



Summary of our report

Central government: Results of the 2016/17 audits



This report sets out the results of our audit of the *Financial Statements of the Government of New Zealand for the year ended 30 June 2017* (the Government's financial statements) and of carrying out the Controller function.

Challenges for government in 2016/17

The 2016/17 financial year saw major disruption to government services and transport infrastructure resulting from the severe Kaikōura earthquake in November 2016 (the Kaikōura earthquake). Costs are estimated to be \$0.6 billion for EQC claims, \$0.2 billion has been recognised so far (to 30 June 2017) on restoring rail and road transport links, and further costs are anticipated.

The Government also identified external risks to New Zealand's economy from overseas events and trends, including slow global economic growth and political shifts such as Brexit and uncertainty about global trade developments.

Policy initiatives (such as the Better Public Services programme and the activities supporting the achievement of the Government's targets) can often involve cross-agency delivery, which can present operating challenges for agencies and also challenges in their financial and performance reporting and, consequently, for our audits of those reports.

Key audit matters

Key audit matters are those that, in our view, are complex, have a high degree of uncertainty, or are otherwise important to the public because of their size or nature. Accounting for and reporting on the key audit matters is not straightforward, not least because of the judgements, estimates, and assumptions involved.

The key audit matters for 2016/17 were:

- recognising tax revenue;
- valuing the rail network assets, the State highway network, electricity generation assets, and the social housing portfolio;
- valuing the Accident Compensation Corporation's outstanding claims liability and the Government employees' superannuation liability; and
- valuing financial assets and liabilities.

We made three recommendations that relate to the key audit matters.

Vital statistics:

- 48 pages
- Presented to Parliament on 13 December 2017
- Download from www.oag.govt.nz
- Contact: reports@oag.govt.nz

Significant matters in the financial statements of the Government

As well as the key audit matters, we reported to the Minister of Finance on two other important audit matters: accounting for the proposed Crown contribution to the City Rail Link development in Auckland, and the treatment of income-related rent subsidies, which the Ministry of Social Development treats differently from Housing New Zealand Corporation and Tāmaki Regeneration Limited.

We made a further recommendation that the Treasury, along with the Ministry of Social Development, Housing New Zealand Corporation, and Tāmaki Regeneration Limited, review the documentation relating to income-related rent subsidies and clarify who the intended recipient of the subsidy is. Whether the intended recipient is best characterised as the tenant or the social housing provider affects the accounting treatment.

Controller perspective

Since 2009/10, there has been an overall downward trend in incidences of unappropriated expenditure. In 2016/17, the amount of unappropriated expenditure was \$124 million (2015/16: \$78 million), which is less than 0.14% of the Government's total appropriations for all Votes authorised through the Budget 2016 process (2015/16: less than 0.10%).

The total amount of expenditure incurred without prior Cabinet authority, as reported in the Government's financial statements for 2016/17, was \$90 million (2015/16: \$73 million). This was 0.10% of the Government's budgeted expenditure for 2016/17 (2015/16: 0.08%).

We noted that several central government agencies' offices in Wellington were affected by the Kaikōura earthquake. Consequently, those agencies incurred unanticipated expenditure during the year ended 30 June 2017. This expenditure was incurred either within the appropriations provided by Budget 2016 or incurred under imprest supply and appropriated for in the Appropriation (2016/17 Supplementary Estimates) Act 2017. No expenditure was incurred under the emergency or disaster expenditure provisions of the Public Finance Act 1989.

However, a significant amount of expenditure relating to the restoration of transport links damaged by the Kaikōura earthquake was unappropriated and will need to be validated by Parliament.

Continued changes and challenges to financial reporting

In last year's report on the results of the audits of central government, the then Auditor-General commented on the constant change in the operating environment and externally, and the challenges this had brought over the previous seven years. With the potential for further natural disasters, and with current international developments, there will undoubtedly continue to be changes and challenges for central government agencies to respond to. These may require central government agencies to respond in an agile and timely manner. It is important that agencies continue to provide quality reporting in a timely manner to ensure that their financial and performance reports continue to be of a standard that promotes transparency and accountability to Parliament and the public of New Zealand.