



CONTROLLER AND AUDITOR-GENERAL

Tumuaki o te Mana Arotake

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Annual plan 2018/19



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Overview

Tēnā koutou. I am pleased to submit this Annual plan for 2018/19.

The work programme outlined in this plan strongly supports the ultimate outcome that we seek from all our work – that Parliament and New Zealanders can have trust and confidence in the public sector.

Procurement is the theme for our theme-based work starting in 2018/19, with work on procurement continuing in the following two years. Through our work, we want to influence those involved in public sector procurement to ensure that they consistently manage it well and in a principled way. In doing so, we want to contribute to maintaining the New Zealand public sector’s reputation for honesty and integrity.

We describe our *Procurement* theme and the work we plan to carry out in Part 3. Part 2 provides an overview of our multi-year work programme and our various work categories, including our new work category – “Sharing good practice” – which directly relates to our strategic objective of strengthening the public sector. Part 1 provides context for our work.

Feedback from Parliament

Our 2018/19 work programme was confirmed after consultation with members of Parliament. This consultation helps us to ensure that our work is relevant, responsive, and useful to Parliament, public entities, and the public.

We consulted the Speaker and select committees about our proposed work programme. We thank them all for their consideration of our proposed work.

The Finance and Expenditure Committee’s feedback

The Finance and Expenditure Committee (FEC) formalised its feedback and that of other select committees in a report to the House of Representatives. The FEC endorsed our planned work programme and our proposed *Procurement* theme-based work starting in 2018/19. The FEC suggested that we examine how well individual public entities assess risk in determining their approach to procurement and whether they adopt good practice. Risk management and good practice are important lenses that we intend to apply when we examine how well a range of public entities are carrying out their procurement responsibilities. This work will inform our approach to updating our public sector good practice guide on procurement.

The FEC further asked us to include work that ensures that the public sector has effective corruption detection and prevention processes in place, noting that this risk extends more widely than procurement. Given the scope of the FEC’s request, we are considering how we can best address this through our annual audits. Our annual audits already assess public entities’ control environments. We are considering how we might take more of a focus on the controls in place to reduce the risk of wrongdoing in the public sector.

Other select committees' feedback

The FEC's report to the House included feedback from the Environment Committee, the Māori Affairs Committee, the Governance and Administration Committee, and the Transport and Infrastructure Committee. These Committees supported our 2018/19 work programme and endorsed our *Procurement*-themed work. The Māori Affairs Committee expressed interest in our work on procurement of services in local communities, planned for 2020/21. The Committee asked us to consider how well Māori communities are served in that process. We have noted this for when our work starts. We have also noted the Transport and Infrastructure Committee's interest in the results of our work with the New Zealand Transport Agency, planned for 2019/20.

Feedback from others

Our *Procurement* theme has generated a lot of interest. People from within the public and private sectors and an iwi organisation sent us carefully considered and thoughtful feedback. All affirmed our aim to see public sector procurement practice improve. Some suggested additional areas to examine and other lenses to apply to our work. As we carry out further scoping, their feedback will help to shape our work.

Concluding comments

We have a challenging work programme for 2018/19 and beyond. In the coming year, we plan to conclude our work on *Water management* and start our three-year programme of work on *Procurement*. We will also carry out the work we have planned under our other work categories.

John Ryan commences his seven-year term as Controller and Auditor-General on 2 July 2018. He may decide that he wishes to vary the work set out in this Annual Plan for 2018/19.

I am confident that we are well positioned to achieve our planned work, and to continue our contribution to a high-performing and trusted public sector.

Nāku noa, nā



Greg Schollum
Deputy Controller and Auditor-General

21 June 2018

About us

Why is there an Auditor-General?

Parliament authorises all government spending and gives statutory powers to public entities. Public entities are accountable to Parliament (and their communities in the case of local government) for how they use the resources and powers that Parliament gives them. Parliament seeks independent assurance from the Controller and Auditor-General (the Auditor-General) that public entities are using these resources and powers, and are accounting for their performance, in the way that Parliament intended.

The Auditor-General's role is to help Parliament in its scrutiny of executive government, to ensure that public entities are effective, efficient, and accountable. To be effective and credible in this role, the Auditor-General must be independent of the Government and operate in an apolitical manner. The Auditor-General is an Officer of Parliament and does not comment on the policies of the Government or local authorities.

Consulting with members of Parliament on our proposed work programme is one way in which the Auditor-General supports Parliament's scrutiny of executive government. To preserve independence, however, the Auditor-General makes the final decisions about the work programme.

Annual audits

The Auditor-General is responsible for auditing every public entity in New Zealand that is required to publicly report (about 3600), many of which are funded by rates or taxes. They include, for example, government departments, district health boards, schools, licensing and community trusts, universities and polytechnics, local authorities and State-owned enterprises.

Each year, we also expect to carry out audits of:

- the financial statements of the Government;
- the Government of Niue, its subsidiaries, and other associated entities;
- the Government of Tokelau; and
- entities the Auditor-General has agreed to audit under section 19 of the Public Audit Act 2001.

Our annual audits make up nearly 90% of our work. Appendix 1 provides a summary of the number and type of public entities in our audit portfolio at June 2018. The number of public entities that we audit has declined by about 250 during the past three years. This is mainly because of the removal of legislative requirements for many subsidiaries of public entities to report separately.

Our public accountability system places responsibility on public entities to account annually for their performance. Public entities do this mainly through publishing their annual reports, which include financial information and, where relevant, performance information. The Auditor-General's work gives assurance to Parliament, public entities, and the public that public entities' financial statements and performance information fairly reflect the results of their activities.

The Auditor-General can also audit whether public entities carry out their work effectively and efficiently, and whether they act with due probity, comply with legislation, and are financially prudent.

