

Draft annual plan 2019/20

Prepared in accordance with section
36(1) of the Public Audit Act 2001.

April 2019

ISSN 2230-3863

Contents

Request for feedback	3
Part 1 – About us	5
Part 2 – Our multi-year work programme	8
Part 3 – The work we are consulting you on	13
1. Theme-based work	13
2. Issues of ongoing interest	21
3. Regular reports	23
4. Sharing good practice	23
5. Influencing improved performance and accountability	24
Appendices	
1 – Summary of our audit portfolio at March 2019	25
2 – Our multi-year work programme	26

Request for feedback

Tēnā koutou katoa.

The role of my Office is to help you hold public organisations to account for their use of public money. The purpose of our work, and everything we do, is about improving trust and promoting value across the public sector.

We use information from our annual audits of every public organisation to help you scrutinise the effectiveness, efficiency, and accountability of public entities to ensure that they are operating as Parliament intended. Our non-discretionary annual audit work consumes nearly 90% of our resources. The remaining 10% is used on our other work, such as performance audits, inquiries, and special studies. Our inquiries work can generally not be planned for, but our performance audits and special studies are included in an annual work programme. This annual work programme in turn sits within the context of our multi-year work programme planning.

We now seek your views on our proposed annual work programme for 2019/20, and the indicative plan for the following two years.

We want our work to be relevant, useful, and focused on issues that you consider important. Consultation with Parliament helps to ensure that we invest our resources in work that will make the most difference in improving the performance of public organisations.

With that in mind, I am pleased to present you with our *Draft annual plan 2019/20*. This year, we plan to move into the second year of our three-year programme of work on *Procurement*. Given that this is a three-year programme of work, much of this work was described in our previous annual plan. However, we have also planned work in new areas and increased emphasis in others. These changes are discussed in Parts 2 and 3. In summary, they are:

- work specifically focused on public sector integrity and ethics;
- an increase in emphasis on the Provincial Growth Fund;
- a stronger emphasis on how programmes that provide housing for New Zealanders are being carried out;
- continuing our programme of updating and expanding our good practice guidance; and
- increased emphasis on providing assurance to Parliament and New Zealanders that the Government has spent public money in line with Parliament's authority.

In subsequent years, we are considering increasing our focus on how public entities are working to deliver outcomes for New Zealanders.

We request your feedback by **Friday 31 May 2019** so that our final annual plan can be developed and tabled in Parliament before the end of June 2019 as required by the Public Audit Act 2001.

The changing operating environment in which we work means that we need the agility to respond to unexpected events. Although we plan our work carefully, as has been the case in the current year we might need to reprioritise parts of our work programme to focus on new or urgent issues. Any substantial changes to our plan will be reported to Parliament. I look forward to receiving your feedback, which my staff and I will consider when finalising our annual plan for 2019/20.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMRyan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

29 April 2019

About us

Why is there an Auditor-General?

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 of local authorities.

The Auditor-General reports findings and makes recommendations so that those with responsibility for making improvements can take action. The Auditor-General does not have the power to enforce the recommendations from his work. The Auditor-General influences improvement through the independent and objective nature of the work, the scrutiny by Parliament that it supports, and effective working relationships between the Auditor-General's staff and public entities.

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.

Annual audits

The Auditor-General is responsible for auditing every public organisation in New Zealand that is required to publicly report (about 3500), many of which are funded by rates or taxes. Each year, our auditors carry out audits in every part of the public sector. This includes, for example, every government department, district health board, school, licensing and community trust, university and polytechnic, local authority, and every State-owned enterprise.

Our annual audits make up nearly 90% of our work. Appendix 1 provides a summary of the number and type of public organisations in our audit portfolio at March 2019. The number of public organisations that we audit has declined by about 300 during the past four years. This is mainly because of the removal of legislative requirements for many subsidiaries of Crown entities and some companies to report separately.

Each year, our auditors 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 related entities; and
- organisations the Auditor-General has agreed to audit under section 19 of the Public Audit Act 2001.

Our public accountability system places responsibility on public organisations to account annually for their performance. They 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 organisations, and the public that public organisations' financial statements and performance information fairly reflect the results of their activities.

Our annual audits of public organisations 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 throughout the public sector. We use this information to advise select committees in their work in holding public organisations to account as part of Parliament's scrutiny of executive government. We also use this information to help us plan our work programme. It helps us understand the environment public sector organisations are working in, and in determining where we can best focus our efforts to improve public sector performance and accountability.

Each year, we consolidate the results of our annual audits in central and local government and other sectors and publish the key findings in our regular suite of sector reports. The sector-based reports we plan to complete in 2019/20 are described in Part 3.

Controller function

In conjunction with our annual audits of government departments, we carry out appropriation audits. These are designed to ensure that government spending is within the authority of Parliament. To increase the profile and emphasise the significance of this function, this year we launched a separate Controller report. This report summarised our controller work and highlighted two appropriation breaches for the six months ended 31 December 2018. Our Controller function is a core part of the Controller and Auditor-General's role as public watchdog. We intend to provide six-monthly reports on our Controller function work.

Performance audits, inquiries, and other work

The Auditor-General also carries out in depth performance audits on public sector effectiveness and efficiency, inquires into how a public organisation uses its resources, and carries out studies on other matters affecting the public sector.

Performance audits are a key part of our work programme. We also monitor public organisations' 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 typically reacts to matters of current concern and is therefore largely unpredictable. We make decisions about whether issues warrant investigation as matters of concern arise.

Our inquiries work is an important mechanism for improving Parliament and New Zealanders' trust and confidence in the public sector. Inquiries are often complex and involve matters of high public interest. Recently, we reported on procurement of work by Westland District Council at Franz Josef to address concerns about the Council's decision-making processes which involved significant public spending. We also carried out additional assurance work to address concerns about the Waikato Institute of Technology's use of public resources. While not formal inquiries, we also carry out other work where there are matters of interest to the Office. For example, publishing letters on the Greater Wellington Regional Council's changes to the regional bus system, and on the Kāpiti Coast District Council's intention to borrow money in order to set up investment funds.

