**9,787**	**9,951**	**9,957**	**9,756**	**10,592**
Net assets		**7,133**	**9,465**	**7,390**	**6,923**	**9,007**
Equity						
Taxpayers' funds	15	6,221	6,221	6,221	6,221	6,221
Memorandum account	15	912	3,244	1,169	702	2,786
Total equity		**7,133**	**9,465**	**7,390**	**6,923**	**9,007**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

The accompanying notes form part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2017

	Notes	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Balance at 1 July		**9,465**	**8,566**	**8,697**	**9,465**	**6,923**
Total comprehensive revenue and expense		(2,064)	976	(1,289)	(2,496)	2,102
Capital contribution		-	-	-	-	-
Surplus repayment due to the Crown	13	(268)	(77)	(18)	(46)	(18)
Balance at 30 June	**15**	**7,133**	**9,465**	**7,390**	**6,923**	**9,007**

* All Estimates information is unaudited.

Explanations of significant variances against the Main Estimates are detailed in Note 20.

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2017

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

	Notes	Actual 2016/17 $000	Actual 2015/16 $000	Main Estimates 2016/17 $000*	Supplementary Estimates 2016/17 $000*	Main Estimates 2017/18 $000*
Cash flows from operating activities						
Receipts from the Crown		10,817	10,749	10,735	10,817	10,813
Receipts from public entities[1]		42,480	45,975	42,700	43,515	48,145
Payments to suppliers[1]		(13,217)	(12,578)	(12,140)	(13,675)	(12,183)
Payments to employees		(41,239)	(40,771)	(40,930)	(40,555)	(42,366)
Net GST paid[2]		25	(24)	-	-	-
Capital charge paid		(404)	(498)	(498)	(404)	(373)
Net cash flow from (used in) operating activities	16	(1,538)	2,853	(133)	(302)	4,036
Cash flows from investing activities						
Receipts from sale of plant and equipment		109	181	57	95	32
Purchase of plant and equipment		(654)	(921)	(565)	(719)	(561)
Purchase of intangible assets		(777)	(179)	(220)	(669)	(670)
Net cash flow used in investing activities		(1,322)	(919)	(728)	(1,293)	(1,199)
Cash flows from financing activities						
Surplus repayment to the Crown		(77)	(264)	-	(77)	(172)
Net cash flow used in financing activities		(77)	(264)	-	(77)	(172)
Total net increase (decrease) in cash held		(2,937)	1,670	(861)	(1,672)	2,665
Cash at the beginning of the year		5,632	3,962	5,679	5,633	3,961
Cash at the end of the year		2,695	5,632	4,818	3,961	6,626

* All Estimates information is unaudited.

1 The Statement of cash flows does not include the contracted audit service provider audit fee revenue or expense, as these do not involve any cash transactions with the Office.

2 The GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department. GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying notes form part of these financial statements.

Statement of commitments
as at 30 June 2017

This statement records expenditure to which the Office is contractually committed at 30 June 2017.

Non-cancellable operating lease commitments

The Office may lease property, plant, and equipment in the normal course of its business. The majority of these leases are for premises and photocopiers, which have a non-cancellable leasing period ranging from three to nine years.

The Office's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights. There are no restrictions placed on the Office by any of its leasing arrangements.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2016/17 $000	Actual 2015/16 $000
Non-cancellable operating lease commitments		
Not later than one year	2,750	2,493
Later than one year and not later than five years	6,426	8,030
Later than five years	-	73
Total non-cancellable operating lease commitments	9,176	10,596
Capital commitments		
Contractual	-	-
Total capital commitments	-	-
Total commitments	**9,176**	**10,596**

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets
as at 30 June 2017

This statement discloses situations that existed at 30 June 2017, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

Contingent liabilities

The Office did not have any contingent liabilities as at 30 June 2017 (2016: Nil).

Contingent assets

The Office did not have any contingent assets as at 30 June 2017 (2016: Nil).

Notes to the financial statements
for the year ended 30 June 2017

Note 1: Statement of accounting policies

Reporting entity

The Controller and Auditor-General (the Office) 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 and operates in New Zealand. The relevant legislation governing the Office's operations is the Public Audit Act 2001. The Office's ultimate parent is the New Zealand Crown.

The Office's primary objective is to provide independent assurance to Parliament and the public about how public entities are performing, through auditing public entities, carrying out performance audits, providing reports and advice to Parliament, and carrying out inquiries and other special studies.

The Office has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Office are for the year ended 30 June 2017 and were authorised for issue by the Deputy Controller and Auditor-General on 25 September 2017.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements of the Office have been prepared in accordance with the requirements of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

The financial statements have been prepared in accordance with Tier 1 PBE Standards.

These financial statements comply with PBE Standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000).

Standards issued and not yet effective and not early adopted

Standards and amendments issued but not yet effective, which have not been early adopted and which are relevant to the Office, are:

Financial Instruments

In January 2017, the External Reporting Board (XRB) issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised costs.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of the Office adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. The Office has not yet assessed the effect of the new standard.

Impairment of Revalued Assets

In April 2017, the XRB issued *Impairment of Revalued Assets*, which now clearly scopes revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost was scoped into the impairment accounting standards.

Under the amendments a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of the Office adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of Government will adopt the amendment.

Budget and forecast figures

The forecast financial statements (Main Estimates 2017/18) have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. The budget and forecast figures (all Estimates information) are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

2016/17 Main Estimates and Supplementary Estimates

The 2016/17 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2016, and in the Office's 2015/16 annual report.

The 2016/17 Supplementary Estimate forecast financial statements are based on the updated forecasts published in Budget 2017.