Our annual audits of public entities give us direct interaction with, and insight into, how the public sector is operating. The information we gather from our annual audits gives us a unique view of the challenges, emerging issues, and trends across the public sector. We use this information to advise select committees in their work in holding public entities to account as part of Parliament's scrutiny of executive government. We also use this information to help us plan our work programme. It assists us in our understanding of the environmental context for planning our work, and in determining where we can best focus our efforts in improving public sector performance.

Each year, we collate the results of our annual audits in central and local government and other sectors and publish the key findings in our sector reports. The sector reports we plan to complete in 2018/19 are described in Part 3.

Performance audits, inquiries, and other work

As well as annual audits, the Public Audit Act 2001 empowers the Auditor-General to carry out performance audits, inquire into how a public entity uses its resources, and study other matters affecting the public sector.

Performance audits are a key part of our work programme and enable us to delve more deeply in particular areas than we are able to in our annual audits. We also monitor public entities' progress in implementing the recommendations from our previous performance audits and include this work in our work programme.

Inquiries are not included in our work programme because, in contrast to our planned work, our inquiries work reacts to matters of current public concern and is therefore unpredictable. We make decisions about whether issues warrant investigation as matters of public concern arise. In 2018/19, we expect to complete work on inquiries related to procurement matters at the Waikato District Health Board and Westland District Council. These inquiries are currently in progress.

Reporting to Parliament

Each year, we publish reports on the results of our annual audits, performance audits, major inquiries, and other work. Through this reporting to Parliament and other stakeholders, we are able to draw together common themes and trends, and highlight ways that public entities can perform better.

We also:

- advise Parliament and select committees to support annual reviews and Estimates examinations;
- carry out and report on our responsibility under the Local Government (Auckland Council) Act 2009 to review the service performance of Auckland Council; and
- consider enquiries from ratepayers, taxpayers, and members of Parliament.

Our international work

We continue to make a significant contribution to the international auditing community. We aim to strengthen public sector accountability and promote good governance by sharing our knowledge, skills, and expertise with other audit bodies throughout the world, particularly in the Pacific region. We take part in international organisations, forums, and working groups that develop accounting and auditing guidance and standards. These groups include the Global Audit Leadership Forum and the International Organisation of Supreme Audit Institutions (INTOSAI) and its various committees and working groups.

Our work to improve public sector auditing in the Pacific is part of our commitment to the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the official association of supreme audit institutions in the Pacific, and is one of the regional working groups within INTOSAI. The Auditor-General of New Zealand is the Secretary-General of PASAI.

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Our multi-year work programme

Our work programme is made up of a diverse range of work, which we group into six categories. Appendix 2 provides a summary of the work we plan to complete in 2018/19 in the context of our multi-year work programme and a more detailed multi-year overview of our work. We describe each category of work below.

1. Theme-based work

Each year, we use our knowledge of the public sector to help determine a theme that we can apply across much of our work. This approach enables us to increase the impact from our work, and more effectively use our unique role to influence improvements in public sector performance and accountability.

In any given year, our theme-based work includes work that we are completing from previous years' themes and work we are starting under a new theme. In 2018/19, we plan to complete a reflections report on our 2016/17 *Information* theme, complete six reports from our 2017/18 *Water management* theme, and start work on our *Procurement* theme. We intend to complete five reports on procurement in 2018/19 and more work on our *Procurement* theme over the following two years.

In Part 3, we discuss our *Procurement* theme and the work we plan to carry out. We also discuss what we are considering for our future theme-based work.

The themes we have applied to our work in previous years are:

- 2017/18 – *Water management*;
- 2016/17 – *Information*;
- 2015/16 – *Investment and asset management*;
- 2014/15 – *Governance and accountability*;
- 2013/14 – *Service delivery*; and
- 2012/13 – *Our future needs – is the public sector ready?*

2. Multi-year programmes of work on significant matters

Alongside our theme-based work, we carry out multi-year programmes of work on significant matters that we consider warrant ongoing scrutiny, or where we are required or invited to carry out ongoing work.

The matters that we will continue to scrutinise in 2018/19 and the following two years are:

- **The Inland Revenue Department's Business Transformation Programme**

This programme, expected to cost between \$1.50 billion and \$1.69 billion and to be completed by 2021, is designed to create a “modern revenue system” that will make it easier for taxpayers to pay their taxes. We have committed to report from

time to time on aspects of the programme and have published two reports to date. We expect to carry out further work on this programme in 2020.

- **Defence capital projects**

The Ministry of Defence (the Ministry) has estimated that up to \$20 billion will be needed by 2030 to deliver the capability projects outlined in the Defence White Paper 2016 and the Defence Capability Plan – this is more than one-third of total government forecast capital spending over that period. The value of defence capital projects under active management is currently about \$2 billion each year and this is expected to rise to \$3-5 billion each year by 2030.

The Defence Capability Plan is being reviewed, with a revised version to be approved by Cabinet by November 2018. The revised plan is likely to have an extended time horizon out to 2035.

In recent years, we have provided assurance over the Ministry's annual Major Projects Report along with commentary on the report. In 2018/19, we will continue to focus on the Ministry's annual Major Projects Report. In 2019/20 we intend to start a multi-year programme of work to examine defence capital spending in more depth.

- **Commentary on the Treasury's 2019 statement on the long-term fiscal position**

The Treasury is required to produce a statement on the long-term fiscal position at least once every four years. Financial sustainability is of critical interest to our role in giving an independent view of public sector performance and accountability to Parliament and New Zealanders. We have provided a commentary on each of the last two statements about how the Treasury has considered the long-term outlook and the challenges and opportunities for the Government's finances over the long term.

Our commentaries have also covered how well the Treasury communicated its findings in an understandable, informative, and useful way. The Treasury has been considering how it can better incorporate aspects of well-being in future statements on the long-term fiscal position. In 2019/20, we expect to provide commentary on the 2019 statement.