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 consider matters in greater depth than we can during an annual audit, and examine ways that public organisations can perform better.

We also:

- advise Parliament and select committees in order 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

Each year, we 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.

For example, the Auditor-General of New Zealand is currently the Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI). We also take part in international efforts to develop accounting and auditing guidance and standards, and we are active members of the Global Audit Leadership Forum (GALF) and the International Organisation of Supreme Audit Institutions (INTOSAI).

The Auditor-General is also the Auditor-General of Niue and Tokelau under their respective accountability arrangements.

2

Our multi-year work programme

The ultimate outcome that we seek from our work is that Parliament and New Zealanders can have trust and confidence in the public sector. To contribute to that outcome, we aim to achieve the following impacts:

- Parliament provides effective scrutiny of the public sector;
- New Zealanders are better informed about the performance and accountability of the public sector; and
- The public sector improves its performance and accountability.

In addition to ongoing improvements to our core work, we are deliberately focusing on two strategic priorities – sharing good practice and influencing improved performance and accountability. Some of the work we have planned for 2019/20 is directly related to these priorities. For every other piece of work in our programme, as well as seeking to improve performance, we will be looking for good practice to share with other public organisations and looking to encourage more effective accountability arrangements.

Appendix 2 provides a summary of the work we plan to complete in 2019/20 in the context of a multi-year overview of our work. In this Appendix, the work is grouped in categories, which we describe below.

1. Theme-based work

Applying a theme across aspects of our work enables us to increase the impact of our work, and to more effectively use our unique role to influence improvements in public sector performance and accountability.

In any given year, our theme-based work includes both work that we are completing from previous years' themes and work that we are starting under an existing or a new theme. In 2019/20, we plan to:

- complete a report about our *Water management* theme;
- complete work from the first year of our three-year *Procurement* work programme;
- start the second year of work on our three-year *Procurement* work programme; and
- start work on our *Improving the lives of New Zealanders* theme.

In Part 3, we explain more about our *Procurement* theme. We also outline our *Improving the lives of New Zealanders* theme and the work we plan to carry out. We are still exploring and scoping work under the latter theme. We expect that future themes will emerge from our work during 2019/20.

2. Issues of ongoing interest

Alongside our theme-based work, we carry out work on issues that we consider warrant scrutiny, or where we are required to carry out ongoing work. In 2019/20, we intend to carry out work on:

- **Ethics and integrity landscape**

Through our work, we have observed examples where public entities have not had the right culture, leadership, or systems in place to ensure the high levels of integrity and ethical behaviour that Parliament and the public would expect. There have also been a number of high-profile instances of fraud in the public sector. Unethical behaviour, dishonesty, and corruption erode New Zealanders' trust and confidence in our public sector, and can affect New Zealand's international reputation. We therefore consider that public sector ethics and integrity is a critical issue for us to focus on now and in future years.

We plan to carry out work to better understand and describe the public sector ethics and integrity landscape, examining what expectations, advice, and support are available to public entities to ensure that they put in place an appropriate ethical culture, and controls for preventing and detecting wrongdoing.

It is likely that this work will involve greater collaboration with other integrity agencies – for example, the Serious Fraud Office, and the State Services Commission.

- **Risk management in local government**

Historically, reviews have found that some councils have weak risk-management practices. Through our audit work, we have also identified that there is room for councils to improve their day-to-day management of risks.

Starting in 2019/20, we intend to delve deeper into how councils approach risk management. We will examine information about councils' understanding of risk, the approaches they use to manage risk, including the role of councils' audit and risk committees, and how councils communicate risk to their communities.

Our stocktake will inform potential future areas of work. We want to identify where we can best add value, given the work of others (for example, Local Government New Zealand and the New Zealand Society of Local Government Managers) in supporting councils to improve their management of risk.

- **Review of service performance – 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. In 2019/20, we intend to examine how effectively and efficiently Auckland Council is building

its resilience and preparedness to respond to disasters, working in partnership with other agencies, local iwi, and communities to reduce disaster risks and prepare for disaster response.

– **Our ongoing focus on Auckland matters**

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. A large proportion of central government capital and social investment is in Auckland to address transport and housing issues. We intend to carry out work on the Auckland City Rail Link in 2019/20 and the Tāmaki regeneration programme in 2020/21 as part of our *Procurement* themed work. We are also considering an examination of public housing provision in Auckland.

• **Inland Revenue Department's Business Transformation programme**

Building on our previous work in 2015/16 and in 2017/18, we are interested in knowing whether the public spending on the Inland Revenue Department's Business Transformation programme is delivering the intended benefits. The Business Transformation programme is significant because of the large amount of public funds being spent which is estimated to cost in excess of \$1.3 billion, the critical role Inland Revenue carries out in collecting Crown revenue, and the effect that the tax system has on New Zealanders and businesses. We had planned to carry out this work in 2020/21. We now plan to carry it out in 2019/20 so that we can provide more timely assurance and relevant advice to Parliament and Inland Revenue.

• **The Treasury's 2019 Statement on the Long-Term Fiscal Position**

The long-term financial sustainability of government is critical for New Zealanders' inter-generational well-being. The choices that governments make about public spending, tax, and borrowing, and the balance between them affect New Zealand's economic, social, and environmental outcomes and the Government's long-term resilience.

At least every four years, the Treasury is required to prepare a statement on the Government's long-term fiscal position. It is an important part of the good financial management of government. We intend to review the Treasury's next long-term fiscal statement. We are interested in understanding and commenting on:

- the approach that the Treasury takes;
- the Treasury's long-term fiscal model and how it is used; and

- the links between the long-term fiscal model and the information presented in the Statement on the Long-Term Fiscal Position.
- **Controller function**
Our Controller function is a core part of the Controller and Auditor-General's role as public "watchdog" and provides assurance to Parliament and New Zealanders that the Government has spent public money in line with Parliament's authority. We will provide six-monthly updates about our Controller work.