2017/18 Main Estimates

The 2017/18 Main Estimate forecast financial statements are consistent with the forecasts published in Budget 2017. They have been prepared in accordance with PBE Financial Reporting Standard 42: *Prospective Financial Statements* and comply with that standard.

The 2017/18 forecast financial statements were approved for issue by the Controller and Auditor-General on 27 April 2017. The Controller and Auditor-General is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Office regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2018 will not be published.

Significant assumptions used in preparing the forecast financial statements

The forecast figures contained in these financial statements reflect the Office's purpose and activities and are based on a number of assumptions on what may occur during the 2017/18 year. The forecast figures 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, which were adopted as at 27 April 2017, were as follows:

- 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.
- 2017/18 includes the triennial audits of local authorities' long-term plans.
- 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.

- Forecast personnel costs are based on expected staff numbers necessary to deliver the work of the Office, incorporating remuneration rates that are based on current costs adjusted for anticipated market changes.
- Operating costs are based on estimates of costs that will be incurred under the Office's current operating model, with small allowances for price increases.
- Forecast capital expenditure and depreciation are based on planned replacement of motor vehicles and IT equipment, plus continued investment in developing the Office's software programs.

The actual financial results achieved for 30 June 2018 are likely to vary from the forecast information presented, and the variations may be material. There are no known significant changes since the approval of the forecasts.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

Goods and Services Tax

All items in the financial statements are presented exclusive of Goods and Services Tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of financial position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the Statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

The Office is exempted from paying income tax by 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 RDA.

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.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to below:

- Audit fee revenue, work in progress, and income in advance – refer to Notes 3, 9, and 12.
- Depreciation and amortisation – refer to Notes 10 and 11.
- Retirement leave – refer to Note 14

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.

Note 2: Crown funding

The Crown provides revenue to meet the costs of the Office in assisting Parliament in its role of ensuring accountability for the use of public resources. The services provided to Parliament include reports to Parliament and other constituencies, reports and advice to select committees, responding to taxpayer and ratepayer enquiries, advice to government bodies, professional bodies, and other agencies, and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

Accounting policy

Revenue from the Crown is measured based on the Office's funding entitlement for the year. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments approved in the Appropriation (Supplementary Estimates) Act for the year.

There are no conditions attached to the funding from the Crown. However, the Office can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue from the Crown has been determined to be equivalent to the funding entitlement.

Note 3: Audit fee revenue

Accounting policy

The specific accounting policies for audit fee revenue are explained below:

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. When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Fee revenue generated by contracted audit service providers for audits

Fee revenue generated by contracted audit service providers (other than Audit New Zealand) 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.

Critical accounting estimates and assumptions

Assessing the value of audit fee revenue and associated work in progress or income in advance for engagements open at balance date is the most significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement may result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of fee revenue

	Actual 2016/17 $000	Actual 2015/16 $000
Fee revenue generated by the Office for audit and assurance services	42,791	43,593
Fee revenue generated by contracted audit service providers for audits of public entities*	33,623	34,705
Total audit fee revenue	**76,414**	**78,298**

* Revenue generated by contracted audit service providers (other than Audit New Zealand) does not involve any cash transactions with the Office.

Note 4: Personnel costs

Accounting policy

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.

Breakdown of personnel costs

	Actual 2016/17 $000	Actual 2015/16 $000
Salaries and wages	40,546	39,559
Other employee-related costs	1,097	1,044
Employer contributions to defined contribution plans	1,189	1,186
Increase/(decrease) in employee entitlements	420	(140)
Total personnel costs	**43,252**	**41,649**

Staff relocation and professional development expenses were classified as other operating expenses in 2015/16 and reclassified as other employee-related costs in 2016/17. This was changed to be consistent with the Financial Statements of Government.

Note 5: Other operating costs

Accounting policy

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.

Operating 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. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term. All leases entered into by the Office are operating leases.

Other expenses

Other expenses are recognised as goods and services are received.

Breakdown of other operating costs

	Actual 2016/17 $000	Actual 2015/16 $000
Increase in provision for impairment of receivables	-	31
Fees to auditors for the audit of the Office's financial statements: PKF Goldsmith Fox Audit	90	90
Operating lease payments	2,582	2,451
Fees for audits of public entities carried out by PKF Goldsmith Fox Audit*	14	7
Fees for audits of public entities carried out by other contracted audit service providers*	33,609	34,698
Other expenses	8,414	7,804
Total other operating costs	**44,709**	**45,081**

* Expenditure relating to audits carried out by contracted audit service providers does not involve any cash transactions with the Office.

Note 6: Capital charge

Accounting policy

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

Further information on the capital charge

The Office pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate is determined by the Treasury, and for the year ended 30 June 2017 was 7% from 1 July 2016 to 31 December 2016 and then 6% from 1 January 2017 (2016: 8%).

Note 7: Cash and cash equivalents

Accounting policy

Cash includes cash on hand and funds on deposit with banks and is measured at its face value.

Further information on cash and cash equivalents

The Office has the use of an overdraft facility to manage its seasonal cash flows during the second half of the financial year. The overdraft limit is $500,000, and interest is charged on the daily balance at Westpac Banking Corporation's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (2016: Nil).

