



CONTROLLER AND AUDITOR-GENERAL

Tumuaki o te Mana Arotake

B.29[09a]

Parliamentary paper

# Performance audits from 2007: Follow-up report

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# Performance audits from 2007: Follow-up report

Presented to the House of  
Representatives under section 20 of  
the Public Audit Act 2001

March 2009

ISBN 978-0-478-32622-2

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# Auditor-General's overview

This report to Parliament sets out the actions taken in response to the findings of the 14 performance audits my Office published during 2007.

While I have previously reported on the effect of selected performance audits, this report contains more comprehensive coverage of the action taken in response to our performance audit reports.

I welcome comments from members of Parliament and the public on the usefulness of the information presented here, and guidance on what information they would like to see included in future reports of this nature.

If readers would like more information about the performance audits discussed in this report, the full text of each performance audit report is available on my Office's website – [www.oag.govt.nz](http://www.oag.govt.nz).

I thank the staff of the public entities discussed in this report for their help in collating this information.



K B Brady  
Controller and Auditor-General

18 March 2009



# Introduction

This report to Parliament sets out the actions taken in response to the findings of the 14 performance audits we completed in 2007. We are publishing this report to Parliament now because entities have had a reasonable length of time to respond to the findings of the performance audits we completed during 2007.

The work we do provides Parliament with independent assurance that public sector organisations are operating, and accounting for their performance, in keeping with Parliament's intentions. This includes assurance about the activities and operations of local government – local authorities and the entities they control.

This independent assurance is provided through the reporting set out under the Public Audit Act 2001 and other statutory requirements:

- annual financial audits and other audits of public entities;
- our Controller work, including the appropriation audit;
- performance audits and other studies;
- responding to enquiries from ratepayers, taxpayers, and members of Parliament; and
- approvals under the Local Authorities (Members' Interests) Act 1968.

Annual audits, other audits of public entities, and the Controller work are statutory requirements. The performance audits we carry out are part of our discretionary work.

## What is a performance audit?

A performance audit is a significant and in-depth audit covering issues of effectiveness and efficiency. It provides Parliament with assurance about specific issues or programmes and their management by the relevant public entity or entities.

Our mandate allows us to carry out performance audits of all public entities, including central government departments, local authorities, schools, district health boards, and the defence force.

Performance audits are carried out under section 16 of the Public Audit Act. A performance audit can examine:

- how effectively and efficiently a public entity is working;
- whether a public entity is complying with its statutory obligations;

- any act or omission that might waste public resources; and
- any act or omission that might show (or appear to show) a lack of probity or financial prudence by a public entity or one or more of its members, office holders, or employees.

The product of a performance audit is usually a report to Parliament that will identify good or emerging practices, raise any issues or concerns, and (where necessary) recommend improvements to the public entity's performance. All our performance audit reports are available on our website ([www.oag.govt.nz](http://www.oag.govt.nz)), and distributed free when people request a copy.

Public entities decide whether they accept and how to implement our recommendations. In most cases, public entities welcome the independent advice given by our auditors, and seek to make the improvements we suggest. In other cases, public entities adopt alternative approaches that address the issues underlying our recommendations, and we welcome this initiative.

There are also times where the passage of time or changes in circumstance means it no longer makes sense to implement the recommendations as we originally wrote them. Sometimes, our recommendations are not given priority or the entity's management finds them in some way unsatisfactory.

## Monitoring responses to performance audit findings

We follow up on the responses made to our performance audits, and the progress public entities have made in implementing our recommendations, to ensure that our work has a positive influence on the public sector. We follow up on the responses to our performance audit findings in several ways, including:

- informally discussing progress during regular annual financial audits and relationship meetings with public entities;
- receiving formal briefings from the management team of a public entity on their progress in implementing our recommendations;
- requesting written feedback from public entities on their response to our performance audit reports;
- providing information to select committees on our performance audit reports and suggesting lines of enquiry for committees to question public entities about their response;
- following up, during the annual financial audit, on the issues raised in the performance audit; and
- carrying out a formal follow-up performance audit to find out whether the issues identified in our performance audit have been or are being resolved.

In most cases, the information presented in this report is based on the relevant public entity's representation of the action it has taken, and what we have learned during our continuing discussion with the entity. While we have performed no formal audit work to verify the accuracy of the information reported, we are satisfied that the information included fairly reflects, as at December 2008, the responses to our performance audit reports.

## Responses to the findings of our performance audits

Overall, we are satisfied with the responses to the findings of the performance audits we completed during 2007.

Except in a few instances, the relevant public entity accepted (or partially accepted) our recommendations. We made 131 recommendations in the performance audit reports we published during 2007, and have information on the response to 110 of these. Of the 110 recommendations, 108 have been accepted or partially accepted.

Of the 110 recommendations we have information on, 76 (69%) have been implemented. A further 27 recommendations are expected to be implemented within the first half of 2009 – this would bring the number of recommendations implemented to nearly 94%.

We will continue to monitor progress within the relevant entities where implementation appears to be slow, if we have continuing concerns, or where the issues are of great importance.

We will be following up with entities about the 21 recommendations where we do not yet have full information on the response to the findings of our performance audit.

## Structure of this report

For each of the performance audits we completed during 2007, we set out:

- brief background information;
- an outline of the scope of the audit;
- a summary of our audit findings; and
- the response to our audit.

The information is presented by the title of the performance audit report that we published, and grouped by select committee<sup>1</sup> for the convenience of the Finance and Expenditure Committee. That Committee may choose to forward this report to other appropriate select committees.

<sup>1</sup> The exception is our report on statements of corporate intent, which spans more than one committee.

# New Zealand Qualifications Authority: Monitoring the quality of polytechnic education

The New Zealand Qualifications Authority (NZQA) is a Crown entity set up in 1990 to take a lead role in the areas of quality-assured qualifications, and quality-assured provision of education and training.

NZQA is responsible for the quality assurance of polytechnics. Quality assurance functions include approving courses, accrediting providers to deliver courses, and auditing providers against academic quality standards.

For 19 of the country's 20 polytechnics, NZQA has delegated its quality assurance functions to an independent agency, Institutes of Technology and Polytechnics Quality (ITP Quality). A division within NZQA (the Provider Registration and Accreditation unit<sup>1</sup>) audits the other polytechnic (Unitec New Zealand).

## The scope of our audit

Our performance audit assessed how effectively NZQA oversees quality assurance in the polytechnic sector. Specifically, our audit:

- examined how NZQA manages delegating quality assurance functions for the polytechnic sector;
- reviewed the operation of, and reporting arrangements for, the academic audit function delegated to ITP Quality;
- reviewed NZQA's auditing of Unitec New Zealand;
- examined the extent to which a risk-based approach is used in the academic audits of polytechnics; and
- reviewed how special audits are used for polytechnics.

Our audit focused on quality assurance as it relates to academic audits (that is, reports on the quality of education that polytechnics provide). We did not look at course approval or provider accreditation.