In Part 3, we provide more detail about our proposed work on these issues.

3. Regular reports

Each year, we publish a suite of sector reports on the results of our work across different sectors. Using information from our audits, including our understanding of the entities and their control systems, our sector reports discuss key issues and trends, systemic issues, 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.

4. Sharing good practice

To improve their performance, public entities need to understand what is expected of them and have access to good practice guidance that is relevant to the New Zealand context. Public entities tell us that they would welcome more good practice guidance. As the auditor of every public entity, we are well positioned to guide public entities on what good looks like. Improving the performance of individual public entities will help contribute to improvement in the performance of the entire public sector.

In 2019/20, we will be more active in sharing good practice with public entities. We will update our good practice guidance material, and implement a range of approaches to share good practice more. We will regularly host meetings and other events to share our good practice guidance and examples of where we observe through our work activities being done well. We will also point entities to other organisations that do similar activities "better" or "well".

We also plan to improve our own accountability documents to lead the way for others, and carry out more follow-up work with entities to ensure that the recommendations from our audits are implemented.

5. Influencing improved performance and accountability

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 increased focus on influencing improvements in the public sector accountability system will continue in 2019/20. Following publication of our *Annual plan 2018/19*, reforms to different aspects of New Zealand's performance and accountability systems were proposed. In response, we reassessed the work we had planned to carry out and undertook other work to influence positive change in the future public management system. Appendix 2 describes the work we have completed or intend to complete in 2018/19.

In 2019/20, building on our previous work, we intend to examine the state of the public sector accountability system. We want to influence and support future public sector management reforms to strengthen the accountability system. Our work will include an assessment of the state of public sector performance reporting. We want to assist public entities to improve their performance measurement and reporting practices. We will consider this in the context of the Government's emphasis on well-being.

The work we are consulting you on

1. Theme-based work

We seek:

- views about the coverage and value of the proposed second-year programme of procurement work in 2019/20; and
- views about the topics proposed for 2020/21, and about priorities for our procurement work.

Our procurement work programme

Our 2018 report *Introducing our work on procurement* described our three-year focus on procurement and summarised what we see as the main issues and opportunities for improving procurement practice in the public sector. The report drew from our audit work across the entire public sector, from our procurement guidance, and from work by others.

Through our work, we want to promote good practice procurement of goods and services for New Zealanders. We aim to:

- improve procurement practice in the public sector;
- support a principled approach to procurement;
- strengthen public sector accountability for procurement;
- influence public organisations to achieve value for money from procurement; and
- improve trust and confidence in public sector procurement.

First year of work on procurement

As our first year of procurement-related work has progressed, we have deliberately increased our engagement with public sector agencies about procurement matters and have shared examples of good practice. We have drawn on our annual audits and procurement-related inquiries work for good practice examples to share. We have:

- put additional focus in our annual audit work on the administration of grants by the Ministry of Business, Innovation and Employment (MBIE)¹;
- put more focus on the management and monitoring of the Provincial Growth Fund in our annual audit work on MBIE, the Ministry of Transport, and the Ministry for Primary Industries;
- completed our survey on the public sector's use of panels of suppliers²;
- carried out the field work for our work on MBIE's functional leadership for procurement, and expect to report our preliminary findings by the first quarter

1 We reported on this to Parliament in our MBIE 2017/18 annual review briefing.

2 We have reported a summary of the survey to the participants. We are considering further reporting on the issues raised by the survey.

of 2019/20; and

- carried out preliminary work for our proposed work in 2019/20, including considering the public sector’s management of contracts for the delivery of critical or significant services to New Zealanders.

Our procurement work in 2019/20 and 2020/21

Our proposed work for 2019/20 and 2020/21 is described below. As noted, we have planned our work, based on our knowledge of priorities at this time. We might make changes to the work proposed for 2019/20 and 2020/21 if new information or risks come to light. For example, we will monitor progress with the implementation of the KiwiBuild programme and the firearms buy-back scheme, and report our findings in a timely way. Currently, we plan to report on both these issues in 2020/21, with work likely to commence in 2019/20.

Proposed work on <i>Procurement</i> – 2019/20	
MBIE procurement functional leadership: Enabling effective and efficient procurement across the State sector	<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.</p> <p>The Ministry for Business, Innovation and Employment (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>We have combined the two performance audits proposed in our <i>Annual plan 2018/19</i> on MBIE’s functional leadership role. Our audit examines how well MBIE’s functional leadership drives efficiencies and improves services and service delivery. Our audit also examines how well MBIE develops procurement workforce expertise and capability in central government.</p> <p>This audit is under way, and we anticipate that our report on the audit will be published in the first quarter of 2019/20.</p>
Effectiveness of panels of suppliers	<p>Based on our analysis of the results from our 2018/19 survey, we plan to identify aspects of the effectiveness of panels of suppliers that warrant further examination. Potential aspects for examination include:</p> <ul style="list-style-type: none"> • 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?