Note 8: Receivables

Accounting policy

Short-term receivables are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is sufficient evidence that the Office will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Breakdown of receivables and further information

The ageing profile of receivables at year-end is detailed below:

	2016/17			2015/16		
	Gross	Impairment	Net	Gross	Impairment	Net
	$000	$000	$000	$000	$000	$000
Not past due	5,477	-	5,477	5,464	-	5,464
Past due 1-30 days	1,279	-	1,279	863	-	863
Past due 31-60 days	237	-	237	3	-	3
Past due 61-90 days	54	-	54	482	-	482
Past due >90 days	71	(31)	40	198	(31)	167
Carrying amount	**7,118**	**(31)**	**7,087**	**7,010**	**(31)**	**6,979**

The impairment provision has been calculated based on expected losses for the Office's pool of debtors. Expected losses have been determined based on an analysis of the Office's losses in previous years and review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

	Actual 2016/17 $000	Actual 2015/16 $000
Balance at 1 July	31	-
Additional provisions made during the year	-	31
Receivables written off during the period	-	-
Balance at 30 June	**31**	**31**

Note 9: Work in progress

Accounting policy

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

Critical accounting estimates and assumptions

The value of work in progress is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement may result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Note 10: Property, plant, and equipment

Accounting policy

Property, plant, and equipment include furniture and fittings, leasehold improvements, office equipment, information technology hardware, and motor vehicles. The property, plant, and equipment are measured at cost, less accumulated depreciation and impairment losses.

Additions

Individual assets, or groups of assets, are capitalised if their cost is greater than $1,000.

The cost of an item of property, plant, and equipment is recognised as an asset 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.

In most instances, an item of property, plant, and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, 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 property, plant, and equipment, at rates that will write-off the cost 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 - 5 years (20% - 40%)
- IT hardware 2.5 - 5 years (20% - 40%)
- Motor vehicles 3-4 years (25% - 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 financial year end.

Impairment of property, plant, and equipment

Property, plant, and equipment assets held at cost 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. 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 determined using an approach based on a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

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.

The reversal of an impairment loss is also recognised in the surplus or deficit.

Critical accounting estimates and assumptions

Determining the depreciation rates for physical assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for depreciation costs, accumulated depreciation, and net book values.

Breakdown of property, plant, and equipment and further information

	Furniture and fittings $000	Office equipment $000	Leasehold improvements $000	IT hardware $000	Motor vehicles $000	Total $000
Cost						
Balance at 1 July 2015	1,604	400	3,061	2,528	1,195	8,788
Additions	84	18	93	336	390	921
Disposals	(126)	(34)	-	(2)	(466)	(628)
Balance at 30 June 2016	1,562	384	3,154	2,862	1,119	9,081
Additions	52	65	-	310	227	654
Disposals	(4)	-	-	(453)	(276)	(733)
Balance at 30 June 2017	**1,610**	**449**	**3,154**	**2,719**	**1,070**	**9,002**
Accumulated depreciation and impairment losses						
Balance at 1 July 2015	1,553	354	494	1,950	551	4,902
Depreciation expense	32	37	223	317	205	814
Elimination on disposal	(126)	(34)	-	(2)	(325)	(487)
Balance at 30 June 2016	1,459	357	717	2,265	431	5,229
Depreciation expense	39	21	229	311	161	761
Elimination on disposal	(4)	-	-	(451)	(215)	(670)
Balance at 30 June 2017	**1,494**	**378**	**946**	**2,125**	**377**	**5,320**
Carrying amounts						
Balance at 1 July 2015	51	46	2,567	578	644	3,886
Balance at 30 June 2016	103	27	2,437	597	688	3,852
Balance at 30 June 2017	**116**	**71**	**2,208**	**594**	**693**	**3,682**

Note 11: Intangible assets

Accounting policy

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Office's website 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 that the asset is derecognised. The amortisation charge for each year is recognised in the surplus or deficit.

The useful life and associated amortisation rate of intangible assets have been estimated at between 2.5 and 5 years (20% - 40%).

Critical accounting estimates and assumptions

Determining the amortisation rates for intangible assets requires judgement as to the likely period of use of the assets. Different assessments of useful lives would result in different values being determined for amortisation costs, accumulated amortisation and net book values.

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2015	3,983	120	4,103
Additions	179	-	179
Disposals	-	-	-
Balance at 30 June 2016	4,162	120	4,282
Additions	505	272	777
Disposals	-	-	-
Balance at 30 June 2017	**4,667**	**392**	**5,059**
Accumulated amortisation and impairment losses			
Balance at 1 July 2015	3,363	120	3,483
Amortisation expense	274	-	274
Disposals	(1)	-	(1)
Balance at 30 June 2016	3,636	120	3,756
Amortisation expense	365	-	365
Disposals	-	-	-
Balance at 30 June 2017	**4,001**	**120**	**4,121**
Carrying amounts			
Balance at 1 July 2015	620	-	620
Balance at 30 June 2016	526	-	526
Balance at 30 June 2017	**666**	**272**	**938**

There are no restrictions over the title of the Office's intangible assets. No intangible assets are pledged as security for liabilities.

Note 12: Payables and deferred revenue

Accounting policy

Short-term payables are recorded at their face value.

Income in advance is recognised where amounts billed are in excess of the amounts recognised as revenue.

Critical accounting estimates and assumptions

The value of income in advance is affected by the assessment of the value of audit fee revenue for engagements open at balance date, which is a significant area where such judgements, estimations, and assumptions are made. This involves estimating the stage of completion of each engagement based on the value of work completed at balance date and the expected work to complete the engagement. A different assessment of the outcome on an engagement may result in a different value being determined for revenue and also a different carrying value for income in advance or work in progress.