## Our findings

NZQA has systems for monitoring how it delegates quality assurance functions to ITP Quality, and ITP Quality had a well-established academic audit system. We concluded that there were opportunities for NZQA's board to more actively review the academic audits to ensure that it is promptly aware of any quality issues.

In our view, NZQA needed to adopt a more strategic approach to using academic audit reports, and to consider how to use the reports for other purposes (for example, better understanding the quality of the education that polytechnics are providing, and informing NZQA's quality assurance role in the polytechnic sector).

<sup>1</sup> At the time of our audit, this group was known as the Approvals, Accreditation and Audit group.

We recommended that NZQA:

- formally review all academic audit reports received from ITP Quality;
- summarise the audit reports received from ITP Quality and the Provider Registration and Accreditation unit, and that NZQA's management report this summary to the NZQA board;
- hold regular formal meetings with ITP Quality to discuss issues associated with academic auditing functions;
- require that all ITP Quality's audit reports contain enough evidence to support audit conclusions that academic standards have been complied with; and
- require that ITP Quality audit reports clearly state the reasons for selecting the programmes to be audited.

## The response to our findings and recommendations

During our audit, NZQA said that our recommendations were in keeping with the direction it was taking under its new divisional structure. ITP Quality also supported the recommendations. Our staff and NZQA officials have regularly met to discuss how they are carrying out our recommendations.

The Deputy Chief Executive of NZQA's Quality Assurance Division oversaw the implementation of our recommendations. By the time our audit report was published, NZQA already had a plan in place for carrying out our five recommendations.

We note that NZQA is working closely with ITP Quality, and that the Deputy Chief Executive of NZQA's Quality Assurance Division is now a non-voting member of the ITP Quality board.

We are confident that NZQA is making good progress in addressing our recommendations to improve its monitoring of the quality of polytechnic education.

# Effectiveness of the New Zealand Debt Management Office

The New Zealand Debt Management Office (NZDMO) manages the Crown's debt and associated financial assets within an appropriate risk management framework. Its broader responsibilities include providing capital market advice and financial transaction services to other Crown agencies. It operates as a separate unit within the Treasury, under the authority of the Minister of Finance.

## The scope of our audit

Our audit aimed to find out how well NZDMO manages the Crown's public debt and financial asset portfolios. We focused on the following areas:

- the Crown's balance sheet and the role of NZDMO;
- assurance mechanisms used for governance;
- debt management in the strategic portfolio;
- debt management in the tactical portfolio;
- use of derivatives;
- internal systems; and
- personnel risks.

## Our findings

There were no fundamental concerns with NZDMO's performance. However, we did identify some opportunities for improving governance, risk management, portfolio management policy, and performance reporting. We made 19 recommendations for change.

## The response to our findings and recommendations

Of the 19 recommendations, NZDMO agreed to fully carry out 12, and partially carry out or consider five. It disagreed with two.

Five of the 12 recommendations that NZDMO agreed to fully carry out involved making changes to its Portfolio Management Policy (PMP). These changes will occur during a major PMP review, which NZDMO expects to complete in the first half of 2009.

A further four recommendations that NZDMO agreed to fully carry out involved changes to methodology. A new approach introduced by NZDMO has addressed two recommendations: one relating to NZDMO's market risk model, and the other to managing specific risk types within its tactical portfolio. The other two recommendations, including one about NZDMO's credit risk methodology, have not yet been put in place.

NZDMO also agreed to fully carry out three further recommendations – one about its internal and external reporting, one clarifying the role of its Risk Management Steering Group, and one about how it reviews its delegations. These recommendations will form part of planned NZDMO reviews in each of these areas.

Of the five recommendations NZDMO agreed to partially put in place or consider, two related to changes to methodology, two to improving its internal and external reporting, and one to a change in the PMP. Because most of these recommendations rely on changes already under way at NZDMO (for example, carrying out our other recommendations), they will be considered once the other changes have been made.

One recommendation that NZDMO partially agreed to (relating to external reporting) involved refining its risk-adjusted performance measure. We consider the NZDMO still needs to review the measure's appropriateness and consider alternatives.

NZDMO disagreed with our two recommendations about risk management practices. NZDMO considers that the risks covered by our recommendations are already managed. We still take the view that the two recommendations are relevant and could assist NZDMO to better manage some of its risks.

NZDMO intends updating us on its progress towards carrying out our recommendations. This is expected to happen early in 2009. We will continue monitoring NZDMO's progress, and expect good progress to be made in 2009.

# New Zealand Customs Service: Collecting customs revenue

The Auditor-General regularly reviews public sector entities that collect the Government's revenue. Because the New Zealand Customs Service (the Service) collected about 15% of the Government's total forecast revenue in 2006/07, we decided to provide assurance to Parliament about the Service's revenue systems and controls.

The Service collects revenue from customs duties, excise, and the Goods and Services Tax (GST) on imports. This "customs revenue" becomes due when the Service clears imported goods and when excisable goods are moved from where they were manufactured.

## The scope of our audit

Our audit assessed the Service's arrangements for collecting customs duties, excise, and the GST on imported goods, and analysed in detail the performance of its electronic system to record import, export, and excise transactions (CusMod).

Specifically, we examined whether the Service:

- had suitable systems for collecting customs revenue;
- accurately received entries and calculated and collected the customs revenue; and
- adequately reported on its revenue-collecting performance in its annual report.

## Our findings

Although we made five recommendations for improvement, we were satisfied overall that the Service's systems for collecting customs revenue were sound, and that its information technology systems were performing effectively.

The Service uses a voluntary compliance regime for collecting revenue. Its systems supported the regime and were sound:

- Its credit and debt management schemes collected the revenue due for 97% of the entries lodged in CusMod (the remaining revenue was collected in cash).
- The Service carefully assessed the risk of applicants before admitting them to its schemes.
- The schemes had powerful built-in incentives for participants to comply with their customs obligations.

The Service regularly audited whether manufacturers were complying with their licensing conditions. This gave assurance that the right amount of revenue was being collected.

The Service's method for fixing and notifying exchange rates was efficient and had traders' support.

We scrutinised relevant parts of CusMod and the Service's financial management information system. Our expectations for the Service's systems and procedures were nearly all met.

Although the data used to report on the performance measures in the Service's accountability documents was accurate and complete, the performance measures did not measure the whole compliance process. We could not assess whether there had been any compliance improvements.

## **The response to our findings and recommendations**

The Service accepted and is putting in place all five of our recommendations. In summary, it is:

- raising awareness of customs obligations among importers by better using its Credit Control and Trade Assurance teams (who visit clients and educate staff), and by making its website more focused on the Service's clients;
- improving its methods for setting exchange rates for working out the value of imported goods;
- updating its business rules for revenue collection as part of its new Joint Border Management System (to replace CusMod);
- updating its disaster recovery plans, and planning to progressively upgrade its Information Systems disaster recovery system; and
- enhancing its performance reporting measures to show how all its activities – including education, intelligence, and audit – contribute to the voluntary compliance regime.