<p>Contracts for significant services</p>	<p>In parts of the public sector, there is a dependence on suppliers for the delivery of significant services. Some of these services are critical to the health, well-being, and security of the country. We intend to review how the public sector manages the risks to contracts for significant services. Our work will highlight good practice and recommend areas where there is room to strengthen the management of such contracts.</p>
<p>Auckland City Rail Link: Project governance</p>	<p>City Rail Link Limited is a Crown entity jointly funded and owned by Auckland Council and the Government to deliver the city rail link project. The project consists of a 3.45km twin-tunnel underground rail link up to 42 metres below the city centre, changing the downtown Britomart Transport Centre into a two-way through-station that better connects the Auckland rail network. It also includes two new stations, redevelopment of Mt Eden station, and various other work to maximise the benefits of the project and the efficiency of the rail network.</p> <p>The project is expected to be completed in 2024 at a cost of about \$4.4billion. The expected benefits from completing the project include reduced travelling time and congestion, improved reliability, and other wider economic benefits.</p> <p>Problems with procurement often stem from poor governance arrangements. We plan to focus on how well the governance arrangements are supporting the effective and efficient delivery of the city rail link. We are interested in City Rail Link Limited as an example of a collaboration between local and central government to deliver major infrastructure, and any lessons learned for the use of joint local/central government arrangements to deliver significant projects.</p>
<p>Provincial Growth Fund: Management, monitoring, and evaluation of the Fund</p>	<p>The Provincial Growth Fund (the Fund) was launched in 2018. It represents a significant investment (\$3 billion) of public funding over three years to lift productivity potential in New Zealand's regions. We carried out some preliminary work on this topic during our 2017/18 examination of MBIE's management of the Fund, and we will follow up on the recommendations we made then.</p> <p>Because of the size, scope, complexity and ambition of the Fund, we are extending this work to broader and more in-depth annual audit and review work on the management and monitoring of the Fund, including MBIE's preparedness to report on the effectiveness of the Fund. This work will cover the three agencies most involved: the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, and the Ministry of Transport. We expect to identify opportunities to increase the effectiveness of the Fund and provide further recommendations to improve how the Fund operates.</p> <p>We plan to continue this work during the next 2-3 years, reporting regularly during the annual audit and the parliamentary annual review processes. During this time, we will also consider further audit work focused on the effectiveness of the Fund.</p>

<p>Procurement workforce capacity and capability in local government</p>	<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).</p> <p>We have been investigating how local authorities manage and support their procurement functions to understand the drivers of good procurement practice. We intend to share our findings to support improved procurement practices and to encourage greater collaboration between local authorities and other public sector agencies.</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 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 in the transport, education, and justice sectors in recent years.</p> <p>We propose to investigate further how collaborative procurement methods, including PPPs, are being used. We will select some significant procurements to examine how they are being managed and whether they are achieving the expected benefits. We will aim to share lessons that are applicable to high-value, collaborative contracting.</p>
<p>Procurement of assets to support effective health care</p>	<p>District health boards (DHBs) currently own more than \$6 billion worth of assets, such as hospitals and clinical equipment, which the Ministry of Health estimates have a replacement value of approximately \$16 billion. New Zealand's health care system can be effective only with the right assets to support effective healthcare. Some DHB facilities (including hospitals) are insufficient to meet future service demand in some areas, and much of the existing building portfolio will need updating or replacing in the near to medium term.</p> <p>The significant investment required in assets increases risk, which must be managed through effective strategy, planning, governance, procurement, contract management, project management, and relationship management. Recent developments include establishing a (health sector) National Asset Management Plan (NAMPP) and an intent to establish the New Zealand Infrastructure Commission (Te Waihanga).</p> <p>These arrangements are relatively new and still developing. We will keep in touch with how the New Zealand Infrastructure Commission influences investment and procurement in the health sector with a view to carrying out some work in 2019/20. There is also an opportunity for us to influence improvements in this important area. We consider that it is useful to examine how well the health sector plans for the procurement of essential assets to support effective health care, and identify what improvements are needed for procurement to better support effective health care. In subsequent years, we will also consider whether there is merit in looking at other aspects of significant procurement and infrastructure investment in the health sector.</p>

<p>How well does the NZTA 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 about 50% of all road usage through the state highway network. A significant proportion of investment in transport infrastructure is spent on state highway maintenance contracts.</p> <p>In 2013, the New Zealand Transport Agency (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>Given the significance of the state highway network, and the risk we identified in our 2014 report, we plan to carry out a performance audit to examine how effectively and efficiently NZTA is maintaining state highways through the use of Network Outcomes Contracts.</p>
<p>Defence procurement: Effectiveness of integrated capability delivery</p>	<p>Defence spending represents approximately 1% of GDP and includes a \$20 billion programme of capital investment over a 15-year period to 2030. We propose to undertake a programme of audits examining how effectively defence capability is acquired and brought into service.</p> <p>The first audit topic will examine how well the procurement process for the P-8A Poseidon has integrated the relevant infrastructure, estate, and other support requirements, to enable seamless transition of the new capability into service. This will include the necessary estate regeneration to support relocation of 5 Squadron from Whenuapai to Ohakea and also includes capability and development requirements (including simulators).</p> <p>This is a high-value (\$2.346 billion initial capital cost), long-term procurement project (that extends out to 2023), with multiple interdependencies and risks. Through our work, we hope to effect positive change and identify good practice that will be shared with other organisations that manage large and complex procurement acquisitions.</p>
<p>Review of Defence Major Projects Report 2019</p>	<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 on the project information being disclosed. We plan to carry out a review of the information describing the progress of projects in the Defence Major Projects Report 2019.</p>

Proposed work on <i>Procurement</i> – 2020/21	
Government Chief Digital Officer (GCDO): Information and Communication Technology (ICT) procurement functional leadership	The Government is considering how to give effect to digital transformation, and this could result in changes to the GCDO's digital, data, and technology leadership roles. We have an ongoing interest in ICT procurement and will consider examining ICT procurement when the Government's current review is completed and any changes made to GCDO's role have been embedded.
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 intend to audit how a central government entity undertakes contract management of smaller contracts and how effectively it manages low-value, high-volume contracts. We are still scoping this work.</p>
Auckland City Rail Link: Procurement model and delivery	We propose to examine City Rail Link Limited's use of an alliance model to deliver aspects of the city rail link, including the main stations and tunnels. The balance between risk transfer and the public sector paying a fair price is critical, given the size and nature of this project. We are still scoping this work.
Tāmaki regeneration programme	<p>Tāmaki Redevelopment Company Limited Group (TRC) has the lead on the urban regeneration programme in Tāmaki for its shareholders – the Government and Auckland Council. TRC's subsidiary, Tāmaki Regeneration Limited, took on ownership and management of 2800 Housing New Zealand homes, for redevelopment into about 7500 homes. The Group's role and business model is now very complex, with challenging regeneration goals over the next 15-20 years. HLC (2017) Limited, a wholly-owned subsidiary of Housing New Zealand Corporation, is now also involved in the building development aspect of the regeneration project.</p> <p>We will carry out work to consider whether the intended or desired results of the Tāmaki regeneration programme in terms of housing volumes, quality, and social outcomes are being achieved, and what the lessons are for addressing regeneration in other localities.</p>
Provincial Growth Fund: Benefits realisation	The Provincial Growth Fund represents a significant investment of public funding over three years to lift productivity potential in New Zealand's regions. In 2019/20, we will continue the work we began in 2018/19 looking at the systems and processes for managing and monitoring the Fund. We will also consider further audit work focused on the effectiveness of the Fund in delivering expected benefits.