Breakdown of payables and deferred revenue

	Actual 2016/17 $000	Actual 2015/16 $000
Current payables and deferred revenue under exchange transactions		
Creditors and other payables	1,156	1,419
Income in advance	2,619	2,818
Accrued expenses	308	559
Total payables under exchange transactions	*4,083*	*4,796*
Current payables and deferred revenue under non-exchange transactions		
GST payable	702	681
Total payables and deferred revenue under non-exchange transactions	*702*	*681*
Total current payables and deferred revenue	**4,785**	**5,477**
Non-current payables and deferred revenue under exchange transactions		
Other payables	22	34
Total non-current payables and deferred revenue	**22**	**34**

Payables are non-interest-bearing, and are normally settled on 30-day terms. The carrying value of creditors and other payables therefore approximates their fair value.

Note 13: Surplus repayment due to the Crown

The repayment of surplus to the Crown is due to be paid by 31 October each year. The amount to be repaid includes any unused Crown funding and/or gains on sale of assets from the previous financial year. Any surplus arising from audit fees collected under the revenue-dependent appropriation is transferred to the memorandum account and held for use in the *Audit and Assurance Services RDA* output class in future years. The memorandum account is explained further in Note 15.

	Note	Actual 2016/17 $000	Actual 2015/16 $000
(Deficit)/Surplus current year		(2,064)	976
Less: Surplus/(Deficit) transferred to/from memorandum account	15	2,332	(899)
Total provision for payment to the Crown		**268**	**77**

Note 14: Employee entitlements

Accounting policy

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured 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.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlements that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where it is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee renders the related service, such as long service leave and retirement gratuities, 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.

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

The measurement of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

The discount rate is based on New Zealand Government bond data at 30 June 2017. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $35,094 lower and $38,850 higher respectively.

If the salary inflation factor were to increase/decrease by 1% from the Office's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated $49,650 higher and $45,295 lower respectively.

Breakdown of employment entitlements

	Actual 2016/17 $000	Actual 2015/16 $000
Current employee entitlements		
Salary and other accruals	1,294	1,134
Annual leave	2,480	2,381
Time off in lieu of overtime worked	156	125
Retiring leave	165	170
Sick leave	100	100
Total current employment entitlements	*4,195*	*3,910*
Non-current employee entitlements comprise:		
Retiring leave	517	453
Total non-current employment entitlements	*517*	*453*
Total employee entitlements	**4,712**	**4,363**

Note 15: Equity

Accounting policy

Equity is the Crown's investment in the Office and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds and a memorandum account.

Breakdown of equity

	Note	Actual 2016/17 $000	Actual 2015/16 $000
Taxpayers' funds			
Balance at 1 July		6,221	6,221
Surplus/(deficit)		(2,064)	976
Transfer of memorandum account net (surplus)/deficit for the year		2,332	(899)
Capital injections		-	-
Repayment of surplus due to the Crown	13	(268)	(77)
Balance at 30 June		6,221	6,221
Memorandum account			
Balance at 1 July		3,244	2,345
Memorandum account net surplus/(deficit) for the year		(2,332)	899
Balance at 30 June		912	3,244
Total equity		**7,133**	**9,465**

Memorandum account

	Actual 2016/17 $000	Actual 2015/16 $000
Audit and assurance services		
Balance at 1 July	3,244	2,345
Revenue	76,583	78,335
Expenses	(78,915)	(77,436)
Surplus/(deficit) for the year	(2,332)	899
Balance at 30 June	**912**	**3,244**

The memorandum account summarises the accumulated surpluses and deficits incurred in the provision of audit and assurance services by the Office on a full cost recovery basis. These transactions are included as part of the Office's operating income and expenses in the surplus/deficit, but are excluded from the calculation of the Office's repayment of surplus (see Note 13).

The memorandum account assists the Office to manage fluctuating revenue flows and assist with keeping audit fees at reasonable levels over time. The memorandum account balance will be taken into account when setting audit fees in future years.

Note 16: Reconciliation of net surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of comprehensive revenue and expense on page 48 to arrive at the net cash flow from operating activities disclosed in the Statement of cash flows on page 51.

	Actual 2016/17 $000	Actual 2015/16 $000
Net Surplus/(deficit)	**(2,064)**	**976**
Add/(Less) non-cash items		
Depreciation and amortisation	1,126	1,088
Total non-cash Items	*1,126*	*1,088*
Add/(Less) movements in statement of financial position items		
(Increase)/decrease in prepayments	(203)	(133)
(Increase)/decrease in receivables	(164)	1,814
(Increase)/decrease in work in progress	(38)	(286)
(Decrease)/increase in payables	(593)	(425)
(Decrease)/increase in employee entitlements	445	(140)
Total movements in working capital items	*(553)*	*830*
Add/(Less) items classified as investing activities		
Loss/(Gains) on sale of plant and equipment	(47)	(41)
Total items classified as investing activities	*(47)*	*(41)*
Net cash flow from operating activities	**(1,538)**	**2,853**

Note 17: Related party transactions

The Office is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that the Office would have adopted in dealing with the party at arm's length in the same circumstances.

Key management personnel compensation

	Actual 2016/17	Actual 2015/16
Key management personnel remuneration ($000)	3,611	3,596
Full-time equivalent key management personnel	12	11.7

Key management personnel include the Auditor-General, the Deputy Auditor-General, and the 10 members of the OAG and Audit New Zealand Leadership Teams.

Note 18: Financial instruments

The Office's financial instruments are limited to cash and cash equivalents, receivables, and creditors and other payables. These activities expose the Office to low levels of financial instrument risks, including market risk, credit risk, and liquidity risk.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Office incurs a small portion of operating expenditure in foreign currency, and risk is minimised through prompt settlement. Recognised liabilities that are payable in a foreign currency were nil at balance date (2016: Nil).

