

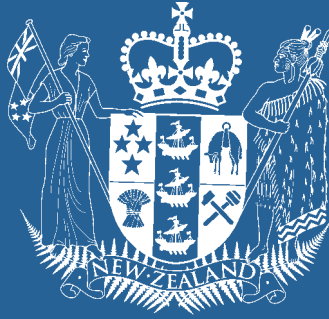
A close-up photograph of a silver fountain pen with intricate engravings, resting on a ledger or account book. The ledger has a grid of dotted lines and contains various numbers and some faint text. The pen is positioned diagonally across the frame, pointing towards the bottom left. The background is slightly blurred, emphasizing the pen and the ledger's details.

**The Controller and  
Auditor-General**

*Tumuaki o te Mana Arotake*

**Annual Plan  
2003-04**

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# The Controller and Auditor-General

*Tumuaki o te Mana Arotake*

# Annual Plan

for the year ending 30 June 2004

Prepared as required by  
section 36 of the Public Audit Act 2001

ISSN 1175-8258

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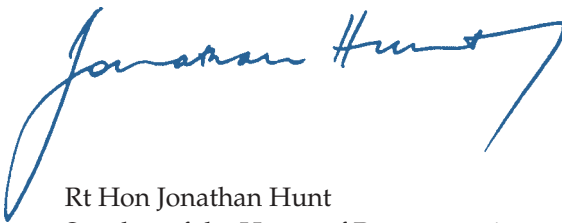


## Speaker's Foreword

I am pleased to introduce the Controller and Auditor-General's *Annual Plan* for the 2003-04 financial year.<sup>1</sup>

The Controller and Auditor-General is an Officer of Parliament whose role is to act on behalf of Parliament by assisting it to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

The *Annual Plan* indicates how the Controller and Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Controller and Auditor-General to account for his Office's performance during 2003-04.



Rt Hon Jonathan Hunt  
Speaker of the House of Representatives

30 April 2003



<sup>1</sup> Pursuant to the Public Finance Act 1989, the Speaker is responsible for Vote Audit.

## Introduction by the Controller and Auditor-General<sup>2</sup>

This *Annual Plan* is designed to provide a comprehensive description of the projected performance of the Audit Office<sup>3</sup> for 2003-04. Information is provided about the role and goals of the Office so that the Office's 2003-04 plans can be seen in context. We also set out our proposed future work programme.

Last year we prepared our *Annual Plan* in keeping with the "Statement of Intent"<sup>4</sup> model. This year, our *Annual Plan* contains more information on our expectations with respect to outcomes and capability, and clearer statements of the linkages between our outcomes, capability, strategies, and outputs.

In line with our obligations under the Public Audit Act 2001, we have consulted with the House of Representatives over our proposed work programme. The comments we have received have been useful and have been taken into account in producing this Plan.

In accordance with section 36(1) of the Act, we prepared and submitted to the Speaker a draft of this Plan, which the Speaker presented to the House on 28 March 2003. No comments have been received from the Speaker or any committee of the House on either the proposed work programme or the draft annual plan as a whole.

The formulation of our *Annual Plan* is ongoing and we expect to achieve a steady increase in its quality over the coming year. We will be putting more work and effort into

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2 The Controller and Auditor-General, in his personal role, is usually referred to simply as "the Auditor-General" in the rest of this report.

3 "The Audit Office" is the term we use to refer to all of the resources employed by the Auditor-General in pursuit of his role (see also page 7).

4 For more information on this see [www.ssc.govt.nz](http://www.ssc.govt.nz).

defining our impacts, and into how we can collect reliable and relevant data and information so we can truly measure the difference we make.

Key objectives for 2003-04 are:

- implementing our governance and risk management framework;
- preparing our Strategic Business Plan for 2004 to 2007;
- planning to provide the required capability for changes in our operating environment, particularly in local government; and
- implementing changes for the appointment of audit service providers resulting from the review of the contestability of annual audits.



K B Brady  
Controller and Auditor-General

30 April 2003



## Statement of Responsibility

The forecast financial and other statements for the Controller and Auditor-General for the year ending 30 June 2004 contained in this report have been prepared in accordance with section 36 of the Public Audit Act 2001.

As Controller and Auditor-General, I acknowledge, in signing this statement, that I am responsible for the forecast output information and financial statements contained in this report.

The forecast financial statements, which include objectives for output and financial performance, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House) the 2003-04 budgetary estimates for the Audit Office submitted pursuant to section 17 of the Public Finance Act 1989.

I certify that the information contained in this report is consistent with the appropriations contained in the *Estimates* for the year ending 30 June 2004 that are to be laid before the House of Representatives under section 9 of the Public Finance Act 1989.