KiwiBuild: Implementation	<p>KiwiBuild has three core aims:</p> <ul style="list-style-type: none"> • to increase home ownership in New Zealand; • to increase the supply of affordable homes in parts of New Zealand where there is a shortage; and • to use government procurement to foster innovation and reduce the cost of building new homes. <p>We plan to examine how well the KiwiBuild programme is being implemented and how successfully it is achieving its aims.</p>
Effectiveness of the firearms buy-back scheme	<p>We intend to examine the effectiveness of the firearms buy-back scheme. The scheme is subject to recent legislative changes, and any associated changes to regulations. We will begin scoping this work when the parameters of the scheme have been finalised.</p>
Defence procurement	<p>Building on our previous defence work, we propose to continue our programme of work examining the procurement of defence capability (topic to be determined).</p>

Improving the lives of New Zealanders

Alongside the second year of our work on *Procurement*, we are proposing to start theme-based work on *Improving the lives of New Zealanders*.

We seek:

- views about the value of the proposed work in 2019/20; and
- views about the indicative topics proposed for 2020/21, and about priorities for our work on improving the lives of New Zealanders.

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

Through our work, we intend to examine how well public entities are achieving outcomes for New Zealanders. For 2019/20, we are proposing two topics as part of our theme-based work on *Improving the lives of New Zealanders*:

- Performance in achieving reductions in family violence; and
- Progress towards implementing the sustainable development goals.

We provide more information about our proposed work in the table below.

Work under this theme for 2020/21 and 2021/22 is still being scoped. The final topics will be confirmed following further planning over the next year. We intend to examine whether key outcomes are achieved for New Zealanders in a way that delivers value for money from the public resources used. The areas we are considering include:

- reducing disparities in social outcomes between demographic groups;
- reducing poverty;
- improving resilience of infrastructure to natural hazards; and
- effectiveness of Whānau Ora in achieving better outcomes for Māori.

Proposed work on <i>Improving the lives of New Zealanders – 2019/20</i>	
Performance in achieving reductions in family violence	<p>Family violence affects half a million New Zealanders every year, is a driver of violent crime overall, and is implicated in both youth crime and youth suicide. Rates of violence are highest among some of our most vulnerable communities. Addressing family violence places a heavy burden on multiple government agencies and numerous government-funded service providers. Most of that work is on crisis response, offender management, and mitigating life-long effects of violence.</p> <p>Responsibility for addressing family violence rests with a number of government agencies. A cross-government joint venture has been set up to develop new ways of working across government, and with iwi and communities, to reduce family violence through an integrated response. Our audit will examine how well family violence is being reduced through national and regional initiatives to address it.</p>
Progress towards implementation of the sustainable development goals	<p>In 2015, all United Nations members adopted the 2030 Agenda for Sustainable Development with its 17 sustainable development goals (SDGs). The SDGs are an important indicator of progress that countries have made towards significant improvement of the well-being of their people, covering a number of areas including poverty reduction, education, employment, and the environment. In July 2019, the Government intends to publish its first report on progress towards implementing the 17 SDGs.</p> <p>We will carry out a performance audit of how effectively the Ministry of Foreign Affairs and Trade has co-ordinated activities so far towards implementation of the 17 SDGs by 2030. We expect our findings to promote:</p> <ul style="list-style-type: none"> • improvements in how government agencies are measuring outcomes; • improved collaboration between government agencies in working towards implementation of the SDGs; and • improved engagement with private sector organisations, academic institutions, NGOs, and communities in working towards implementation of the SDGs.

Concluding work from previous years' theme-based work

In 2019/20, we intend to complete a reflections report on the results of our work under our *Water management* theme.

2. Issues of ongoing interest

We seek:

- views about topics for us to consider for examination as part of our work on ethics and integrity, local government risk management, and Auckland Council (review of service performance); and
- views about other issues for us to consider in future.

Proposed work on issues of ongoing interest – 2019/20

Ethics and integrity landscape	<p>New Zealand consistently rates highly on the Transparency International Corruption Perceptions Index as being one of the least corrupt countries in the world. Despite that, there is a risk that fraud and corruption in New Zealand might be more pervasive than is generally acknowledged. There have been a number of high-profile cases of wrongdoing in the public sector in recent years, and the Serious Fraud Office estimates that up to 5% of government funding (or approximately \$5 billion) could have been used or obtained fraudulently in 2017.</p> <p>Preventing and detecting fraud and corruption is key to ensuring that Parliament and New Zealanders' trust and confidence in the public sector is maintained. It is the responsibility of public entities, governors and leaders to promote high ethical standards and integrity across the public sector, and to put systems and policies in place to prevent and detect fraud and unethical behaviours of all kinds. We intend to undertake some work to better understand and describe the public sector landscape, examining what expectations, advice, and support is available to public entities to ensure that they put in place an appropriate ethical culture, framework and controls for preventing and detecting wrongdoing and unethical behaviour.</p> <p>From our landscape work, we will identify further areas of work to influence improved ethical standards and integrity across the public sector, and increased guidance for public entities in tackling fraud and other unethical behaviour.</p>
Auckland Council review of service performance: Disaster resilience and preparedness	<p>We intend to examine how effectively and efficiently Auckland Council is building its resilience and preparedness to respond to disasters, working in partnership with other agencies, local iwi, and communities to reduce disaster risks and prepare for disaster response.</p>