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Office has no interest-bearing financial instruments and, accordingly, has no exposure to interest rate risk.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Office, causing the Office to incur a loss.

In the normal course of the Office's business, credit risk arises from receivables and deposits with banks.

The Office is permitted to deposit funds only with Westpac, a registered bank with high credit ratings. For its other financial instruments, the Office does not have significant concentrations of credit risk.

The Office's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net receivables (see Notes 7 and 8).

There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

Liquidity risk is the risk that the Office will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Office closely monitors its forecast cash requirements with expected debtor receipts and cash drawdowns from the New Zealand Debt Management Office. The Office maintains a target level of available cash to meet liquidity requirements.

The Office's financial liabilities are outlined in Note 12: Payables. These are all due to be settled on 30-day terms.

Categories of financial instruments

The carrying amounts of financial instruments are as follows:

	Note	Actual 2016/17 $000	Actual 2015/16 $000
Loans and receivables			
Cash and cash equivalents	7	2,695	5,632
Receivables	8	7,087	6,979
Total loans and receivables		**9,782**	**12,611**
Financial liabilities measured at amortised cost			
Payables		4,785	5,477
Total creditors and other payables	12	**4,785**	**5,477**

Note 19: Capital management

The Office's capital is its equity, which comprise taxpayers' funds and a memorandum account. Equity is represented by net assets.

The Office manages its revenues, expenses, assets, liabilities, and general financial dealings prudently to achieve the goals and objectives for which it has been established. The Office's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes, Treasury Instructions, and the Public Finance Act 1989.

Note 20: Explanation of significant variances against the Main Estimates

Explanations of significant variances from the Office's original 2016/17 budget figures (2016/17 Main Estimates) are as follows:

Statement of comprehensive revenue and expense

The deficit for the year reflects planned use of funds from our memorandum account. The deficit was $2.1 million, which was $0.8 million greater than the Main Estimates. The increased deficit is the net effect of total expenditure and fee revenue both being higher than the Main Estimates.

Actual audit fee revenue was higher than the Main Estimates by $1.1 million, relating to a higher estimated value of the work to date on audits that were under way at 30 June 2017 carried out by contracted audit service providers ($0.8 million) and Audit New Zealand ($0.3 million).

Total expenditure was higher than the Main Estimates by $1.9 million, mainly due to higher direct costs of delivering audits carried out by Audit New Zealand ($1.0 million) and additional work completed by contracted audit service providers ($0.8 million).

Statement of financial position

Debtors and other receivables are $1.3 million higher than the Main Estimates, due to timing of billing of audit fees. This has also resulted in a lower than budgeted cash balance.

Independent Auditor's Report

PKF Goldsmith Fox Audit
Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

We have been appointed by the House of Representatives to carry out the audit of:

- the financial statements of the Controller and Auditor-General (the Auditor-General) on pages 48 to 77 that comprise the statement of financial position, statement of commitments and statement of contingent liabilities and contingent assets as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Auditor-General for the year ended 30 June 2017 on pages 18 to 42; and
- the appropriation statements prepared by the Auditor-General for the year ended 30 June 2017 on pages 43 to 44.

Opinion

In our opinion:

- the financial statements of the Auditor-General:
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Accounting Standards issued by the External Reporting Board;
  - present fairly, in all material respects, the:
    - financial position as at 30 June 2017;
    - financial performance and cash flows for the year ended on that date;
- the performance information of the Auditor-General;
  - complies with generally accepted accounting practice in New Zealand;
  - presents fairly, in all material respects, for the year ended 30 June 2017:
    - what has been achieved with each appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- the appropriation statements of the Auditor-General for the year ended 30 June 2017, are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 25 September 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Auditor-General and our responsibilities, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with international standards on Auditing (New Zealand), and we applied the Auditor-General's Auditing Standard 4 (Revised) – *The Audit of Service Performance Reports* that is also applied to the audit of service performance information in many other public sector entities in New Zealand. Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the information we audited is free from material misstatement.

PKF Goldsmith Fox Audit
Chartered Accountants

PKF

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the information we audited. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Auditor-General's preparation of the information we audited in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Auditor-General's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Auditor-General;
- the appropriateness of the reported performance information within the Auditor-General's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited. Also, we did not evaluate the security and controls over the electronic publication of the information we audited.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Auditor-General

The Auditor-General is responsible for preparing:

- financial statements that present fairly the Auditor-General's financial position, financial performance, and cash flows, that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- a statement of output expenses, other expenses and capital expenditure against appropriations, and a statement of unappropriated expenditure, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

The Auditor-General's responsibility arises from the Public Finance Act 1989.

The Auditor-General is also responsible for such internal control as is necessary to ensure the audited information is free from material misstatement, whether due to fraud or error. The Auditor-General is also responsible for the publication of the annual report whether in printed or electronic form.

PKF Goldsmith Fox Audit
Chartered Accountants

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the information we audited and reporting that opinion to you based on our audit. Our responsibility arises from section 38 of the Public Audit Act 2001 and sections 45D and 45F of the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the External Reporting Board.

We carry out an audit of a public entity on behalf of the Auditor-General. The amount of work we carry out on behalf of the Office of the Auditor-General is no more than the amount of work we did prior to our appointment as auditor of the Auditor-General, and is insufficient to threaten our independence. Other than the audit of the public entity on behalf of the Auditor-General and the audit of the Auditor-General, we have no relationship with or interests in the Auditor-General.

The engagement partner on the audit resulting in this independent auditor's report is Gordon Hansen.

PKF Goldsmith Fox Audit.