We are pleased with the Service's responses to our audit, and our auditors will continue to follow its progress during the annual financial audit.

# Department of Internal Affairs: Effectiveness of controls on non-casino gaming machines

The Department of Internal Affairs (the Department) administers the Gambling Act 2003, which sets out the framework for controls on non-casino gaming (or “pokie”) machines.

## The scope of our audit

Our performance audit assessed the effectiveness of the Department’s policies, procedures, and practices for ensuring that:

- non-casino gaming machine operators and venues are licensed – allowing only those persons and organisations who meet the Act’s requirements to enter and remain in the non-casino gaming machine industry;
- non-casino gaming machine operator and venue costs are appropriate – otherwise, funds available to the community are reduced; and
- funds are distributed or applied to authorised purposes, including through grants – otherwise, the community does not benefit in the manner intended by the Act.

We did not examine how funds flowed to the community, how the funds were used in the community, how effectively the funds were used in the community, or the Department’s oversight of harm minimisation activities.

## Our findings

### Licensing non-casino gaming machine operators and venues

Although the Department had extensive policies and procedures covering its licensing and auditing of operators and venues, those policies, procedures, and practices did not always meet the requirements of the Gambling Act.

Licensing staff were issuing and renewing licences without the necessary delegated authority. The Department treated this seriously, sought appropriate legal advice, and had largely rectified the issue by the time our report was finalised.

Our audit also identified significant delays in finalising annual licences for some societies and clubs.

### Monitoring and enforcing compliance

Although the Department’s strategic approach to compliance was still emerging, the fundamental elements we expected the Department to have were in place.

However, the Department was unable to systematically and comprehensively monitor compliance levels within the industry, limiting its ability to demonstrate the results of its work and further refine how it works.

### Compliance of grant processes and payments

Gambling inspectors lacked clear guidance for auditing and investigating how gaming machine operators were making grants to community groups and for other authorised purposes. Policies and procedures for this work needed finalising.

### The response to our findings and recommendations

All 17 of our recommendations for the Department were accepted, and the Department agreed to carry them all out. Widespread media coverage followed the release of our report.

The Department employed a staff member to oversee that our recommendations were carried out. In August 2007 and November 2008, the Department provided us with an update on its progress. The Department has now specifically addressed all the recommendations from our report.

The Department considered that our audit complemented other business improvement initiatives that were under way within the organisation at the time. Our audit findings supported wider changes within the Department's Gambling Compliance Group, including:

- better links between licensing and compliance processes;
- improved decision-making around licensing;
- clearer alignment with the Department's gambling outcome framework; and
- better reporting and quality assurance through a new performance assurance team.

This alignment of our audit findings with the Department's own initiatives has also meant that it could respond to 11 ancillary findings raised in our report. A new project called the Integrated Gambling Platform is considering addressing a number of our recommendations, including the need for improved grants monitoring.

We commend the Department for its response to our report.

# Management of conflicts of interest in the three Auckland District Health Boards

In March 2007, the High Court set aside a contract for laboratory services in the Auckland region between Lab Tests Auckland Limited and the three Auckland District Health Boards (DHBs) – Auckland DHB, Counties Manukau DHB, and Waitemata DHB. The Court found that one Auckland DHB member had a conflict of interest and that the DHB did not do enough to protect the process of awarding the contract from that conflict of interest. (In September 2008, the Court of Appeal overturned that decision.)

## The scope of our audit

After a request from the Minister of Health, we carried out a performance audit to examine how conflicts of interest are dealt with in the three Auckland DHBs. The audit looked in detail at the policies and practices for managing conflict of interest within each of the three DHBs.

Our audit examined whether each DHB:

- was using adequate systems and processes for identifying and disclosing conflicts of interest, having regard to legal and other public sector standards;
- was using adequate systems and processes for managing conflicts of interest, having regard to legal and other public sector standards; and
- adequately supported the prudent management of conflicts of interest in its governance and management structures and arrangements.

## Our findings

The three Auckland DHBs had useful policies and procedures in place, but improvements were possible in some areas. In particular, we considered that board and committee members needed to conscientiously follow the statutory requirements about conflicts of interest that apply to them.

We also considered that:

- policies and procedures could be improved by better information or criteria used by managers to assess the seriousness of a conflict of interest;
- more documented examples were needed of how particular conflicts of interest were managed, as a way to help manage future risks;
- specific conflicts of interest needed to be clearly identified at meetings, and any affected members should not participate in that particular matter unless formal waiver procedures were used;
- the DHBs needed to do more to raise awareness of how to manage conflicts of interest under their policies, especially among managers in operational departments; and

- Auckland DHB needed to assign an administrative staff member or team to lead, foster, and co-ordinate the management of conflict of interest issues.

We made seven recommendations focused on the three Auckland DHBs, but we expected that the report might also be helpful to the wider DHB sector.

## The response to our findings and recommendations

In accepting and implementing all our recommendations (by changing its policies and processes as appropriate), the Counties Manukau District Health Board considers that all its staff and board members are now acutely aware of the potential for conflicts of interest to arise almost anywhere in the health sector. Consequently, there is increased awareness about the need to disclose any conflicts of interest, and a wider questioning of potential conflicts of interest.

Auckland DHB has raised awareness of managing conflicts of interest with its staff and board members. The board administrator now leads, fosters, and co-ordinates how the DHB manages conflict of interest issues. The DHB encourages open disclosure of potential conflicts of interest through an emphasis on organisational values. Advice is available should questions about conflicts of interest arise. Disclosure of conflicts of interest at board meetings is now a set agenda item. Any disclosures are recorded, along with the agreed action taken.

Instead of devising criteria for assessing the seriousness of a conflict of interest, Waitemata District Health Board has increased rigour by urging its operational managers to discuss conflict of interest matters with suitably experienced staff. As such, this approach realises the intent of our recommendations. Along with other changes, the DHB has altered the way it conducts its board meetings to allow for a clearer distinction between an interest and a conflict of interest.

The Ministry of Health is preparing new guidelines for DHBs to use to manage conflicts of interest. The content and direction of these guidelines is strongly influenced by our performance audit report and our other publications on conflicts of interest.<sup>1</sup> The Ministry of Health expects to release its guidelines in early 2009.

We have received feedback that our 2007 report has been widely read within the health sector. Several public entities requested bulk copies of the report for use by their staff. There was widespread media coverage of our report.

<sup>1</sup> For example, *Managing conflicts of interest: Guidance for public entities*, June 2007.

# Ministry of Health and district health boards: Effectiveness of the “Get Checked” diabetes programme

The “Get Checked” programme (the programme) was set up in June 2000 by the Health Funding Authority (HFA). The programme gives people diagnosed with diabetes the opportunity to get free annual health checks. These checks ensure that key tests (which assist in identifying diabetes complications early) have been completed for the year and treatment can be planned for the year ahead. The data collected from the programme is also important for providing care and for planning diabetes services.

