

# 22. Examining the Public Sector's Responses to the Canterbury Earthquakes

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This chapter describes the Auditor-General's program of work examining how public agencies performed during the recovery from the earthquakes that hit Canterbury in 2010 and 2011, especially the 7.1 magnitude earthquake of 4 September 2010 and the 6.3 magnitude earthquake of 22 February 2011, which killed 185 people.

## The Role of the Auditor-General

An auditor-general's role is to provide assurance about the public money spent by public agencies. The Office of the Auditor-General (OAG) fulfils this role in four ways

- statutory, annual financial audits, and audits of service performance reporting
- the controller function
- performance audits
- inquiries.

The Auditor-General is responsible for the audits of about 4000 public entities. Audit New Zealand (an operational business unit of the Auditor-General) and audit firms carry out annual audits on the Auditor-General's behalf. Annual audits form most of the Auditor-General's output. The Auditor-General carries out performance audits and inquiries at her discretion, with reference to an annual plan of work that is presented to Parliament.

## Our Future Needs: Is the public sector ready?

As Auditor-General, I have a firm belief that we should, wherever we can, help to improve the public sector. New Zealand has a public sector I am proud of, but I believe it can always be better. The focus of our 2012–13 work has been on our future needs. Is the public sector ready to meet future needs? An overriding need for New Zealand is to rebuild Christchurch, our second-largest city.

## Our Response to the Canterbury Earthquakes

The past 18 months and the 12 000 earthquakes and aftershocks in Canterbury have been a journey for us and many others. In many countries, the Auditor-General would be busy during the emergency response phase to a natural disaster because of the increased risk of fraud, theft and corruption when significant public money and aid pour into a region. New Zealand is, however, fortunate to have a transparent and relatively corruption-free public sector, with operating controls and systems generally effective. Reviews of the response phase were carried out soon after the 4 September 2010 and 22 February 2011 earthquakes, and we saw no need to duplicate this work. During the response phase, we focused largely on our core work of annual audits.

A few hundred of the 4000 audits we carry out every year are around Christchurch. We were pragmatic when public agencies asked us about accountability and reporting requirements. For example, we exempted about 40 schools from producing annual reports. The schools' priority was to get functioning again and focus on their students.

Many of our audit opinions on financial statements for 2011–12 drew attention to uncertainties about liabilities and asset valuations of public entities.

Agencies did their best to account for liabilities and damage from the earthquakes but, in many instances, ongoing change and a lack of information meant uncertainty was unavoidable. Indeed, uncertainty was a consistent theme right through to the financial statements of the Government, where, for the first time, we drew attention to uncertain matters. The statements included estimates of

- the Earthquake Commission's liability for damage to home contents, houses and residential land
- the 60 per cent infrastructure costs that transfer from local to central government
- the Government's guarantee for what is additional to the Earthquake Commission's Natural Disaster Fund<sup>1</sup>
- the cost of houses in the residential red zone (earthquake-damaged land and properties in Christchurch the Government agreed to buy and clear).

The scale of public expenditure that the recovery and rebuild entails (it is forecast that about NZ\$15 billion of public funds will go to the Christchurch

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<sup>1</sup> There is a NZ\$1.5 billion excess for each earthquake event. If the required Earthquake Commission payout exceeds the total of the excess and reinsurance (NZ\$4 billion), the remainder of the payout is met by the commission up to the limit of the Natural Disaster Fund. If the payout exceeds those assets, a crown guarantee requires that the Government pays the remainder.

recovery and rebuild) as well as the unique and uncertain context of that expenditure meant we needed to think carefully about how we could best use our limited discretionary powers.

We set up a small team led by two managers: one from our local government team and the other from our central government team. The team visited Christchurch regularly, meeting public officials, community groups and people affected by the earthquakes. The team visited the Red Zone, meeting homeowners and people demolishing houses. The team met tradespeople repairing the houses as part of the Earthquake Commission's Homes Repair Programme.

Always we were conscious of the need to keep in mind that many of the people working in the public sector in Canterbury had suffered through thousands of earthquakes. We listened and reflected on what we heard to inform our decisions about what work we should do.

## Learning from Audit Offices Overseas

As well as visiting Canterbury regularly, we also carried out desk research into the work of audit offices in other countries in response to natural disasters. This included the work of the Chinese National Audit Office (CNAO) following the Wenchuan earthquakes in 2008. The CNAO carried out a 'real-time audit' of the response and reconstruction that involved literally thousands of auditors over a three-year period. The audit involved tracking and auditing every step of the reconstruction effort, from preliminary planning, project development and commissioning, to completion of projects (CNAO n.d.).

We looked at the Queensland Audit Office's performance audit of the systems and processes involved in the national partnership agreement for natural disaster reconstruction and recovery (Auditor-General of Queensland 2011). The aim of this work was to provide assurance to the Queensland Parliament and public about the State's systems to deliver the funding and services to the community as provided for in the agreement.

The US Government Accountability Office (GAO) has looked at the government response to many natural disasters, such as Hurricane Katrina, to gather and learn lessons. The GAO has compiled the key areas of learning from this work, which proved to be a useful resource for us to consider the key lessons and the key principles to an effective recovery effort.<sup>2</sup>

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<sup>2</sup> See the US Government Audit Office website: <[www.gao.gov](http://www.gao.gov)>.