PKF Goldsmith Fox Audit
Christchurch, New Zealand

Appendix 1
Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act 2001 requires us to include in the annual report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

At 30 June 2017, arrangements had been entered into for audits of the following entities:

- The New Zealand Sports Foundation Charitable Trust
- The AUT/Millennium Ownership Trust
- ANDRILL Joint Venture
- New Zealand Antarctic Research Institute

Discussions are continuing with three other organisations about their audits.

Appendix 2
Report from the independent reviewer

John R Strahl

150 Riverside Drive

Lower Hutt

18 July 2017.

Controller and Auditor- General

P O Box 3928

Wellington 6140

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT ALLOCATION PROCESSESS

Background and instructions

Pursuant to section 14 of the Public Audit Act 2001 (Public Audit Act), you are appointed as the auditor of all public entities. Under section 42 you are authorised to fix the fee payable for all such audits which must be reasonable.

Audit New Zealand, a business unit of your Office, has a large and competent staff. However with approximately 3,700 public entities in New Zealand which must be audited, it is impractical for Audit New Zealand itself carry out all these audits. You thus contract auditors from the private sector to carry out many of these on your behalf. The Office of the Auditor-General (OAG), sets strategy, policy, and standards, and appoints and oversees auditors, both from Audit New Zealand and auditors contracted from the private sector, who carry out audits on your behalf.

You have retained me as an independent party to review the basis upon which auditors, both from Audit New Zealand and the private sector, are appointed to act on your behalf, and to review the basis upon which the audit fees for these audits are determined.

This is my report on that review for the year ended 30 June 2017.

I am a former partner and chairman of law firm DLA Piper New Zealand. I chair a public entity which is audited by Audit New Zealand on your behalf. I confirm that I am independent of the Office of the Auditor-General, Audit New Zealand and all private sector audit firms.

My instructions are;

' ..to review and confirm the probity and objectivity of the methods and systems used by the Office of the Auditor-General to;

Allocate and tender audits;

Monitor the reasonableness of audit fees; and

Anything else that impacts on those activities.

There has been no limitation placed on the manner in which I may carry out my work and I have been free to inspect any documents or files that I have considered appropriate to the review. I confirm that in the conduct of my review I have been given free access to all matters I have requested and have received full co-operation from your Office. I have also met with several of your staff, the Executive Director of Audit New Zealand and two private sector audit providers.

Types of Audit Appointments

In accordance with policies and practices adopted by your Office, there are four main types of audit appointments;

1. an appointment made of an auditor to an entity, usually for a term of 3 years under the Audit Allocation Model (Allocation Model)
2. an appointment of an auditor for an entity, following a contestable process, if you consider that is appropriate in the given circumstances
3. a re-appointment of an auditor for a further term, usually 3 years, to audit that same entity
4. where an audit involves 150 or more budgeted hours, the individual auditor and senior personnel may not undertake the audit work for more than 6 years, thus a new auditor must be appointed, though that may be another person in the same firm.

Appointments for new entities

In the last financial year, the Auditor-General appointed auditors for 30 new entities. That number includes 6 schools or school related entities. Apart from schools, these new entities are mainly subsidiary entities created or acquired by existing entities, but a few were completely new. All of these appointments were made following the principles set out in the 'Allocation Model' on which I will comment later. I observed no dissatisfaction by any of those entities to either the appointment made, the terms of appointment, or the proposed audit fee. I conducted a random review of the files relating to several appointments. All were well documented, showed appropriate consideration of the principles of the Allocation Model, good process and decision making using objective standards.

New entities which must be audited by you by virtue of the Public Audit Act, often are created without any specific consideration of that requirement. I was satisfied with the approach taken by your office to track these down and to manage the appointment process.

Re-appointments (other than for schools)

Existing auditors were re-appointed during the last financial year to audit 458 public entities and their subsidiaries for a further term. In respect of all the appointments covered by this paragraph, I observed no dissatisfaction from any of the entities and an appropriate process appeared to be followed and in accordance with the principles set out in the Allocation Model.

New appointments for existing entities (other than for schools)

There were 10 new appointments made for existing entities. Other than for 2, all were appointed pursuant to the principles of the Allocation Model. None were significant and no dissatisfaction in respect of the appointments made was evident.

Unusually 2 new appointments, both for substantial existing entities, were made following a contestable tender process. Both changes arose following some dissatisfaction between the entity and the previous auditor. As a result, neither existing auditor took part in the tender process.

A robust and thorough process was put in place and a panel, including an independent chair, was involved in assessing the tenders and making a recommendation to the Auditor-General. A representative of the entity took part in the panel. As required the final decision was made by the Auditor-General.

I considered that this process adopted for these entities in the particular circumstances was both appropriate and reasonable and that the tender itself was well conducted.

It was also reassuring to note that as a result of this contestable process, the audit fee determined in respect of the entity with no material change to the scope of the audit was entirely consistent with the historical audit fee for that entity.

Appointment of school auditors

The appointment of auditors of all schools and school related entities arises on a 3 year cycle and that was completed in 2015. As a result, other than for the appointments to 6 new schools, no re-appointments took place this year. However, there were changes made to 53 schools (involving 2 auditors) due to quality concerns. For 35 of those schools, new auditors were appointed following a small tender, and the balance were directly appointed in accordance with the Allocation Model. I saw no material dissatisfaction with any of these new appointments.

Audit Allocation Model

As can be seen from the appointments above, the vast majority have been made using the Allocation Model with only a few by the use of a contestable basis. The Allocation Model has been the principal method used for appointments since it was first adopted in 2003 and later revised in 2010. This is now a well established and publicised set of principles are set out in a document entitled; "Appointing public sector auditors and setting audit fees.' The principles are summarised in that document as comprising:

auditor independence;

auditor knowledge about public entities and public sector audits;

the particular audit skills required;

the audit's quality and cost; and

the need for the Auditor-General to always have access to enough audit capacity and capability.