<p>Local government risk management: Stocktake of approach and reporting results</p>	<p>We intend to examine the risk management practices of councils. We will consider the risk management practices of a sample of councils. We are interested in identifying examples of good practice to share with councils, and identifying what would support councils to improve their management of risk, including how to strengthen the operation of Audit and Risk Committees where required.</p> <p>The long-term effect we are seeking is improving risk management by councils, acknowledging the different maturity levels appropriate for different councils.</p>
<p>Inland Revenue Department: Benefits from the Business Transformation programme</p>	<p>Inland Revenue's Business Transformation programme is significant because of the large amount of public funds being spent and because of the critical role Inland Revenue carries out in collecting Crown revenue. We are interested in knowing whether the public spending on the Business Transformation programme is delivering the intended benefits from Stages 1 and 2. We intend to provide assurance to the public and Parliament about the benefits achieved. We also intend to assess how well placed Inland Revenue is to measure and report on the intended benefits from the future stages of the programme.</p> <p>We propose to examine how well Inland Revenue has established measures and measurement systems for assessing and reporting on the benefits derived from the Business Transformation programme to itself, its customers, the Crown, and others.</p>
<p>Commentary on the Treasury's 2019 Statement on the Long-Term Fiscal Position</p>	<p>At least every four years, the Treasury is required to produce a statement on the fiscal position of the Government. The long-term fiscal statement provides long-term financial projections covering a period of at least 40 years. It identifies and analyses a range of options to address the long-term fiscal position but, importantly, does not make recommendations. There have been four long-term fiscal statements produced to date – in 2006, 2009, 2013, and 2016. The Treasury has yet to confirm when the next long-term fiscal statement will be published. We expect it will be published in 2019 or 2020.</p> <p>As we did in 2013 and 2016, we intend to review New Zealand's next long-term fiscal statement produced by the Treasury, which we expect will have a greater inter-generational well-being focus than in previous statements. We are interested in understanding and commenting on:</p> <ul style="list-style-type: none"> • the approach that the Treasury takes; • the Treasury's long-term fiscal model and how it is used; and • the links between the long-term fiscal model and the information presented in the long-term fiscal statement.
<p>Controller updates</p>	<p>We will provide six-monthly updates about our Controller work.</p>

Future work on issues of ongoing interest

Topics for our future work are still being considered.

3. Regular reports

We seek:

- views on the proposed suite of sector-based reports.

Proposed work on sector-based reporting – 2019/20

Sector reports	<p>We plan to prepare the following suite of sector reports:</p> <ul style="list-style-type: none"> • Central government: Results of the 2018/19 audits; • Summary of results of the 2018/19 central government audits for Chief Executives; • Results of the 2018 school audits; • Results of the 2018 audits of tertiary education institutions; • Results of the 2018/19 district health board audits; and • Local government: Results of the 2018/19 audits.
----------------	--

Future work on regular reports

We will report on the results of the local government and central government audits. We will also report on the results of our audit of the Financial Statements of the Government and the Controller function. Future reports on other sectors are still being considered.

4. Sharing good practice

We seek:

- views on areas for us to consider, focusing on sharing good practice.

Proposed work on sharing good practice – 2019/20

Updating good practice guidance	Our ongoing programme of updating and expanding our existing good practice guidance will continue. This will include an update of our good practice guide about managing conflicts of interest.
Reporting on the progress of public entities in implementing the Auditor-General's recommendations from previous reports	We propose to undertake a programme of work following up on whether the recommendations from some of our earlier reports have been implemented and improvements have been made in the areas we identified as needing attention. We will focus our follow up work on areas where we found the need for improvement was most urgent and significant. We will report on the progress we find and share good practice where we find it.

Future work on sharing good practice

At this stage, our proposed topics are:

- for 2020/21:
 - continued programme of updating good practice guidance; and
 - report 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
- for 2021/22:
 - continued programme of updating good practice guidance ; and
 - report on the progress of public entities in implementing the Auditor-General’s recommendations from previous reports (programme of follow-up work to be determined).

5. Influencing improved performance and accountability

We seek:

- views on areas for us to consider focusing on influencing improvements to the public sector accountability system.

Proposed work on influencing improved performance and accountability – 2019/20

<p>Landscape of the public accountability system: Second report</p>	<p>In 2019/20, we will publish our second report about the future of public accountability. The report will assess the current system of public accountability, discuss how well the system is positioned to meet these challenges, and explore the implications for the role of the Auditor-General. The objective of this work is to influence and support future public sector management reforms to strengthen the public accountability system.</p>
<p>Making performance reporting more effective</p>	<p>Drawing on our previous work, and the results from our annual audits, we propose to assess the state of performance reporting across the public sector. We will draw out examples of good practice and identify areas we think need attention. We will consider recent work to develop a living standards framework, the accompanying indicators, and how performance reporting could reflect contributions to the well-being of New Zealanders more generally. We will also look at how well public entities provide meaningful information to the public about efficiency, productivity, and value for money of their services.</p> <p>The objective of this work is to support entities to improve their own performance measurement and reporting practices, and assist them in adapting performance frameworks to take account of the Government’s emphasis on well-being.</p>

Future work on influencing improved performance and accountability

Topics for our future work are still being considered.