District health boards (DHBs) are responsible for the programme and ensuring that it is delivered in their districts.

## The scope of our audit

We carried out a performance audit to assess how well the programme achieved its objectives. Our audit sampled six DHBs – Auckland, Counties Manukau, Tairawhiti, Hawke’s Bay, Capital and Coast Health, and Otago – and selected primary health organisations (PHOs) within these DHBs.

This sample enabled us to look at districts where the programme was operating well and others where the programme was not working so well; and to highlight districts with large populations of Māori and Pacific Island people (who are particularly at risk of developing diabetes).

## Our findings

We were pleased to find that the Get Checked programme had resulted in improved delivery and access to diabetes services. More people were getting these services, and there was heightened diabetes awareness and improved patient monitoring at the primary health care level. Education and guidelines for treatment and referrals to specialist diabetes services had improved. Innovative programmes were being used to remove barriers for those needing diabetes care, particularly Māori and Pacific Island peoples.

Of our 18 recommendations, five were aimed at DHBs and were about improving programme data quality. The remaining 13 recommendations suggested improvements to the programme’s effectiveness. These recommendations were directed at the Ministry of Health (the Ministry) or DHBs, and through them, PHOs and Local Diabetes Teams<sup>1</sup> (LDTs). Five recommendations were directed specifically at the Ministry.

<sup>1</sup> Local Diabetes Teams include clinicians and consumers. The Teams provide advice to district health boards, healthcare providers, and consumer support agencies on the effectiveness of services for people with diabetes within the district health board area.

## The response to our findings and recommendations

We recommended that the Ministry review and update (if necessary) the national referral guidelines for diabetes. A review is expected to be complete by mid-2009. The Ministry has also updated its *Assessment and Management Handbook for Cardiovascular Risk*, which is due to be published in early 2009.

We recommended that the Ministry and DHBs review the role of LDTs to decide how LDTs can best advise on the effectiveness of diabetes healthcare. The Ministry has reviewed the LDT service specification and identified some issues. An updated service specification is due to be ratified and put in place in early 2009.

We recommended that the Ministry and DHBs consider how to improve the adoption of our recommendations about LDTs. In its updated service specification each LDT is now required to report to the Ministry and the DHB (at least annually, sometimes quarterly) on diabetes services in their area. Also, the new service specification is more detailed about how DHBs must respond to LDT reports – for example, LDT reports must be tabled at DHB board meetings and the board must give feedback to LDTs on their reports.

We recommended that the Ministry and DHBs work with PHOs to evaluate existing initiatives designed to remove barriers to those needing diabetes care, and to make sure that all DHBs and PHOs are aware of any successful initiatives. The Ministry’s responses include:

- “systems dynamic modelling” – a project between the Ministry, DHBs, PHOs, and the wider health sector to better understand the most important factors influencing health outcomes for diabetes and cardiovascular disease;
- strengthened requirements for DHBs to document diabetes initiatives in their Annual Plans; and
- using the Ministry’s Long-Term Conditions Programme (established in mid-2007) to share information and promote initiatives throughout the sector.

We recommended that DHBs and the Ministry further analyse (by, for example, cohort analysis) how well the Get Checked programme has influenced diabetes care and management, and to identify any further improvements. A cohort study commissioned by the Health Research Council is under way, and the Ministry is awaiting the results. The 2006/07 *New Zealand Health Survey* also contained questions about diabetes, and the results are expected to help validate the Get Checked programme’s data.

We intend to follow up during 2009 on the response to our remaining recommendations, which were directed at all 21 DHBs, and through them, PHOs and LDTs.

# Licor licensing by territorial authorities

Under the Sale of Liquor Act 1989 (the Act), each of the 73 territorial authorities (city and district councils) has the status of a District Licensing Agency (DLA). DLAs are responsible for considering applications and issuing licences for selling and supplying liquor to the public.

## The scope of our audit

The Auditor-General's interest in the regulatory practices of local government led us to audit how territorial authorities were managing their liquor licensing responsibilities under the Act. We assessed how 12 territorial authorities were using the Act's powers, and whether the Act's purpose – controlling the sale and supply of liquor to reduce alcohol-related harm – was reflected in the systems and processes used by the territorial authorities.

Specifically, we looked at:

- the resources and systems supporting DLAs;
- compliance monitoring by the DLAs;
- the service offered by DLAs to applicants, licensees, and the public; and
- DLAs' compliance with the liquor licensing legislation.

## Our findings

Usually, territorial authorities were doing a good job, although there were some important areas for improvement.

### Resources and systems supporting District Licensing Agencies

DLAs lacked informed and systematic approaches to decide on the resources they needed to do their job, including actively monitoring licensed premises. Consequently, territorial authorities needed to:

- clearly define their statutory responsibilities under the Act;
- specify what activities are required to carry out those responsibilities, and
- provide the necessary resources.

DLAs must work closely with the Police and public health services to administer the Act effectively. There was evidence of close, collaborative working relationships. But we were of the view that a formal agreement between the local DLAs, the Police, and the public health services would help better co-ordinate information between the three groups. Such an agreement would record the common goals, differing roles, and agreed approach to processing applications, sharing information, and pooling resources.

## Compliance monitoring by District Licensing Agencies

Under the Act, DLAs are responsible for issuing liquor licences, and monitoring and enforcing compliance with licence conditions and the Act. Not all DLAs were sufficiently committed to this responsibility. All DLAs needed to consider whether they had enough resources allocated to this work, and to follow active and systematic monitoring strategies.

## Customer service

DLAs' customer service to applicants, licensees, and the public was responsive. We identified some areas for potential improvement, such as more training and education by DLA staff to encourage greater voluntary compliance, using target timeframes for processing applications, and surveying licensees to assess their satisfaction with the DLA's service.

## Compliance with liquor licensing legislation

DLAs were applying liquor licensing legislation provisions consistently. However, DLAs were not always using documentation or following procedures that clearly complied with the legislation. As a result, DLAs could be challenged about their decision-making processes and the validity of their decisions.

## The response to our findings

All the agencies we dealt with during our audit endorsed our findings and the issues we raised for consideration by local authorities.

We encouraged each territorial authority to review its own practices against the better practice framework outlined in our report, and are aware that some territorial authorities have done this. Such changes will take time to consider and put in place, and we intend seeking feedback on each authority's response to our report in July 2009.

Since publishing our report, we have worked closely with Local Government New Zealand to identify priority areas for improving licensing practice, and co-ordinate initiatives to share and promote guidance to the sector. We intend maintaining close contact with Local Government New Zealand on matters relating to our report.

We have set out the findings from our audit and indicated areas for improvement in various presentations to practitioners, territorial authority managers, and other stakeholders.

## Sustainable development: Implementing the Programme of Action

The Sustainable Development for New Zealand: Programme of Action (the Programme of Action) was the Government's response to the 2002 World Summit on Sustainable Development. At the Summit, participating countries agreed to work towards sustainable development goals in areas spanning social, economic, and environmental concerns.