We are required to carry out multi-year work on:

- **Auckland Council**

Section 104 of the Local Government (Auckland Council) Act 2009 requires the Auditor-General to review the service performance of the Auckland Council and each of its council-controlled organisations from time to time. The work we are required to do on Auckland Council in 2018/19 is already under way. We describe this work more in Part 3.

Alongside the work required by legislation, we have an ongoing interest in examining issues affecting Auckland because of its significance to New Zealand. About 33% of New Zealand's population lives in the Auckland region, and nearly 600,000 more people are expected to be living in the Auckland region within the next 20 years. The Auckland population is one of the most diverse in the world. Over 50% of the country's Gross Domestic Product (GDP) is currently created in the Auckland region. A large proportion of central government capital and social investment is to address transport and housing issues in Auckland.

From time to time, the Auditor-General is asked to consider a request for the Office to carry out a monitoring role over a multi-year time frame. We may be invited to carry out multi-year work on:

- **Monitoring the response to the Havelock North inquiry recommendations**

The *Report of the Havelock North Drinking Water Inquiry: Stage 2* was released in December 2017. It focused on improving the safety of drinking water in New Zealand, the lessons from the outbreak of campylobacteriosis in Havelock North in 2016, and the changes that are needed. The Government is considering the report's 51 recommendations, including that:

The Government should invite the Controller and Auditor-General to monitor, for the next five years, the implementation of all the recommendations and initiatives set out in this Stage 2 Report. The Controller and Auditor-General should report to Parliament, as appropriate, on the question of implementation during the five year period.

3. Sharing good practice

Being more active in sharing insights about what "good" looks like is a key aspect of our strategic intentions. By improving the performance of individual public entities, the performance of the entire public sector will be enhanced. To improve, public entities need to understand what is expected of them and what good looks like. As the auditor of every public entity, we are well positioned to guide public entities on what good looks like. We also have an important and influential role as information broker, pointing public entities to other organisations that do similar things better or well.

In 2018/19, we intend to more actively share insights about what good looks like, including updating our existing good practice guides and, where appropriate, developing new guidance. We plan to start with updating our existing guide on severance payments.

We also promote good practice each year by assessing the progress public entities make in implementing the recommendations from some of our previous performance audits, and checking how effective their actions have been in achieving improvements.

4. Sector-based reporting

Each year, we publish sector reports on the results of our annual audits within different sectors. Using information from our audits, including our understanding of the entities and their management controls and systems, our sector reports discuss key issues and trends, systemic problems, and opportunities for improvement within sectors.

We prepare reports on some sectors every year, for example the results of local government audits, and our central government report that sets out the results of our audit of the Financial Statements of the Government and the Controller function. Reports on other sectors are prepared periodically. We decide which other sectors to report on based on matters arising in particular sectors or the theme we have chosen to focus on.

Every three years, we also prepare reports on key issues and trends arising from our audits of the consultation documents and Long-term Plans in local government. The Auditor-General has a statutory duty to issue audit reports on local authorities' Long-term Plans, which are prepared every three years. Our auditors provide an audit opinion on both the consultation document, which local authorities prepare to consult with their communities about the significant issues facing the local authority, and the final long-term plan. We use the information from our audits to prepare these reports.

5. Thought leadership

Influencing improvements in the public sector accountability system is a key aspect of our strategic intentions. How effective the public sector accountability system is in providing assurance that public entities are meeting their required responsibilities and standards is critical to New Zealanders' trust and confidence in government.

Our ongoing programme of thought leadership work will examine whether our public sector accountability system is keeping pace with changes in the public sector environment. We intend to encourage discussion and debate about key aspects of the public sector accountability system, including performance reporting, with a view to influencing improvements.

6. Stand-alone work on significant matters

During our work programme planning, we scan for significant matters across central and local government, and consider where we can add value through providing assurance and influencing improvements. Where we identify important matters that do not fall within our theme-based work or warrant ongoing scrutiny through a multi-year programme of work, we include these in our work programme as stand-alone pieces of work.

Currently, we have no stand-alone pieces of work planned for 2018/19 to 2020/21. This may change if significant issues arise that the Auditor-General considers warrant inclusion in our work programme.

How we manage risks to achieving our work programme

We have a challenging work programme. We recognise there are risks to achieving our work, including:

- that we do not have sufficient capacity or capability to do the work;
- that we do not manage the quality, timeliness and cost of our work well; and
- that we do not achieve the impact we are aiming for.

Our robust planning helps to mitigate these risks. Our business plans are well aligned with the priorities described in the Auditor-General's Strategy 2018 to 2021. Furthermore, they are supported by the actions identified in the Auditor-General's Organisation Development Plan 2018-21 which are designed to ensure that we are in the best possible position to complete our work.

Also, there is flexibility in our work programme to respond to changes. Our work is planned to be achieved based on what we know at present. If new information or risks come to light, the Auditor-General may decide to change some of our planned work, particularly the work in future years beyond 2018/19.

Performance audits and other work we expect to complete in 2018/19

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1. Theme-based work – *Procurement*

Procurement is our theme for 2018/19, with work on this theme continuing in the following two years. By procurement we mean all the processes involved in acquiring goods and services, from the initiation of the procurement through to reviewing whether all commitments have been met and all benefits have been realised.

Our work starts with a *Procurement* foundation report, which will introduce our procurement work programme and explain our interest in procurement and the impact we hope to have through this work.

We are interested in procurement because:

- procurement of goods and services is significant across the public sector;
- it is important that central and local government are getting value for money from their procurement activity;
- it is important that public entities' procurement practice complies with the law and that entities are accountable to Parliament, taxpayers, and ratepayers for the management of public resources;
- procurement should be carried out in a fair, honest, and impartial way that helps ensure that New Zealand maintains its excellent international reputation for a low level of corruption in this area; and
- effective management of government expenditure is an important factor in New Zealand's wider economic performance.