Appendix 1

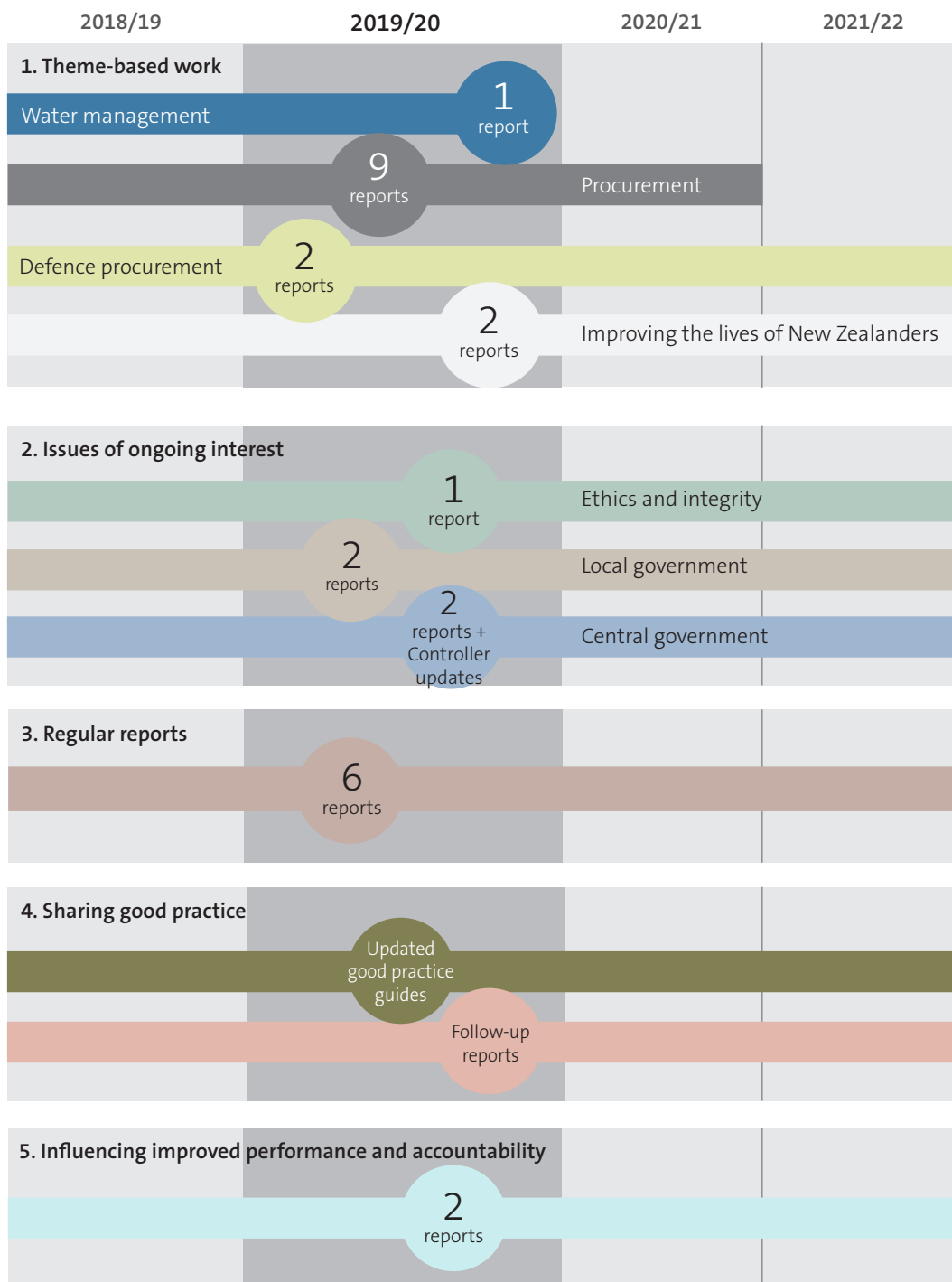
Summary of our audit portfolio at March 2019

Entity categories	Entities	Subsidiaries and related entities	Total
Central government entities			
Government departments	39	17	56
Crown research institutes	7	7	14
District health boards	20	20	40
Tertiary education institutions	27	43	70
Other Crown entities	63	23	86
Other central government entities	94	20	114
State-owned enterprises and mixed-ownership model companies	17	35	52
Rural education activities programmes	14	-	14
Schools	2426	47	2473
Local government entities			
Local authorities	78	-	78
Council-controlled organisations	-	155	155
Exempt council-controlled organisations	-	24	24
Other local government entities	-	45	45
Electricity lines, airport, and port companies			
Electricity lines companies	20	19	39
Airport companies	18	4	22
Port companies	12	13	25
Other public entities			
Fish and game councils	15	-	15
Licensing and community trusts	19	16	35
Administering bodies and boards	37	-	37
Cemetery trusts	91	-	91
Total	2997	488	3485

Appendix 2

Our multi-year work programme

The work we propose to complete in 2019/20 in the context of our multi-year work programme is shown in this Appendix.