The full guide is available on the OAG website (ISBN-978-0-478-38310-2) and is provided to any entity and auditor when appropriate. It is consistently followed and referred to when issues arise.

I have again considered the Allocation Model and whether it remains fit for purpose. Prior to its adoption most audit appointments were made following a contestable tender process. The conduct of audits in the public sector requires specialist expertise, and a careful balance to ensure good quality and consistent auditing at reasonable cost. I remain of the view that that these objectives and the balancing required to retain a consistent level of quality and reasonable cost, is best achieved by use of the Allocation Model as opposed to a pure contestable process in the vast majority of cases. The contestable process was successfully and appropriately used this year for 2 substantial entities. However while I expect it will continue to be used in individual cases when appropriate, I doubt this will happen very often.

By making appointments in accordance with such a model, given the inherent discretion available, this requires a disciplined and consistent application of the principles of the model when decisions are made. From my review of appointments made during the last year, a careful and consistent process has been followed.

Auditor Independence

This year I also reviewed whether the commitment to 'auditor independence', one of the key allocation principles and a requirement of the Audit Standards, is adequately monitored. I observed a strong commitment to this and found both reasonable and appropriate systems in place to both monitor and reinforce compliance.

Audit fees

Section 42 of the Public Audit Act 2001 authorises the Auditor-General to set the fee for all audits which must be reasonable. In the event of a dispute, either party may refer any fee dispute to arbitration.

In practice, at the commencement of every individual audit appointment, the proposed fee is first referred to OAG by the auditor for review to ensure its reasonableness and it is then provided to the entity for the auditor and entity to agree. The OAG will assist in that process and has available a comprehensive data base of fees in the sector. It is the strong preference of the Auditor-General for the entity and the appointed auditor to then reach agreement, and that is almost always the case.

In the year under review there are no outstanding disputes over audit fees, although it is always possible that a dispute might be raised again at a later date.

In no case over the last year has the Auditor-General had to exercise the power to fix a fee and not since 2009 has there been a reference to arbitration.

The OAG has strong and consistent guidelines as to what level of fee is regarded as reasonable. Apart from limited permitted changes due to unexpected additional time requirements or change of scope, increases in hourly rates or overall increases are carefully and strictly monitored. A twice yearly review of overall movement in audit fees is conducted and reported to the Auditor-General and OAG leadership team.

Most issues which arise over fees are during or at the end of an audit. Some arise due to the constrained financial position of particularly small entities. Some arise due to misunderstandings about what is required and sometimes the quality of information provided by the entity and rework by the auditor as a result leads to tension. In all cases reviewed, the OAG has shown consistent care and patience in helping to resolve these issues.

I am entirely satisfied that the approach of the Auditor-General has been consistent and reasonable in the process of setting and resolving issues over audit fees.

Issues arising after appointment

While I have observed virtually no disputes over the initial appointment of auditors or the first setting of the audit fee, there continue to be some limited cases of subsequent dissatisfaction. This is most commonly raised by a few entities and only in a very limited number of cases by an auditor. They almost always involve the entity thinking they have to pay too much or that the performance or relationship between the entity and the auditor is not good. It is sometimes both.

The number involved remains very small. I have reviewed several of the disputed cases. In all cases the Auditor-General has taken a consistent and objective position and has sought to assist the parties resolve the issue. In a few exceptional cases, the Auditor-General has changed the auditor for the following year.

Other issues

There are no other material issues which arose in the previous year which in my view warrant comment in this report.

Conclusions

I have been provided full access to all relevant material and free access to the relevant files and personnel of the OAG. I have met with and obtained full explanations to all my queries by OAG personnel and have observed the relevant internal process of the OAG including as to disclosure of interests and the monitoring of auditor independence. On the basis of that review and the explanations provided I consider that the policies currently adopted for the allocation of audits and the setting of fees are appropriate and that:

1 the process and methods used to allocate audits has been conducted fairly, reasonably, and with suitable probity and objectivity

2 the approach and process taken to fix and monitor the reasonableness of audit fees has been reasonable, having regard to the interests of all parties, and has been conducted with suitable probity and objectivity

3 the subsequent issues that have arisen for both appointments and fees have been dealt with objectively, fairly and patiently

Yours sincerely

John R Strahl.

Appendix 3
Reports and other work published in 2016/17

Performance audits
Auckland Council: How it deals with complaints
Department of Corrections: Managing offenders to reduce reoffending – Progress in responding to the Auditor-General's recommendations
Using Gateway reviews to support public sector projects
Watercare Services Limited: Review of service performance – Progress in responding to the Auditor-General's recommendations
Summary of our Education for Māori reports
Governance of the National Security System
Canterbury Earthquake Recovery Authority: Assessing its effectiveness and efficiency
Investing in tertiary education assets
Medium-term planning in government departments: Four-year plans
Immigration New Zealand: Delivering transformational change
Ministry of Social Development: How it deals with complaints – Progress in responding to the Auditor-General's recommendations
Mental health: Effectiveness of the planning to discharge people from hospital
Managing the assets that distribute electricity
Border security: Using information to process passengers
Inquiries
Inquiry into the Saudi Arabia Food Security Partnership
Inquiry into aspects of Auckland Council's Westgate/Massey North town centre project
Inquiry into state schools requesting payments in connection with out-of-zone places (report to the Ministry of Education, five schools, and Chris Hipkins MP)
Inquiry into the awarding of a management contract for a Niue hotel (letter to Andrew Little MP)
Other reports and studies
Health sector: Results of the 2014/15 audits
Assessing the performance of the Office of the Auditor-General against International Standards (Performance Management Framework short report)
Detailed assessment of the New Zealand Office of the Auditor-General against International Standards (Performance Management Framework long report)
Central government: Results of the 2015/16 audits
Local government: Results of the 2015/16 audits