We estimate that the public sector spends about \$42 billion each year procuring goods and services. There have been some recent high-profile instances of poor procurement in the public sector. We are often asked to look into the fairness and probity of procurement activities. Although we think there have been improvements in how the public sector procures its goods and services, we consider that there is still room for improvement.

Through our work, we aim to:

- improve procurement practice in the public sector;
- strengthen public sector accountability for procurement; and
- improve trust and confidence in public sector procurement.

Strategic alignment

In *The Auditor-General's strategic intentions to 2025*, we describe the ultimate outcome that we seek from all of our work – that Parliament and New Zealanders can have trust and confidence in the public sector. Our work on procurement is

strongly aligned with this outcome. Poor or corrupt procurement practice can easily erode trust and confidence in the public sector. We want our work to raise awareness about the implications of poor procurement and how it can adversely and significantly affect trust and confidence.

By highlighting good procurement practice we intend to improve the standard of procurement practice across the public sector. We also want to see stronger public accountability for the use of public funds. We think we can contribute to this through our work by making sure that all public entities understand that they are accountable for their use of public funds through the procurement process.

At the end of our procurement work, we intend to bring together our observations from our work to offer our reflections on procurement practice and to highlight challenges and opportunities for the public sector. We also intend to update our good practice guidance on procurement.

What we plan to do

Starting in 2018/19, we plan to examine the Ministry of Business, Innovation and Employment's (MBIE's) role in procurement, and focus on how it develops procurement workforce expertise and capability in central government. We will look at the governance, management, and effectiveness of procurement in procurement-intensive public entities and high-risk aspects of procurement. We also plan to look at various approaches such as the use of all-of-government contracts, public organisations' panels of suppliers, and public private partnerships.

It is important that public entities select the appropriate procurement approach to fit the circumstances. Different approaches involve different types of relationships with suppliers, different types of opportunity and risk, and require different ways of managing risk.

We have planned a three-year programme of work on procurement, which we describe below. As we carry out our work, we will monitor our programme to ensure that it reflects emerging procurement findings and risks.

We expect that the work for 2018/19 will largely be completed as planned. However, there may be some changes to the work proposed for 2019/20 and 2020/21 if new information or risks come to light that mean we need to change our priorities for the procurement-related work we carry out.

Procurement work – 2018/19

<i>Procurement</i> foundation report	<p>Our foundation report will set the scene for our three-year programme of work on procurement. The report will set out why procurement is critical to the delivery of public services, and will explain the rationale for our work on improving public entity procurement practice. It will explain what we mean by procurement, and what we want to achieve through our work.</p> <p>The report will provide information about the scale and nature of procurement in the public sector, and highlight key themes, challenges, and questions that we are interested in.</p>
MBIE's procurement functional leadership: Driving efficiencies and improving services and service delivery	<p>In 2015/16, the total value of local and central government procurement was about \$42 billion, which represented about 17% of gross domestic product.¹</p> <p>MBIE is a functional leader for government procurement and has a critical role in enabling effective and efficient procurement across the State sector through collaboration. Functional leadership is aimed at maximising the benefits and reducing the overall costs to the Government of common business activities that may not be achieved through an agency-by-agency approach.</p> <p>This audit will examine how well MBIE's functional leadership drives efficiencies and improves services and service delivery. Our audit will specifically examine the part that all-of-government contracting plays in this. The audit will not examine MBIE's property functional leadership responsibilities for assisting agencies to manage the Crown estate.</p>
MBIE's functional leadership: Developing procurement workforce expertise and capability in central government	<p>As well as helping to improve operational procurement practice, MBIE's focus is on building strategic procurement capability. To help raise procurement skill levels across the public sector, MBIE offers:</p> <ul style="list-style-type: none"> • strategic procurement help and advice; • guidance on end-to-end procurement from high-level strategic thinking and business planning through to the operational aspects of sourcing a supplier and managing the contract; • training and education for people working in procurement in the public sector; and • frameworks and tools. <p>Our audit will look at how well MBIE's functional leadership develops procurement workforce expertise and capability in central government.</p>
Panels of suppliers	<p>There are indications that public entities are increasingly using panels of suppliers to buy goods and services. MBIE's guidelines state that panels should be used only when the estimated benefits outweigh the costs of establishing them.</p> <p>We will survey how many of the 300 largest public entities use panels of suppliers for their procurement, how these are used, and the amount of spending involved. We intend to publish the survey results. The results will be used to determine whether we carry out further work to examine the effectiveness of panels of suppliers.</p>
Management of MBIE's grant programmes	<p>There is significant expenditure on the various grant programmes that MBIE administers. This is expected to grow further in the next three years with the establishment of the \$1 billion each year Provincial Growth Fund. We will continue earlier work to review grant processes, systems, and controls to ensure that these programmes operate effectively and efficiently, in line with good practice.</p>

¹ Data sources include the Financial Statements of the Government, local authority annual reports, and Statistics New Zealand.

Procurement work – 2019/20

Procurement workforce capacity and capability (local government)	<p>Local authorities have a vital role in providing infrastructure, facilities, and services for their communities. This often means contracting with third parties for a wide variety of goods and services (for example, construction, technology, waste collection, and public transport). To do this well, local authorities need people with the right skills to advise, manage, and make decisions about what to buy, how to buy it, and how to make sure they are getting what they paid for.</p> <p>In central government, MBIE has a role through its functional leadership to lift procurement capability and develop commercial talent. In local government, there is no similar function.</p> <p>Using a case-study approach, we intend to examine a small selection of local government procurements. We will focus on how the capacity and capability of the people involved affected how well each procurement achieved its intended outcomes. We hope to highlight the importance of procurement capacity and capability, and identify areas that local authorities should focus on to reduce the risk of procurement failures.</p>
Government Chief Digital Officer: Information and Communication Technology procurement functional leadership	<p>Information and Communication technology (ICT) procurement is one of the more important and complex procurement areas. There have been a number of notable ICT procurement failures in the past. Alongside MBIE, the Government Chief Digital Officer (GCDO) has been another key functional leader. The ICT functional leadership role includes responsibility for:</p> <ul style="list-style-type: none"> • implementing effective assurance processes to manage project risks; • utilising emerging technologies that will enable greater workforce mobility, collaboration, and resilience; • providing advice to central government agencies and wider government on agencies' proposed ICT investments; • providing guidance to help agencies improve their online services; and • engaging communities and industry bodies on skills and capability building. <p>Our audit will examine aspects of how well the GCDO is fulfilling their ICT leadership role in the area of procurement.</p>