	Work we completed (italicised) or will complete in 2018/19	Work we propose to complete in 2019/20	Work we propose for 2020/21	Work we propose for 2021/22	
1. Theme-based work	Information	<ul style="list-style-type: none"> • <i>Reflecting on our work about information</i> 	<ul style="list-style-type: none"> • Reflections report on <i>Water management</i> theme 		
	Water management	<ul style="list-style-type: none"> • <i>Managing the supply of and demand for drinking water</i> • <i>Sea Change – Tai Timu Tai Pari: Creating a marine spatial plan for the Hauraki Gulf</i> • <i>Managing stormwater systems to reduce the risk of flooding</i> • Clean-up of significant water bodies • Progress on freshwater quality management since 2011 • Effectiveness of processes for considering marine reserve proposals 	<ul style="list-style-type: none"> • MBIE procurement functional leadership: Enabling effective and efficient procurement across the State sector • Effectiveness of panels of suppliers¹ • Contracts for significant services • Auckland City Rail Link: Project governance • Provincial Growth Fund: Management, monitoring, and evaluation of the Fund • Procurement workforce capacity and capability in local government • Partnerships with the private sector to deliver public sector outcomes – how effective are they?² • Procurement of assets to support effective health care^{1,2} • How well does the NZTA procurement model manage long-term procurement risks to ensure future value and sustainable procurement? 	<ul style="list-style-type: none"> • GCDO ICT procurement functional leadership¹ • Managing smaller contracts (less than \$0.5 million) • Auckland City Rail Link: Procurement model and delivery • Tāmaki regeneration programme • Provincial Growth Fund: Benefits realisation • KiwiBuild: Implementation • Effectiveness of the firearms buy-back scheme 	<ul style="list-style-type: none"> • Reflections report on <i>Procurement</i> theme
	Procurement	<ul style="list-style-type: none"> • <i>Introducing our work about procurement</i> • Management of MBIE's grant programmes • Panels of suppliers survey 		<ul style="list-style-type: none"> • Defence procurement (topic to be determined) 	<ul style="list-style-type: none"> • Defence procurement (topic to be determined)
	Defence procurement	<ul style="list-style-type: none"> • <i>Review of Defence Major Projects Report 2017</i> • <i>Review of Defence Major Projects Report 2018</i> 	<ul style="list-style-type: none"> • Defence procurement: Effectiveness of integrated capability delivery • <i>Review of Defence Major Projects Report 2019</i> 	<ul style="list-style-type: none"> • reducing disparities in social outcomes between demographic groups • reducing poverty • improving resilience of infrastructure to natural hazards • effectiveness of Whānau Ora in achieving better outcomes for Māori 	
	Improving the lives of New Zealanders		<ul style="list-style-type: none"> • Performance in achieving reductions in family violence • Progress towards implementation of the sustainable development goals 		
2. Issues of ongoing interest	Ethics and integrity	<ul style="list-style-type: none"> • <i>Summary of fraud findings 2017/18</i> 	<ul style="list-style-type: none"> • Ethics and integrity landscape 	<ul style="list-style-type: none"> • Promoting high ethical standards and integrity across the public sector (work to be determined) 	
	Local Government	<ul style="list-style-type: none"> • Auckland Council review of service performance: <i>Effectiveness of Auckland Council's post-implementation review process</i> 	<ul style="list-style-type: none"> • Auckland Council review of service performance: Disaster resilience and preparedness • Local government risk management: Stocktake of approach and reporting results 	<ul style="list-style-type: none"> • Auckland Council review of service performance (topic to be determined) • Influencing improved risk management across local government (work to be determined) 	
	Central Government	<ul style="list-style-type: none"> • <i>Controller update: July to December 2018</i> 	<ul style="list-style-type: none"> • Inland Revenue Department: Benefits from the Business Transformation programme • Commentary on the Treasury's 2019 Statement on the Long-Term Fiscal Position • Controller updates 	<ul style="list-style-type: none"> • Work on other issues of interest arising (issues and work to be determined) • Controller updates 	<ul style="list-style-type: none"> • Controller updates
3. Regular reports	<ul style="list-style-type: none"> • <i>Central government: Results of the 2017/18 audits</i> • Summary of results of the 2017/18 central government audits for Chief Executives • <i>Results of the 2017 school audits</i> • <i>Tertiary education institutions: Results of the 2017 audits</i> • Results of the 2017/18 district health board audits • Local government: Results of the 2017/18 audits • <i>Long-term plans: Our audits of councils' consultation documents</i> • <i>Matters arising from our audits of the 2018-28 long-term plans</i> 	<ul style="list-style-type: none"> • Central government: Results of the 2018/19 audits • Summary of results of the 2018/19 central government audits for Chief Executives • Results of the 2018 school audits • Results of the 2018 audits of tertiary education institutions • Results of the 2018/19 district health board audits • Local government: Results of the 2018/19 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 • Results of the 2019 school audits • Results of the 2019 audits of tertiary education institutions • Results of the 2019/20 district health board audits • Local government: Results of the 2019/20 audits 	<ul style="list-style-type: none"> • Central government: Results of the 2020/21 audits • Summary of results of the 2020/21 central government audits for Chief Executives • Results of the 2020 school audits • Results of the 2020 audits of tertiary education institutions • Results of the 2020/21 district health board audits • Local government: Results of the 2020/21 audits • Matters arising from our audits of the 2021-31 local authority long-term plans and consultation documents 	
4. Sharing good practice	<ul style="list-style-type: none"> • <i>Updating Severance payments: A guide for the public sector</i> 	<ul style="list-style-type: none"> • Continued programme of updating good practice guidance 	<ul style="list-style-type: none"> • Continued programme of updating good practice guidance 		
	<ul style="list-style-type: none"> • <i>Accident Compensation Corporation: How it deals with complaints – Progress in responding to the Auditor-General's recommendations</i> 	<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) 	<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) 	<ul style="list-style-type: none"> • Continued programme of updating good practice guidance • 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) 	
5. Influencing improved performance and accountability	<ul style="list-style-type: none"> • <i>Submission on the Treasury's Public Finance System Strategy ["Embedding wellbeing in the Public Finance Act 1989"]</i> • <i>Submission on the State Services Commission's review of the State Sector Act 1988</i> • <i>Submission on the Treasury's proposal to establish an Independent Fiscal Institution</i> • <i>Submission on establishing an independent infrastructure body</i> • <i>Submission to the Taskforce for the Review of Tomorrow's Schools</i> • <i>Submission on safeguarding the future of our financial system: The role of the Reserve Bank and how it should be governed</i> • <i>Comments on local government funding and financing issues paper</i> (released by the Productivity Commission) • <i>Timeliness of reporting by public entities</i> • <i>Tertiary education institutions: Changes to the requirements for performance reporting in annual reports</i> • <i>Submission on proposal to create a NZ Institute of Skills and Technology</i> • <i>Landscape of the public accountability system: First report</i> 	<ul style="list-style-type: none"> • Landscape of the public accountability system: Second report • Making performance reporting more effective³ 		<ul style="list-style-type: none"> • Influencing improvements in the public sector accountability system (work to be determined) 	

1 To be confirmed through further planning. | 2 Possible multi-year programme of audits. | 3 Also part of our work on the *Improving the lives of New Zealanders* theme.