The Programme of Action, published in January 2003, set out 10 sustainable development principles for central government to use in policy development and decision-making. It had four main areas of focus (called workstreams), and set out how progress towards sustainability would be measured. The four workstreams were Quality and Allocation of Freshwater; Sustainable Cities; Energy; and Investing in Child and Youth Development.

The Programme of Action sought to introduce a different way of working, by requiring central government to work more proactively and collaboratively on complex issues, to better integrate existing initiatives, and to learn from new processes.

### The scope of our audit

Our overall aim was to assess how effectively the Programme of Action was being carried out. To do this we audited how the Department of the Prime Minister and Cabinet (DPMC) carried out leadership and co-ordination, planning, and evaluation and reporting for the whole Programme of Action. We also audited the leadership, planning, and evaluation of the Ministry of Economic Development (MED) for the Energy workstream, and of the Ministry for the Environment (MfE) and MED for the Sustainable Cities workstream.

We also saw an opportunity to assess and identify any implications for cross-agency work.

We expected there to be:

- effective co-ordination by DPMC, and effective collaboration between DPMC, departments, and other parties such as local government;
- support for the sustainable development principles;
- effective planning and implementation of the Programme of Action as a whole and for the two workstreams; and
- effective evaluation and reporting of the systems and progress of the Programme of Action as a whole and for the two workstreams.

## Our findings

Our report did not contain any recommendations, but we did identify implications for cross-agency work within three broad themes:

- leadership, co-ordination, and governance;
- project management and planning; and
- accountability through reporting, monitoring, and evaluation.

Our expectations were mostly met, apart from some aspects of planning and reporting to the public.

### Collaboration, co-ordination, and support for the sustainable development principles

Working collaboratively was a successful feature of the Programme of Action for each workstream and, in particular, in the Auckland Programme (a part of the Sustainable Cities workstream that involved central and local government working together on Auckland urban issues).

People we interviewed told us that working together on the Programme of Action had led to a better understanding by central and local government about what each sector did and how they worked. This better understanding had reinforced many subsequent initiatives by central government.

Several sustainable development principles were set out in the Programme of Action for use in policy development. These principles were intended to form the basis of a principles-based approach, one that could be at the core of all government policy.

We were told that the principles were used to informally test ideas and projects during decision-making on the workstreams. In addition, the shared learning opportunities for the participants helped them to better understand the Programme of Action. However, few formal methods were used to apply the sustainable development principles.

Individual workstreams had clear governance structures from the Senior Officials Co-ordinating Group (set up by DPMC), to the lead chief executive, and through to a Minister. However, in our view, governance for the Programme of Action as a whole was less clear. This was because relevant Ministers did not meet, and because of the large number of agencies responsible for leadership, co-ordination, and oversight of the Programme of Action and its workstreams.

## **Planning and implementation of the Programme of Action and the Sustainable Cities and Energy workstreams**

We acknowledge that project planning for cross-agency work is complex. Nevertheless, only a few project plans were produced for the workstreams. There was only limited programme planning that addressed issues such as joint planning, and the amount of resources needed to carry out the Programme of Action as a whole. We considered that the longer-term aims of the Programme of Action would have been more fully supported by an increased focus on programme planning for the Programme of Action as a whole.

A high turnover of staff in leadership positions made continuity more difficult.

However, in general, the workstreams achieved progress on projects during a time of changes to legislation that affected the local government, energy, and transport sectors.

## **Evaluating and reporting on the processes and progress of the Programme of Action**

DPMC and workstream leaders successfully used several informal methods to share information and report to each other about particular challenges that arose from using the sustainable development principles in policy development.

However, there was not enough publicly available information to support shared learning and public accountability. For example, neither the draft mid-term report nor the final evaluation report of the Programme of Action was publicly released.

## **The response to our findings**

We contacted MED, DPMC, and MfE in October 2008, and asked for their comment on what effect our audit had.

### **Ministry of Economic Development**

MED commented that our findings echoed its own evaluation of its cross-agency work. This was helpful said MED, and suggested that its evaluation was “on the right track”. MED also noted that, because its views were aligned closely with ours, it was not easy to clearly identify specific actions it had taken as a direct response to our audit.

MED is continuing to work with several government agencies on projects such as the New Zealand Energy Strategy and the New Zealand Energy Efficiency and

Conservation Strategy. The way MED is carrying out this cross-agency work is in line with our report's suggestions for successful cross-agency interaction – for example, it is providing progress information on its website to support capability building and accountability.

### **Department of the Prime Minister and Cabinet**

DPMC considered that our report made useful comments about initiatives by public entities to foster public sector capability and effectiveness for cross-agency work, and contributed to the complex and challenging field of whole-of-government activity. Since our report was released, DPMC, the State Services Commission, and the Treasury continue to devise ways of working together to raise public sector performance, and ensure that departments are focused on Government priorities and that their efforts are appropriately co-ordinated.

### **Ministry for the Environment**

MfE (like MED) stated that it was difficult to attribute improvements in cross-agency work directly to our performance audit report, but considers there has been a significant shift in how agencies work together since the Programme of Action, and that working co-operatively has required agencies to think more broadly than their own area of responsibility.

MfE believes that our report reinforced the need to create firmer structure and reporting lines at the start of cross-agency projects – so that a stronger mandate for a project's operating limit is created, and a solid accountability structure is cemented in place, through to the appropriate chief executives and Ministers.

### **Select committee briefings**

We briefed three select committees (Local Government and Environment, Primary Production, and Commerce) on the audit findings. The Commerce Committee, in particular, thanked us for contributing to improvements in cross-agency collaboration.

We are pleased to see that central government agencies are working towards increasing cross-agency collaboration, and are continuing to use whole-of-government approaches to achieve the Government's broad goals.

# Waste management planning by territorial authorities

At the time of our performance audit, the Local Government Act 1974 required all territorial authorities to adopt a Waste Management Plan to provide for waste management in their district. The Act directed territorial authorities, when preparing their plans, to consider the following waste management methods, in order of priority: reduction, reuse, recycling, recovery, treatment, and disposal.

## The scope of our audit

We carried out a performance audit of how territorial authorities managed their solid waste. Our audit report contained:

- an assessment of whether all territorial authorities had adopted a Waste Management Plan, and how that plan provided for managing solid waste in the district; and
- the details of how six selected territorial authorities were implementing their Waste Management Plans.

We also focused on three case studies, highlighting specific approaches to managing solid waste:

- a territorial authority with a zero waste policy;
- two territorial authorities with joint waste management arrangements; and
- two territorial authorities using landfill gas as an energy source.

## Our findings

Although all territorial authorities had prepared Waste Management Plans, some plans did not contain all the information we expected. We were concerned that these plans would not help guide council decisions about waste management.

More generally, in many cases it was unclear whether the plans had been formally adopted. Some plans were out of date.

The six plans we reviewed in more detail were in various stages of implementation. Progress was being made – several territorial authorities had improved their plans and practices through self-review and by updating their plans.