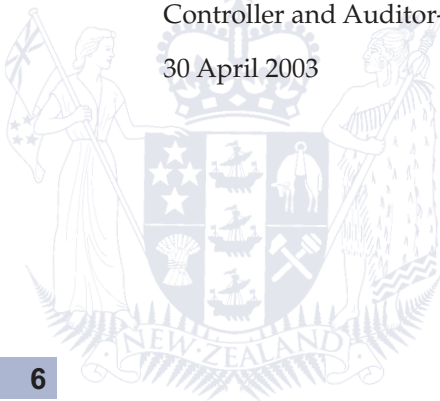
K B Brady  
Controller and Auditor-General

30 April 2003



D E Atkin  
Finance Manager

30 April 2003



## What Is the Audit Office?<sup>5</sup>

The office of Auditor-General is a statutory office created by Parliament in the Public Audit Act 2001. The office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.

The Auditor-General is an officer of Parliament, and in that capacity is independent of executive government and answerable to Parliament.

In New Zealand's system of government, Parliament is supreme – all authority for governmental activity ultimately stems from Parliament. Public sector organisations are therefore accountable to Parliament for their use of the public resources and powers that it has conferred on them.

Parliament also seeks independent assurance that public sector organisations are operating, and accounting for their performance, in accordance with Parliament's intentions. There is also a need for independent assurance at the local level. Local authorities are accountable to the public for using the resources they fund through rates.

The Auditor-General provides this independent assurance to both Parliament and the public.

The Auditor-General employs staff and engages private sector auditing firms to carry out his functions in relation to public entities. This combination of internal and external resources we refer to as "the Audit Office" (see page 10).

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5 A fuller description of who we are and what we do can be found in our publication *All about ... the Controller and Auditor-General*, available on our web site [www.oag.govt.nz](http://www.oag.govt.nz).



### Our Key Concerns

Our five key concerns are a reflection of the mandate given to us in the Public Audit Act 2001 and, therefore, are central to the way in which all our auditors undertake any work.

The first four concerns derive from section 16 of the Act, which states that the Auditor-General may examine such issues at any time through a performance audit. The fifth, our concern for accountability, is derived from section 15, which requires the Auditor-General to audit every public entity's financial statements, accounts, and any other information that a public entity is required to have audited.

- **Performance:** Have public entities undertaken activities in accordance with Parliament's intentions, and in an effective and efficient manner?
- **Authority:** Have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?
- **Waste:** Have resources been obtained and applied in an economical manner? That is, taxpayers' dollars are not being wasted.
- **Probity and Financial Prudence:** Are entities meeting parliamentary and public expectations of an appropriate standard of behaviour in the public sector?
- **Accountability:** Have entities given full and accurate accounts of their activities, and of their compliance with Parliament's intentions, through the annual reporting cycle? Are governance and management arrangements suitable to address the concerns identified above?

### How Do We Do Our Job?

Our job, in simple terms, is to apply an independent perspective in:

- examining the operations and/or performance of an entity and comparing it with a recognised framework or set of pre-determined criteria;

- gathering evidence to support the examination and comparison; and
- forming an opinion based on that evidence.

We then inform stakeholders by reporting our opinion and any other relevant comment – such as recommendations for improvement. We can then report to Parliament based on the findings of our audits.

### What Assurance Can an Audit Provide?

Our audits can provide a *high, but not absolute, level of assurance*. In a financial report audit, we gather evidence on a “test” basis because of the volume of transactions and other events being reported on. Our auditors use professional judgement to assess the impact of the evidence gathered on the formation of the audit opinion.

The concept of *materiality* is implicit in a financial report audit. Our auditors report only “material” errors or omissions – that is, those errors or omissions that are of a magnitude or nature that would affect a third party’s conclusion about the matter.

We, and other auditors, do not:

- examine every transaction – this would be prohibitively expensive and time-consuming; or
- guarantee the absolute accuracy of a financial report – although the audit opinion does imply that no *material* errors exist; or
- discover or prevent all frauds (the entity’s management is responsible for ensuring that adequate control systems exist to minimise risks from fraud).

In other types of audit (such as a performance audit), we can provide assurance that, for example, the entity’s systems and procedures are effective and efficient, or the entity has acted in a particular matter with due probity. However, we might also find that only qualified (or even no) assurance can be given. In any event, the findings from the audit will be reported.