<p>Procurement of assets to support effective healthcare</p>	<p>District health boards (DHBs) currently own more than \$6 billion worth of assets, which the Ministry of Health estimates have a replacement value of approximately \$16 billion. A significant proportion of these assets are hospital buildings. Existing DHB facilities are insufficient to meet future service demand in some areas, and much of the existing building portfolio is ageing and will need replacing over the next 20 years.</p> <p>New Zealand's healthcare system can only be effective with the right infrastructure. The very large investment that is required increases risk, which must be managed through effective strategy, planning, governance, procurement, contract management, project management, and relationship management. The current arrangements for hospital building projects, with the Ministry of Health taking the lead role, are relatively new and still developing, presenting an opportunity for early and useful external review.</p> <p>This performance audit will examine significant investments in the health sector. We are interested in how the health system determines what infrastructure investments are needed, where, and when. In subsequent years, we will also consider whether there is merit in looking at other aspects of significant procurement in the health sector either as part of our annual audits or as part of other projects.</p>
<p>Partnerships with the private sector to deliver public sector outcomes – how effective are they?</p>	<p>A range of collaborative procurement methods are being used in New Zealand to deliver key infrastructure and other large-scale projects. One such method has been public private partnerships (PPPs), which have been used across a number of sectors in recent years.</p> <p>We propose to examine how such collaborative arrangements have been established and managed for best effect given the New Zealand context, and provide assurance that the expected benefits are well defined, monitored, and assessed. Because there have been a number of PPPs set up already in the transport, education, and justice sectors, we propose in the first instance to explore how effectively these PPPs are delivering on their intended outcomes. We aim to identify lessons from these examples that may be applicable to various forms of high-value, collaborative contracting.</p>
<p>How well does the NZTA's procurement model manage long-term procurement risks to ensure future value and sustainable procurement?</p>	<p>Procurement to maintain the State Highway network is important to all New Zealanders. The network is over 11,000km long and extends the length and breadth of the country. It plays a strategic role in linking our towns and communities, with over 70% of freight and 80% of people travelling to work using the network every weekday. A significant proportion of investment in transport infrastructure is spent on State Highway maintenance contracts.</p> <p>In 2013, the NZTA introduced the Network Outcomes Contract model. The design principles of the new contract model were for fewer, bigger, and longer maintenance contracts. In 2014, we followed up our 2011 performance audit on maintenance of the State Highway network and noted that there was a risk that the new Network Outcomes Contract model could reduce competition in the maintenance and renewals market, and that this could have adverse long-term effects on the procurement environment.</p> <p>We plan to carry out a performance audit examining how well the NZTA is working to ensure a robust contracting market that is capable of delivering a competitive tendering environment when these contracts are completed.</p>

Part 3**Performance audits and other work we expect to complete in 2018/19**

Procurement work – 2020/21	
Effectiveness of panels of suppliers	<p>Based on our analysis of the results from our survey in 2018/19, we intend to identify aspects of the effectiveness of panels of suppliers for further examination. Potential aspects for examination include:</p> <ul style="list-style-type: none"> • Is public entities' use of panels of suppliers appropriate? • Are public entities following good procurement practice in establishing and operating panels of suppliers? • Do public entities have the capabilities needed to use panels of suppliers effectively? • Is the use of panels of suppliers by public entities realising the expected benefits?
How services are procured in a local community to meet that community's needs	<p>We plan to carry out a performance audit on whether the procurement of services is effective in responding to the needs of communities.</p> <p>We plan to consider how well the procurement of services meets community needs. We will consider how well procurement is managed, monitored, and adjusted to support the achievement of desired outcomes for communities. We will also examine how effectively agencies work together to ensure that procurement of services is well co-ordinated and aligned with community needs.</p> <p>This work is still being scoped.</p>
Managing smaller contracts (less than \$0.5 million)	<p>Many larger public entities have entered into smaller contracts (less than \$0.5 million) across a broad range of suppliers. Collectively, the total contract value and risk exposure can add up to tens or hundreds of millions of dollars. Ensuring consistency of contract management and service delivery, and providing assurance across a large portfolio of small contracts, can be challenging. This is particularly true of large public entities, where responsibility and oversight of contract management is devolved across multiple teams.</p> <p>To provide some assurance, we will carry out a performance audit to review the management of low-value, high-volume contracts across central government agencies.</p> <p>This work is still being scoped.</p>
Reflections report on <i>Procurement</i>	<p>We plan to prepare a reflections report that will bring together the results of and observations from our three-year programme of work on <i>Procurement</i>.</p>

Concluding work from previous years' theme-based work

In 2018/19, we plan to:

- complete our reflections report on the results of our work under our *Information* theme; and
- complete our work on our *Water management* theme.

Future theme-based work

Alongside our proposed focus on *Procurement* as a theme for the next three years, we are considering what other theme-based work we will start. We are proposing to examine sustainable development in the wider context of our theme-based work on the *Well-being of New Zealanders* starting in 2019/20.

The ultimate objective of public expenditure is achieving positive change in the well-being of New Zealanders. Achieving positive change means better outcomes for New Zealanders, through improvements to our society, economy, and environment. We propose to focus on outcomes that are important for New Zealanders' quality of life, their communities, environment, living standards, and society at large.