We noted that the waste management methods used by these territorial authorities favoured waste diversion and waste disposal activities rather than waste reduction. We were not convinced that all six territorial authorities understood the demand that steady or increasing quantities of waste will place on their future waste management activities.

We were pleased to see that most of the six territorial authorities had good waste management practices. Most had updated and refined their waste management plans, and all collected detailed data on the waste they managed. Several had clear internal reporting systems that linked reporting on waste management activities to the relevant parts of their waste management plans.

The areas for improvement related to contract management, data management, and the need to ensure that information in the waste management plan was consistent with information in the Long-Term Council Community Plan.

Our audit report did not make any recommendations, but did list considerations for territorial authorities to take into account when preparing or reviewing Waste Management Plans, carrying out recycling activities, reviewing the implementation of Waste Management Plans, entering joint management arrangements, and using landfill gas as an energy source.

## **The response to our findings**

After the report's release, our staff attended the Waste Management Institute New Zealand conference in May 2007 and presented the report findings at a Solid Waste Management Planning workshop. We received pleasing feedback from workshop participants.

We also briefed the Local Government and Environment Committee on our findings. The Committee considered that our report gave them practical insight into local government waste management practices. It was also well timed because the Committee was considering the Waste Minimisation Bill.

That Bill has since been finalised, and the Waste Minimisation Act 2008 came into force in September 2008. The new Act encourages waste minimisation and a decrease in waste disposal to protect the environment from harm and provide environmental, social, economic, and cultural benefits. This Act requires territorial authorities to adopt a Waste Management and Minimisation Plan.

We encourage territorial authorities, when updating their plans to meet the new Waste Minimisation Act's requirements, to take account of the findings in our report.

# Implementing the Māori Language Strategy

The Māori Language Strategy (the Strategy) is a 25-year strategy to co-ordinate and prioritise government action towards Māori language revitalisation.

The Strategy was jointly produced by Te Puni Kōkiri (the Ministry of Māori Development), and Te Taura Whiri i te Reo Māori (Te Taura Whiri). The Strategy was published in October 2003.

Six agencies lead the Strategy: Te Puni Kōkiri, Te Taura Whiri, Te Māngai Pāho (the Māori Broadcasting Funding Agency), the Ministry for Culture and Heritage, the Ministry of Education, and the National Library of New Zealand. Each agency leads areas appropriate to its role.

Te Puni Kōkiri's responsibilities include co-ordinating, monitoring, and evaluating the overall Strategy. Te Puni Kōkiri also monitors progress towards the 25-year goals every five years.

## The scope of our audit

We audited how effectively the Strategy was being put in place by the various lead agencies. Our audit focused on three questions:

- Has Te Puni Kōkiri co-ordinated Strategy work effectively?
- Have the lead agencies carried out Strategy planning effectively?
- Is Te Puni Kōkiri monitoring Strategy outcomes and evaluating the effectiveness of the Government's Māori language activities?

Our audit's scope did not include examining activities that the lead agencies might be carrying out to implement their Strategy plans.

## Our findings

Partly because of staffing changes, Te Puni Kōkiri's overall Strategy co-ordination had been variable since its release in 2003. By the 30 June 2004 deadline set by Cabinet, no agency had completed and finalised a plan that fully met the Strategy's requirements. However, since March 2005, Te Puni Kōkiri's co-ordination and support became more precisely targeted. It gained a better understanding of each agency's challenges and needs and took a more flexible approach to how each agency could meet the Strategy planning requirements.

We acknowledged that the lead agencies had challenges to contend with. Some agencies with no explicit focus on Māori language or strong relationships with relevant stakeholders found understanding and carrying out their particular responsibility in the Strategy to be very challenging. Those agencies with the strongest focus on Māori language (Te Taura Whiri and Te Māngai Pāho) had made the most progress in planning to implement the Strategy.

Nevertheless, we stated that the lead agencies needed to hasten their planning to fulfil the Strategy's requirements.

### **Monitoring and evaluation**

In our view, Te Puni Kōkiri had properly monitored the health of the Māori language through surveying the health of the Māori language and attitudes to the Māori language. It had not yet evaluated the effectiveness and efficiency of the Government's Māori language activities. This was partly because Strategy planning by the lead agencies had not progressed far enough to provide a basis to assess progress in each area by 2005/06, when the initial evaluations were scheduled to begin.

We made 11 recommendations for Te Puni Kōkiri and the other lead agencies.

### **The response to our findings and recommendations**

Our performance audit suggested that Te Puni Kōkiri and other lead agencies needed to give the Strategy more attention. Te Puni Kōkiri has accepted the recommendations in the report relevant to it, and has encouraged the other lead agencies to also address the recommendations.

During our audit, Cabinet had directed a Strategy review in 2008/09 that would focus on, for example, outcomes, roles of the Government, and the relationships between Māori and the Government. This review is currently under way, and scheduled to finish in June 2009. Te Puni Kōkiri has worked with the lead agencies during the 2007/08 financial year to carry out several self-evaluations supporting the Strategy review.

We have worked with Te Puni Kōkiri to ensure that our findings could contribute to the review. Eight of our 11 recommendations are expected to be carried out as part of the review.

The remaining three recommendations relate to regular briefings to the Minister of Māori Affairs on progress in implementing the Strategy, the Ministry for Culture and Heritage having more active engagement with its stakeholders, and Te Puni Kōkiri and the other lead agencies working together to identify how they could influence their stakeholders to be more actively involved with the Strategy. Work to implement these three recommendations is continuing.

Our staff and Te Puni Kōkiri officials meet regularly, and the Strategy's implementation forms a standard agenda item. Our discussions have revealed that all agencies are showing increased commitment to the Strategy.

## Te Puni Kōkiri: Administration of grant programmes

Our audit of Te Puni Kōkiri (the Ministry of Māori Development) was the third in a planned series of performance audits (starting in 2003) of grant programmes managed by public entities. These audits aim to provide assurance to Parliament that grant programmes are administered appropriately, with public funding allocated as intended by the Government.

Te Puni Kōkiri is the Government's principal advisor on Māori issues. Its main functions are:

- advising on government policy affecting Māori well-being;
- monitoring how Māori communities are affected by government services; and
- administering funding programmes for community development.

Te Puni Kōkiri's grant and funding programmes are part of how it enables Māori to succeed as Māori, and supporting Māori communities, strategies, structures, projects, and enterprises.

### The scope of our audit

Our audit focused on the effectiveness and efficiency of Te Puni Kōkiri's systems and processes for administering its grant programmes. Our sample was taken from grants and projects in five programmes dating between 1 July 2004 and 30 June 2006. Specifically, we looked at whether:

- there were sound and appropriate policies and procedures in place to ensure that grants aligned with programme policy objectives;
- these policies and procedures were being complied with;
- there was appropriate monitoring of grants as they were paid; and
- there were appropriate frameworks for evaluating the grant programmes.