Other work published
Results of the 2015 school audits (letter to the Ministry of Education)
Government of Niue 2013-2014 Assembly report
Looking forward – Insights from the 2015/16 CRI annual audits (letter to the Education and Science Committee)
Results of the 2015 tertiary education institution audits (letter to the Education and Science Committee)
AgResearch Future Footprint Project: Our targeted review of the updated business case
Asset management and long-term planning: Learnings from audit findings 2015 to 2017
Insuring public assets – Follow-up letter to the Finance and Expenditure Committee
Insights and challenges: My vision for the public sector (the Auditor-General's e-mailed letter to State sector Chief Executives)
Maritime New Zealand fees – Letters to the Regulations Review Committee
The Auditor-General's Auditing Standards 2017
About the Auditor-General (update of 2010 edition)
Funding arrangements for Singapore Airlines route (letter to Wellington City Council)
Annual Report 2015/16
Draft Annual Plan 2017/18
Annual Plan 2017/18
The Auditor-General's strategic intentions to 2025
Model financial statements for Crown entities 2015/16
Model financial statements for local authorities 2016/17

Appendix 4

Progress against our proposed work programme for 2016/17 as described in the Appendix to our *Annual Plan 2016/17*

Work we planned for 2016/17	Published title	Date
Overview report on *Investment and asset management* theme	Published in 2017/18 (1/8/17)	
Sharing information in the border sector	*Border security: Using information to process passengers*	22/6/17
Digital services and access to information and services	Expected to be finished in 2017/18	
Health patient information services	Expected to be finished in 2017/18	
Immigration New Zealand's online systems	*Immigration New Zealand: Delivering transformational change*	13/4/17
Using data to improve public services: The state of leadership, on-the-job training, investment assessment, and capability development	Expected to be finished in 2017/18	
Information for social housing	Expected to be finished in 2017/18	
Infrastructure as a Service: Are the benefits being realised?	Expected to be finished in 2017/18	
Investment to improve the information about local government assets	Expected to be finished in 2017/18	
How secure is data in the public sector?	Expected to be finished in 2017/18	
Overseas Investment Office – How effectively does it collect and manage information relevant to decision-makers?	Expected to be finished in 2017/18	
Auckland Council – Review of service performance: Digital re-engineering of customer interfaces	Expected to be finished in 2017/18	
Canterbury rebuild – The effectiveness of the Canterbury Earthquake Recovery Authority	*Canterbury Earthquake Recovery Authority: Assessing its effectiveness and efficiency*	8/2/17
Education for Māori: Reflections report	*Summary of our Education for Māori reports*	12/10/16
Procurement – Procurement guidance	To be reviewed and updated in 2018/19	
Social sector contracting – Is it well managed?	To be completed in 2018/19	
Review of Defence Major Projects Report 2016	Completed in 2017/18 (6/7/17).	

Governance to support the National Security System in achieving national security objectives	*Governance of the National Security System*	1/12/16
Review of the Treasury's 2016 statement on New Zealand's long-term fiscal position	Completed in 2017/18 (25/7/17)	
Next steps in performance reporting	To be included in our work on the future shape of public management and accountability	
Summary of results of the 2015 audits of tertiary education institutions	*Results of the 2015 tertiary education institution audits* (letter to the Education and Science Committee)	31/1/17
Summary of results of the 2015 school audits	*Results of the 2015 school audits* (letter to the Ministry of Education)	16/12/16
Central government: Results of the 2015/16 audits	*Central government: Results of the 2015/16 audits*	13/12/16
Local government: Results of the 2015/16 audits	*Local government: Results of the 2015/16 audits*	12/4/17
Public entities' progress in implementing the Auditor-General's recommendations 2016	Individual follow-up or progress reports published during the year as planned.	Various

Appendix 5
Progress with work carried forward from 2015/16

Work we planned for 2015/16	Published title	Date
Public asset management – Strategy, practice, and information	The Auditor-General decided not to proceed with this project.	
Tertiary education: Optimising investment in assets	*Investing in tertiary education assets*	14/2/17
Are central government entities" medium-term financial plans reasonable and supportable?	*Medium-term planning in government departments: Four-year plans*	7/3/17
Schools: How the management of school property affects the ability of schools to operate effectively	Published in 2017/18 (27/7/17)	
Energy lines companies: Managing critical infrastructure	*Managing the assets that distribute electricity*	20/6/17
Return on investment in modernising the courts	Expected to be finished in 2017/18	
Major asset investment: Planning and delivering benefits – the contribution of the Gateway process	*Using Gateway reviews to support public sector projects*	20/9/16
Auckland Council: Complaints management	*Auckland Council: How it deals with complaints*	25/8/16
Delivering mental health services	*Mental health: Effectiveness of the planning to discharge people from hospital*	31/5/17
Health sector: Results of the 2014/15 audits	*Health sector: Results of the 2014/15 audits*	9/8/16

About our publications

All available on our website

The Auditor-General's reports are available in HTML and PDF format on our website – www.oag.govt.nz. We also group reports (for example, by sector, by topic, and by year) to make it easier for you to find content of interest to you.

Our staff are also blogging about our work – see blog.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.

Sustainable publishing

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.

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