We propose to select areas where public sector agencies are explicitly seeking to improve outcomes through their interventions and where multiple agencies are working together to achieve improved outcomes. We are mindful of the importance of the Treaty of Waitangi and will take this into account when examining outcomes for Māori.

At this stage, we have selected some indicative topics for consideration as part of our theme-based work on the *Well-being of New Zealanders*. We will confirm the final topics following further planning over the next year. The indicative topics are:

- for 2019/20:
 - preparedness for reporting by the Government on progress against the 17 United Nations sustainable development goals; and
 - reduction in family violence;
- for 2020/21:
 - reduced inequalities in social outcomes between demographic groups (focus to be determined);
 - reduction in poverty and the diseases of poverty;
 - improved resilience of infrastructure to natural hazards;
 - effectiveness of Whānau Ora in achieving better outcomes for Maori;
 - increased sustainability of natural resources; and
 - a report based on outcomes at a community level (focus to be determined).

2. Multi-year programmes of work on significant matters

Multi-year programmes of work on significant matters – 2018/19	
Auckland Council – review of service performance: Effectiveness of post-implementation reviews of projects	<p>Section 104 of the Local Government (Auckland Council) Act 2009 requires that “The Auditor-General, must, from time to time, review the service performance of the Council and each of its council-controlled organisations.” We carry out a review each year and work with Auckland Council’s governing body and senior management, and the Council’s Audit and Risk Committee, to determine the focus of our work and ensure that it will provide value.</p> <p>We have started work on reviewing the planning, design, execution, and reporting of the Council’s post-implementation reviews for the following projects:</p> <ul style="list-style-type: none"> • Customer Services Review – Contact Centre consolidation (phase 1); • Libraries Fit for the Future – organisational structure change; • Community Facilities (Contract Management) – new contract structure for maintenance of community facilities; and • Regulatory Future Shape – organisational structure change for regulatory services to deliver consistent and improved customer experience. <p>Our work will involve assessing the approach and processes followed. We will report to Parliament on our observations. We expect to provide timely advice to the Council that will add to the quality of the reviews and support it in developing its expertise in carrying out objective assessments of its projects in the future.</p>
Review of the Defence Major Projects Reports	<p>Since 2010, the Ministry of Defence and the New Zealand Defence Force have produced a major projects report annually, setting out the status of the management of major defence acquisitions. We have reviewed these reports to provide independent assurance about the information that they are based on.</p> <p>In 2018/19, we plan to complete the review of the Defence Major Projects Report 2017 and also the Defence Major Projects Report 2018. We then intend to reassess how often we will review these major project reports in the future.</p>

Future multi-year programmes of work

Topics for our future multi-year programmes of work are still being considered. We will confirm the final topics following our planning over the next year. At this stage, our proposed topics are:

- for 2019/20:
 - Auckland Council review of service performance (topic to be determined);
 - Auckland City Rail Link;
 - Effectiveness of procurement of a major defence capability (topic to be determined);
 - Commentary on the Treasury’s 2019 statement on the long-term fiscal position; and
 - Monitoring the response to the Havelock North inquiry recommendations (pending invitation); and

- for 2020/21:
 - Auckland Council review of service performance (topic to be determined);
 - Tāmaki Redevelopment Agency;
 - Defence (topic to be determined);
 - Inland Revenue Department: Benefits from the Business Transformation programme; and
 - Monitoring the response to the Havelock North inquiry recommendations (pending invitation).

3. Sharing good practice

Work on sharing good practice – 2018/19	
<i>Severance payments: A guide for the public sector</i>	We will develop a programme of work to more actively share insights about what “good” looks like, including updating our existing good practice guides and, where relevant, developing new good practice guidance. We will start with an update of our guide <i>Severance payments: A guide for the public sector</i> .
Insuring public assets	We will carry out work to consider how well public entities assess their asset risk, particularly risk from natural disasters, for the purposes of deciding how or whether to insure or otherwise mitigate that risk. Our work is likely to include whether MBIE’s and the Treasury’s work has been effective in achieving better assessment of risk to assets from major events (and in general). Depending on whether the Local Government Risk Agency has been established, we may also consider its effectiveness in improving local authorities’ assessment of asset risk.
Reporting on the progress of public entities in implementing the Auditor-General’s recommendations from previous reports	In 2018/19, we expect to report on the progress public entities have made in implementing the recommendations from some of our earlier reports. We will select the reports for follow up according to criteria such as the significance of the recommendations that we made and whether a reasonable time has passed to expect that the recommendations will have been acted on.

Future sharing good practice work

Topics for our future sharing good practice work are still being considered. At this stage, our proposed topics are:

- for 2019/20:
 - updating *Managing conflicts of interest: Guidance for public entities*;
 - reporting on the progress of public entities in implementing the Auditor-General’s recommendations from previous reports (programme of follow-up work to be determined); and
 - analysis of fraud trends in the public sector; and

- for 2020/21:
 - updating *Procurement guidance for public entities*; and
 - reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports (programme of follow-up work to be determined).

4. Sector-based reporting

Work on sector-based reporting – 2018/19	
Sector reports	<p>We will prepare the following sector reports:</p> <ul style="list-style-type: none"> • Central government: Results of the 2017/18 audits; • Summary of results of the 2017/18 central government audits for Chief Executives; • Local government: Results of the 2017/18 audits; • Consulting the community about local authorities' 10-year plans; • Matters arising from the 2018-28 local authority long-term plans; • Results of the 2017 school audits; • Results of the 2017 audits of tertiary education institutions; and • Results of the 2017/18 audits of district health boards.

Future sector-based reporting

In addition to those sectors we are required to report on each year, we will decide which sectors to report on based on matters arising in particular sectors.