### Our findings

Although Te Puni Kōkiri had some good systems for administering its programmes, improvements to several areas could be made. For example, there was often not enough information to assess funding proposals to the extent required by Te Puni Kōkiri's own guidelines. Contracts were often signed late in the financial year, but funding for many of these grants was paid early in the contract. This made it hard for Te Puni Kōkiri to manage the delivery of its objectives.

There was little documented evidence that Te Puni Kōkiri monitored progress towards objectives, and little evidence that it reviewed actual expenditure.

We made 16 recommendations to Te Puni Kōkiri for improving its grants administration, including better monitoring the progress of funded projects, and better evaluating how well funded projects delivered what they set out to achieve.

## The response to our findings and recommendations

Te Puni Kōkiri accepted and agreed to carry out all our recommendations. After we briefed Parliament's Māori Affairs Committee, it held a hearing with Te Puni Kōkiri where the Chief Executive gave assurances that the issues highlighted in our report were being fixed. The report's release was widely covered by the media.

We follow up on Te Puni Kōkiri's progress at regular relationship meetings with the Chief Executive and second tier managers responsible for grant funding and contract management.

Since we released our performance audit report, Te Puni Kōkiri's contract management has significantly improved. Our financial auditors noted the following actions taken to strengthen grants administration when we audited Te Puni Kōkiri in 2006/07 and 2007/08:

- establishing a contracts unit to address contracting and policy issues;
- putting in place a redesigned contract management system (Smartfund) that includes a centralised concept and proposal process;
- employing contracts advisors in regional offices to scrutinise contract monitoring and compliance with Te Puni Kōkiri's Operations Manual;
- updating the Operations Manual to reflect public sector good practices and standards;
- moving away from paying substantial amounts of money upfront to providers;
- aligning contract payments to deliverables and the work's physical progress; and
- introducing a centralised approval process for all significant contracts.

While our 2006/07 annual financial audit identified a few areas for improvement, our 2007/08 audit identified no new contract management issues. However, we will continue focusing on contract management during future annual audits, and will continue to monitor the changes and improvements that Te Puni Kōkiri puts in place.

# Assessing arrangements for jointly maintaining state highways and local roads

In most districts, central and local government agencies carry out their road maintenance responsibilities separately. Three district councils (Rotorua, Marlborough, and Western Bay of Plenty) have formal collaborative arrangements to manage and maintain local roads and state highways passing through the districts as a single road network. Several other collaborative agreements between local authorities and central government have been proposed but have not proceeded.

During our audit, Transit New Zealand (Transit) was the central government agency responsible for maintaining state highways.

## The scope of our audit

We looked at how central and local government agencies were collaborating to maintain state highways and local roads. We considered whether the three existing collaborative agreements between district councils and Transit were working well, and resulting in effective maintenance of local roads and state highways at lower cost.

We also looked at why four other proposed collaborative agreements had not proceeded. We drew together views on the lessons learned and on what made collaborative agreements more likely to succeed.

## Our findings

Overall, we concluded that collaborative agreements between Transit and district councils could be an effective means to maintain local roads and state highways.

District councils were getting greater savings and more non-financial benefits than Transit from these agreements. However, from its national perspective, Transit saw significant drawbacks. It believed that managing state highways as a national network becomes fragmented and not as efficient under such agreements.

Transit had decided not to pursue further collaborative agreements. In our view, Transit had not thoroughly assessed the merits of current collaborative agreements against the drawbacks it perceived. We considered that a thorough assessment along the lines we suggested would result in a more robust basis for making future decisions on whether and how to collaborate.

Of the four proposed agreements that had not proceeded, the reasons for not proceeding were different in each instance. However, differences between Transit and the district councils on their preferred model for collaboration were an important factor.

Our 10 recommendations included seven about the specific arrangements between the district councils and Transit. We also made three recommendations to Transit and local authorities, to:

- more fully assess the value of collaborative agreements with local authorities;
- use our recommended assessment of collaborative agreements as a robust basis for informing future decisions on whether and how to collaborate; and
- refer to the success factors identified in Part 7 of our report as a guideline to help the parties make well-informed decisions about any future collaboration.

Responsibility for implementing our recommendations transferred from Transit to the New Zealand Transport Agency (NZTA), which was established in August 2008.

## The response to our findings and recommendations

Western Bay of Plenty, Marlborough, and Rotorua District Councils, and NZTA each accepted the recommendations in our report.

We recommended that Western Bay of Plenty District Council and NZTA introduce a more comprehensive system to track cost-savings, and how these savings are being used. The Council has carried out two-yearly project evaluations that confirm that savings are intact and being used to improve the road network. NZTA is about to start investigating a more comprehensive system for tracking expected savings against the current contract.

As we recommended, Marlborough District Council and NZTA's Marlborough Roads Office have discussed succession for the Asset Engineer position if staff changes occur, and plans have been made to fill the position. Our second recommendation about more specific targets for the Council's service expectations from Marlborough Roads is being taken up as part of the 2009-19 Long-Term Council Community Plan process.

Our four recommendations to Rotorua District Council and NZTA were about reviewing the delegation agreement. That review has been delayed because of NZTA's establishment and amendments to the Land Transport Management Act 2003. However, the Council and NZTA are both committed to putting the recommendations in place. Discussions between NZTA and the Council have agreed a no-surprises approach to the review. The review, and, accordingly, carrying out our recommendations, is expected to be completed by 30 June 2009.

NZTA has not yet begun to assess the value of collaborative agreements with local authorities, but intends to do so by mid-2009. Although NZTA is not looking to enter any new joint arrangements with local authorities, it remains open to the possibility.

# Department of Labour: Management of immigration identity fraud

The Department of Labour (the Department) ensures that New Zealand attracts and retains skilled migrants, and assists refugees to settle.

The Department also contributes to border security by preventing the entry of those without the appropriate authority and detecting and removing people who have entered fraudulently.

## The scope of our audit

We carried out a performance audit focusing on how the Department handles people seeking to enter New Zealand with a false identity, within the entry categories for skilled migrants and United Nations quota refugees (UN-quota refugees).

Specifically, we examined the Department's systems, processes, and procedures for preventing, detecting, and investigating immigration identity fraud.

We did not examine any other types of immigration fraud – such as false qualifications, false job and false marriage offers, or fraud committed by international students, Department employees, or third parties such as immigration consultants.

## Our findings

The Department had systems, processes, procedures, and relationships with relevant external agencies, for preventing, detecting, and investigating identity fraud within the entry categories for skilled migrants and United Nations quota refugees.

However, several areas could be improved. One was the need to identify and monitor risks specific to immigration fraud, and prepare strategies and plans to address those risks. Another was the need to introduce specific training and guidance for staff involved with detecting fraud. We also concluded that more effective support systems were needed for staff, especially for investigating fraud (where there was a significant backlog of cases).

The Department also needed to collect better data and improve evaluation processes so it learns lessons from its existing prevention, detection, and investigation activities.

We made 15 recommendations for change, covering risk management, staff training, amendments to plans and procedures, and evaluation of the Department's immigration identity fraud activities.