We drew on the work of the UN Development Programme, the World Bank and the Organisation for Economic Cooperation and Development (OECD) to identify key themes for an effective government response and recovery to a natural disaster (OECD 2004; UNDP n.d.; World Bank 2011). These include

- public confidence and trust, gained through being transparent and communicating openly
- clear relationships between different levels of government to manage risks of duplicating work and poor coordination
- recovery authorities focusing strongly on gaining and maintaining cohesion, coordination and consensus.

## **An Assessment Framework Helps to Prioritise our Discretionary Work**

We used the World Bank's report on the Queensland Recovery Authority to create a framework to structure our thinking about the New Zealand Government's performance in the recovery from the Canterbury earthquakes (World Bank 2011). This framework has 25 criteria for an effective recovery and rebuild from a natural disaster, which we put into a spreadsheet that we could regularly revise as the recovery moved into different stages. This living document has informed our thinking about how we structure our work program.

Through balancing what we have listened to, looking at the assessment criteria and talking to people throughout the public sector, we identified four areas of priority for our work in Canterbury.

- *Accountability and responsibility*: Who is doing what? Who is accountable?
- *Funding and finance*: How much will the recovery and rebuild cost the taxpayer and ratepayer? How will costs be shared?
- *Procurement and monitoring*: Are services being properly procured, and is the money being used appropriately?
- *Insurance*: How have the earthquakes affected the way public agencies insure assets?

Table 22.1 summarises the main issues under each theme, as well as the type of audit response.

**Table 22.1 Priority Themes, Main Issues to Address and Audit Response**

Theme	Summary of main issues	Audit response
Accountability and responsibility	Complexity, heightened risk of duplication	Regular reports on roles, responsibilities and funding First report presented to Parliament in October 2012
Funding and finance	A wide range of new appropriations and funding arrangements in place to finance the recovery and rebuild Central government and local government contributions; private sector funding; insurance and reinsurance; complex and expensive	Controller function Report on roles, responsibilities and funding Regular tracking of costs Annual audit of financial statements
Procurement and monitoring	Significant contracts for the demolition, repair, and rebuilding of homes, infrastructure, and the central business district  Earthquake Commission's Canterbury Home Repair Programme—large-scale procurement and project management. More than 80 000 repairs  Repair and rebuilding of horizontal infrastructure—mainly waterpipes and roads—delivered through an alliance model of five contractors working with Christchurch City Council, the Canterbury Earthquake Recovery Authority, and the New Zealand Transport Agency	Annual audits of financial statements and service performance  Performance audit, 2013  Performance audit, 2013
Insurance and the public sector	The increasing cost of insurance has been expensive for public entities throughout New Zealand	Parliamentary report (June 2013) on the results of a survey of all public entities by our auditors

Source: Authors' summary.

## Roles, Responsibilities and Funding

Our first piece of discretionary work has been to map and describe the roles and responsibilities of the key public entities involved in the recovery.

In October 2012, we published *Roles Responsibilities, and Funding of Public Entities after the Canterbury Earthquakes* (Office of the Auditor General 2012), which provides an objective view of how the recovery is being run. In doing so, it describes how the recovery is being carried out, the roles of agencies, how the

recovery is being funded and what the main risks and challenges are—for the agencies involved and for Cantabrians. We intend to provide updates on these matters at appropriate intervals.

The report included mapping the relationships between public sector entities, private companies and Te Rūnanga Ngāi Tahu (the local *iwi*) in meeting the challenges of the Canterbury earthquake recovery. This was represented in a complex diagram that can be sourced from the OAG website.<sup>3</sup> In drawing this diagram, we aimed to focus on the fact that the accountability needs to be understood from the viewpoint of people living in Canterbury. The recovery and rebuild effort involves significant funding, large-scale projects and contracts, and many entities with interacting roles and responsibilities.

The diagram shows the many organisations involved and the complexity of the recovery and rebuild. It is important to manage complexity effectively. Complexity can bring opportunities as well as challenges. For example, the State Services Commission has identified many good examples of public entities working in new and more effective ways in response to the earthquakes.

To sum up, during our visits to Canterbury, we heard often about how the private sector, the public sector and *iwi*<sup>4</sup> are working together, and we saw much evidence of this.

Each agency has roles and responsibilities. These need to be clear to the agencies and their staff, as well as to their partners. Accountability needs to be clear, although that need not be agency by agency. Accountability can be by task and by outcome. People need to work together to be able to achieve outcomes that contribute to recovery. In fact, the agenda of better public services is challenging us all to think about how we work together to collaborate on shared outcomes.

We consider that for the recovery to be effective and efficient it is important that all the agencies involved know what each is doing. If there is a lack of clarity, there is a risk that their work might not be mutually supportive, could lack direction and could be wasteful because of duplication. Accountability could be unclear and, in the end, the effective use of public spending could be put at risk. Because rebuilding in a changing environment is complex, leaders in Canterbury must continually monitor and take appropriate action to manage these risks.

As the rebuild in Canterbury changes, we will update our diagram regularly and ensure that we keep monitoring any changes. I have no doubt it will evolve

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3 This diagram can be found at <http://www.oag.govt.nz/2012/canterbury/2012/canterbury/docs/figure1.pdf>.

4 *Iwi* are Māori tribes.

as new ways of working together and more collaboration become apparent or take place between agencies and Wellington and Canterbury and between the public and private sectors.

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This text taken from *Future-Proofing the State: Managing Risks, Responding to Crises and Building Resilience*, edited by Jonathan Boston, John Wanna, Vic Lipski and Justin Pritchard, published May 2014 by ANU Press, The Australian National University, Canberra, Australia.