5. Thought leadership

Work on thought leadership – 2018/19	
The state of the public sector accountability system	<p>This is the first in a series of planned think-pieces that will examine the state of the public sector accountability system.</p> <p>This think-piece will inform the programme of work on the public sector accountability system that we will carry out in the next three years. It will examine how New Zealand's system of public accountability has evolved and what stakeholders expect from a public accountability system. It will also contrast New Zealand's system with other jurisdictions, highlighting the perceived strengths and weaknesses of New Zealand's system, including performance reporting.</p> <p>The work will include a combination of literature research and interviews with a broad range of stakeholders.</p>

Future thought leadership work

We will determine our future thought leadership work programme based on our work in 2018/19.

Appendix 1

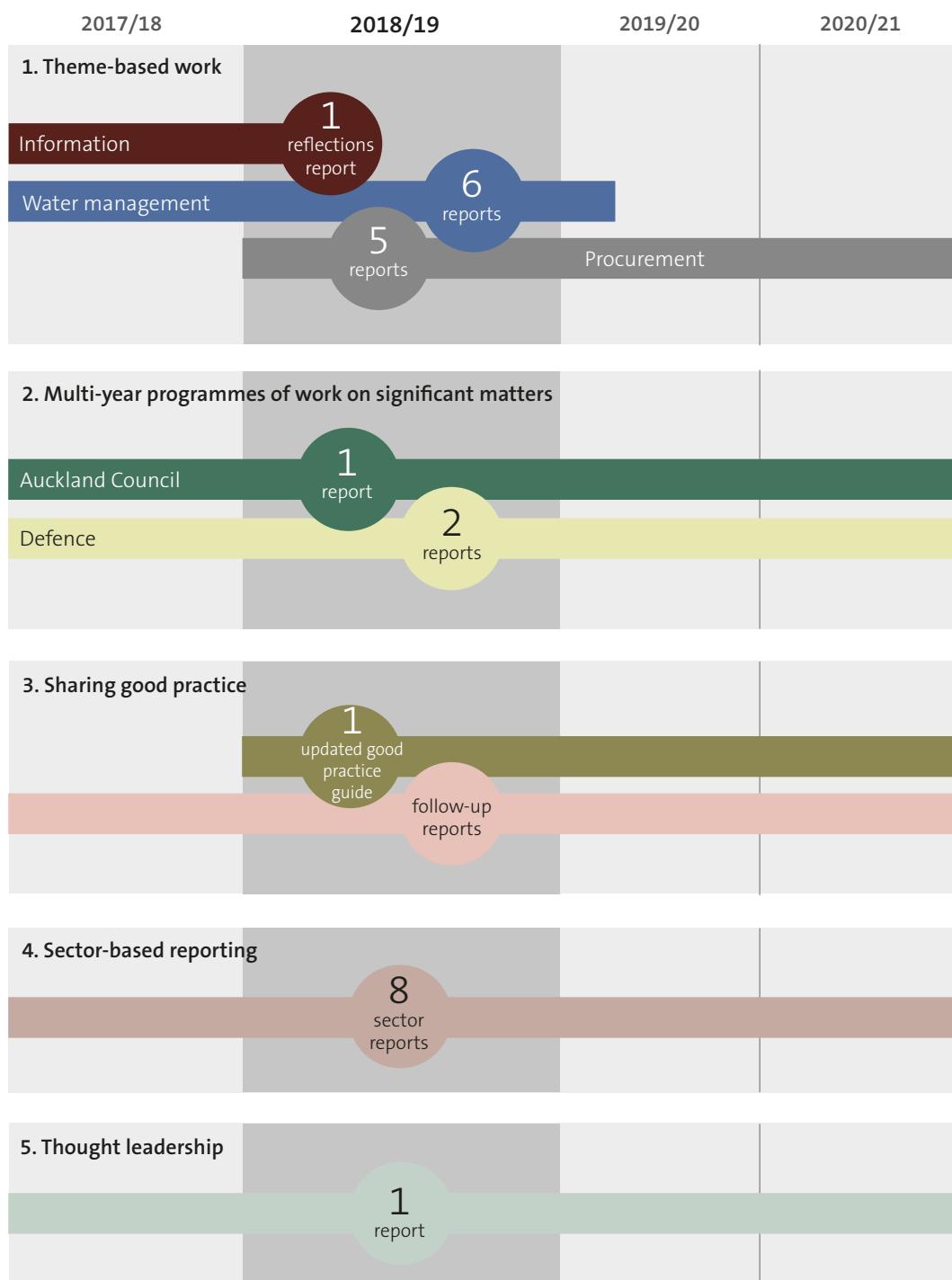
Summary of the public entities we audit, at June 2018

Entity categories	Entities	Subsidiaries and related entities	Total
Central government entities			
Government departments	39	18	57
Crown research institutes	7	6	13
District health boards	20	20	40
Tertiary education institutions	27	56	83
Other Crown entities	65	22	87
Other central government entities	97	20	117
State-owned enterprises and mixed-ownership companies	17	54	71
Rural education activities programmes	14	-	14
Schools	2420	46	2466
Local government entities			
Local authorities	78	-	78
Council-controlled organisations	-	168	168
Exempt council-controlled organisations	-	28	28
Other local government entities	-	52	52
Energy, airport, and port companies			
Energy companies	19	24	43
Airport companies	19	2	21
Port companies	12	15	27
Other public entities			
Fish and game councils	15	-	15
Licensing and community trusts	19	16	35
Administering bodies and boards	39	-	39
Cemetery trusts	91	-	91
Total	2998	547	3545

Appendix 2

Our multi-year work programme

This Appendix shows the work we propose to complete in 2018/19 in the context of our multi-year work programme.