## The response to our findings and recommendations

After our audit findings were released, the then Minister for Immigration announced that all our report recommendations would be put in place, and that the gaps would be closed to his satisfaction.

Since our report's release, we have met regularly with Department officials to discuss progress, and the Department has established a project management team to fully carry out our recommendations.

The Department posted progress updates regularly on its website, and its October 2008 update stated the Department had implemented all 15 of our report's recommendations.

During our audit, the Auditor-General said he intended to continue watching how the Department managed immigration identity fraud, and that he would observe with interest progress to implement the Government's immigration change programme. This change programme would affect the Department's systems, processes, and procedures for managing immigration identity fraud in the future.

# Statements of corporate intent: Legislative compliance and performance reporting

Statements of corporate intent are important public accountability documents required by law to be produced by a range of public entities each year. The statements should set out an entity's planned objectives and activities for the next three years, as well as performance targets the entity must report against in its annual report. Commenting on draft statements give shareholders an opportunity to influence the entity's direction.

Given how important statements of corporate intent are for public accountability, we were interested to find out how well public entities were complying with their legislative requirements.

## The scope of our audit

Fifty-four public entities were audited for their compliance in producing and reporting against a statement of corporate intent. These entities included Crown Research Institutes, energy companies, port companies, and State-owned enterprises. We also looked at council-controlled organisations and council-controlled trading organisations required to produce a statement of intent. This is because the legislative requirements for statements of intent are very similar to the legislative requirements for statements of corporate intent (for ease, we refer only to "statements of corporate intent").

We did not include government departments or "statutory" Crown entities in this performance audit.

We expected public entities to comply with all applicable legislative requirements for the content of their statements of corporate intent, and how they report on that content in their annual reports.

We also expected the performance targets and other measures used in the statements of corporate intent to:

- cover a range of financial and non-financial targets;
- be measurable;
- be easy to understand; and
- be clearly linked to the entity's stated objectives.

Likewise, we expected entities' annual reports to contain:

- relevant information to enable an informed operational assessment of the entity and its subsidiaries;
- comparisons between planned and actual performance; and
- reasons why an entity's actual and planned performance varied.

## Our findings

Although our performance audit found broad compliance with legislative requirements for the statements, there were disappointing exceptions.

### Compliance with legislative requirements

All the types of entity we looked at were required to include information about the next three financial years in the statements of corporate intent. This is a way for shareholders and the wider public to find out about the medium-term intentions and direction of a public entity. However, some public entities, especially several smaller council-controlled organisations and council-controlled trading organisations, looked forward only one year. This made their statements of corporate intent less useful.

Coverage of subsidiaries in the statements of corporate intent we examined was somewhat mixed, even though the statements are required by legislation to include the activities of the parent entity and any subsidiaries. Sometimes, the statement of corporate intent did not show that the public entity had any subsidiaries.

Even though the governing legislation is very specific about the content that must be included in statements of corporate intent, the required content was sometimes missing.

### The use and quality of performance targets

Performance targets are very important for public accountability because they enable a public entity to state how it will measure its success against its stated objectives. However, the quality of performance targets used by some public entities varies when it comes to measuring their performance, and later reporting on that performance to shareholders and the public in annual reports.

Although most entities provided a wide range of measurable targets (including non-financial measures), only two-thirds of the statements of corporate intent we examined had performance targets that could all be measured. Sometimes, the performance targets were so vague that we could not meaningfully assess whether the targets had been met.

## Performance reporting in annual reports

Most annual reports reported actual performance against targets set in their corresponding statements of corporate intent. Often, however, the entity gave this type of reporting a low profile (by, for example, providing a comparison table at the back of the financial statements). Sometimes, performance targets were only selectively reported on. Finally, entities seldom explained any significant variance between their actual and intended performance.

Our eight recommendations included six about an entity's statement of corporate intent, concerning the need to:

- comply with the statutory obligation to include the next three financial years in its content;
- include subsidiaries within the accounting policies and within the summary of the nature and scope of their activities;
- include a range of financial and non-financial performance targets or other measures;
- ensure that performance targets and other measures used are quantifiable;
- ensure that performance targets and other measures used are easy to understand and that any technical terms are defined clearly; and
- ensure that all the performance targets and other measures used link clearly to the objectives.

Two recommendations about annual reports were to:

- clearly report actual performance against all the targets and other measures set in their corresponding statement of corporate intent; and
- clearly explain any significant variance between actual performance and performance targets as set in their statement of corporate intent. Reasons should be provided if any targets are found to be no longer relevant.

## The response to our findings and recommendations

When preparing for our 2007/08 annual financial audit, we identified specific issues related to statements of corporate intent relevant to each type of public entity, and asked our auditors to check how the public entity was managing these issues. Auditors were also asked to raise awareness of the Auditor-General's desire to see improvements in performance reporting within the public entities.

Our planned follow-up work will show whether quality improvements have occurred in statements of corporate intent, and whether the framework under which they are produced remains relevant – given other accountability methods being used by public entities and their shareholders.

After we released our report, we briefed staff from the Crown Company Monitoring Advisory Unit (CCMAU).<sup>1</sup> CCMAU reviews the statements of corporate intent of entities that fall within its jurisdiction. Although statements of corporate intent of those entities that CCMAU monitor were generally of the highest standard of those we reviewed, CCMAU will, in future, bear in mind our findings when reviewing statements of corporate intent.

Overall, however, we cannot confirm that our recommendations have been acted on, and continue to view the current state of performance reporting as a concern.

Results from our 2007 performance audit were also referred to in our 2008 discussion paper – *The Auditor-General's observations on the quality of performance reporting*. This publication discusses the quality of non-financial performance information reported by public entities, with a focus on outcome and output reporting. The discussion paper is also available on our website.

<sup>1</sup> CCMAU monitors the Government's investment in companies owned by the Crown, assists with the appointment of directors to Crown company boards, and provides performance and governance advice to shareholding Ministers.

# Publications by the Auditor-General

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

- Department of Corrections: Managing offenders on parole
- Housing New Zealand Corporation: Maintenance of state housing
- Annual Report 2007/08
- Ministry of Health: Monitoring the progress of the Primary Health Care Strategy
- Ministry of Education: Supporting professional development for teachers
- Inquiry into the West Coast Development Trust
- Maintaining and renewing the rail network
- Reporting the progress of defence acquisition projects
- Ministry of Education: Monitoring and supporting school boards of trustees
- Charging fees for public sector goods and services
- The Auditor-General's observations on the quality of performance reporting
- Local government: Results of the 2006/07 audits
- Procurement guidance for public entities
- Public sector purchases, grants, and gifts: Managing funding arrangements with external parties
- The Accident Compensation Corporation's leadership in the implementation of the national falls prevention strategy
- Ministry of Social Development: Preventing, detecting, and investigating benefit fraud
- Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund
- Annual Plan 2008/09
- Central government: Results of the 2006/07 audits

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