	Work we completed in 2017/18	Work we propose to complete in 2018/19	Work we propose for 2019/20	Work we propose for 2020/21
Investment and asset management	<ul style="list-style-type: none"> Ministry of Justice: Modernising court services Managing the school property portfolio Reflections from our audits: Investment and asset management 			
Information	<ul style="list-style-type: none"> Using information to improve social housing services Getting the right information to effectively manage public assets: Lessons from local authorities Ministry of Health: Supporting the implementation of patient portals Infrastructure as a Service: Are the benefits being achieved? How the Overseas Investment Office uses information Digital access to information and services: Learning from examples Data in the public sector (How secure is data in the public sector? and Using data to improve public services) 	<ul style="list-style-type: none"> Reflections report on Information 		
1. Theme-based work				
Water management	<ul style="list-style-type: none"> Introducing our work programme – Water management Monitoring how water is used for irrigation 	<ul style="list-style-type: none"> Progress on freshwater quality management since 2011 Effectiveness of processes for considering marine reserve proposals Marine spatial planning for the Hauraki Gulf Management of stormwater networks to reduce the effect of flooding Optimising the demand for and the supply of drinking water Clean-up of significant water bodies 	<ul style="list-style-type: none"> Reflections report on Water management 	<ul style="list-style-type: none"> Effectiveness of panels of suppliers How services are procured in a local community to meet that community's needs Managing smaller contracts (less than \$0.5 million) Reflections report on Procurement
Procurement		<ul style="list-style-type: none"> Procurement foundation report MBIE's procurement functional leadership: Driving efficiencies and improving services and service delivery MBIE's functional leadership: Developing procurement workforce expertise and capability in central government Panels of suppliers Management of MBIE's grant programmes 	<ul style="list-style-type: none"> Programme of work examining how well the public sector achieves better outcomes for New Zealanders (topics are indicative only): <ul style="list-style-type: none"> reduced inequalities in social outcomes between demographic groups increased sustainability of natural resources improved resilience of infrastructure to natural hazards 	<ul style="list-style-type: none"> effectiveness of Whānau Ora² a report based on outcomes at a community level
Well-being of New Zealanders			<ul style="list-style-type: none"> Programme of work examining how well the public sector achieves better outcomes for New Zealanders (topics are indicative only): <ul style="list-style-type: none"> preparedness for reporting by the Government on progress against the 17 United Nations sustainable development goals reduction in family violence 	
2. Multi-year programmes of work on significant matters	<ul style="list-style-type: none"> Auckland Council: Working to provide customer-centred services online 	<ul style="list-style-type: none"> Auckland Council: Effectiveness of post-implementation reviews of projects 	<ul style="list-style-type: none"> Auckland Council review of service performance (topic to be determined) Auckland City Rail Link⁴ 	<ul style="list-style-type: none"> Auckland Council review of service performance (topic to be determined) Tāmaki Redevelopment Agency^{3,4}
		<ul style="list-style-type: none"> Review of the Defence Major Projects Report 2017 Review of the Defence Major Projects Report 2018 	<ul style="list-style-type: none"> Effectiveness of procurement of a major defence capability (topic to be determined)⁴ 	<ul style="list-style-type: none"> Defence (topic to be determined)
	<ul style="list-style-type: none"> Inland Revenue Department: Procurement for the Business Transformation programme Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Final monitoring report Commentary on He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position 		<ul style="list-style-type: none"> Commentary on the Treasury's 2019 statement on the long-term fiscal position Monitoring the response to the Havelock North inquiry recommendations⁵ 	<ul style="list-style-type: none"> Inland Revenue Department: Benefits from the Business Transformation programme Monitoring the response to the Havelock North inquiry recommendations⁵
3. Sharing good practice		<ul style="list-style-type: none"> Updating Severance payments: A guide for the public sector 	<ul style="list-style-type: none"> Updating Managing conflicts of interest: Guidance for public entities 	<ul style="list-style-type: none"> Updating Procurement guidance for public entities⁴
	<ul style="list-style-type: none"> Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports 	<ul style="list-style-type: none"> Insuring public assets follow-up 	<ul style="list-style-type: none"> Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports (programme of follow-up work to be determined) Analysis of fraud trends in the public sector 	<ul style="list-style-type: none"> Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports (programme of follow-up work to be determined)
4. Sector-based reporting	<ul style="list-style-type: none"> Central government: Results of the 2016/17 audits Summary of results of the 2016/17 central government audits for chief executives Local government: Results of the 2016/17 audits Results of the 2016 school audits Results of the 2016 audits of tertiary education institutions Main matters arising from the 2016/17 audits of district health boards Health sector: Results of the 2016/17 audits Ports sector: Results of the 2016/17 audits 	<ul style="list-style-type: none"> Central government: Results of the 2017/18 audits Summary of results of the 2017/18 central government audits for chief executives Local government: Results of the 2017/18 audits Consulting the community about local authorities' 10-year plans Matters arising from the 2018-28 local authority long-term plans Results of the 2017 school audits Results of the 2017 audits of tertiary education institutions Results of the 2017/18 district health board audits 	<ul style="list-style-type: none"> Central government: Results of 2018/19 audits Summary of results of the 2018/19 central government audits for chief executives Local government: Results of the 2018/19 audits Results of the 2018 school audits Results of the 2018 audits of tertiary education institutions Results of the 2018/19 district health board audits 	<ul style="list-style-type: none"> Central government: Results of the 2019/20 audits Summary of results of the 2019/20 central government audits for chief executives Local government: Results of the 2019/20 audits Results of the 2019 school audits Results of the 2019 audits of tertiary education institutions Results of the 2019/20 district health board audits
5. Thought leadership	<ul style="list-style-type: none"> Influencing improvements in the public sector accountability system: Planning and liaison with central agencies 	<ul style="list-style-type: none"> Influencing improvements in the public sector accountability system: The state of the public sector accountability system 	<ul style="list-style-type: none"> Influencing improvements in the public sector accountability system: (topic to be determined) 	<ul style="list-style-type: none"> Influencing improvements in the public sector accountability system: (topic to be determined)

¹ Possible multi-year programme of audits. ²Pending outcome of ministerial review. ³Pending outcome of the Treasury's review. ⁴ Also part of our work on the Procurement theme. ⁵Pending invitation to carry out this work.

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