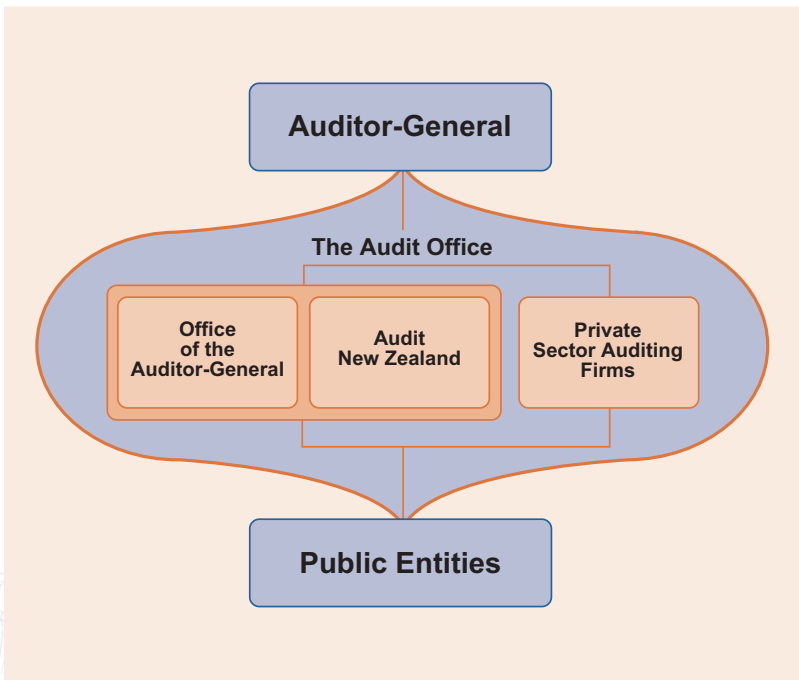
## WHAT IS THE AUDIT OFFICE?

Throughout our work we will often highlight areas of good practice as part of identifying and recommending improvements.

### Our Governance Arrangements

This statement provides an overview of our organisational structure and a brief description of the internal governance arrangements to support that structure during 2003-04. New to the arrangements for 2003-04 will be the Audit Committee (see page 11) and the Independence Review Committee (see page 12).

The Audit Office comprises two internal business units – the *Office of the Auditor-General* (OAG) and *Audit New Zealand* – and private sector auditing firms (as illustrated below).



### *OAG Management Board*

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The OAG Management Board, chaired by the Auditor-General, meets at least monthly. It is responsible for the stewardship, direction and control of the OAG, and for the overall control framework for the Audit Office.

### *Audit New Zealand Executive Leadership Team*

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The principal manager of Audit New Zealand is the Executive Director. The Executive Director has an Executive Leadership Team (ELT) that takes collective responsibility for the day-to-day management of Audit New Zealand. The Auditor-General attends ELT meetings.

### *Supporting Governance Elements*

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#### **Audit Committee**

The Audit Committee is an independent committee, reporting directly to the Auditor-General. It has no role in executive management.

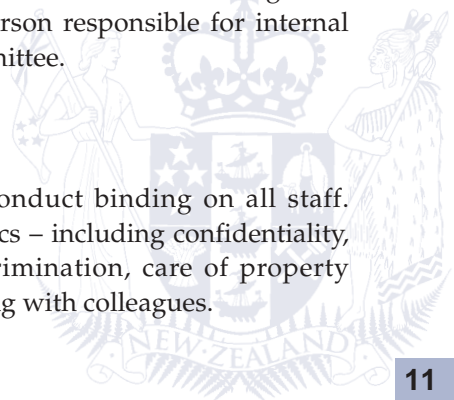
The purpose of the Committee is to review and advise on:

- risk management and internal control;
- internal audit;
- financial and other external reporting; and
- compliance with legislation, policies, and procedures.

The purpose of internal audit is to provide assurance that risk identification has occurred and that risk mitigation strategies are in place. The person responsible for internal audit reports to the Audit Committee.

#### **Code of Conduct**

We have adopted a code of conduct binding on all staff. The code covers a range of topics – including confidentiality, conflicts of interest, non-discrimination, care of property and other resources, and working with colleagues.



### Risk Identification and Management Framework

We have made good progress in creating a risk management framework that will systematically identify and quantify (where appropriate) the strategic, business, and professional risks that we face. When fully implemented, the framework will provide the Audit Office management with a regular formal review of the risks being faced.

### Opinions Review Committee

An Opinions Review Committee (convened on an as-required basis) provides assurance as to the consistency of non-standard and potentially non-standard audit reports in certain situations<sup>6</sup>, and ensures a consistent approach to major accounting and auditing policy issues affecting the Audit Office.

### Independence Review Committee

The Independence Review Committee provides assurance that judgements made on independence matters are appropriate, having regard to:

- the professional and Auditor-General's standards and guidelines on independence; and
- the Auditor-General's duty to act independently, as required by section 9 of the Public Audit Act.

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6 Those situations are where consideration is being given to including in the audit report any of the following:

- an 'explanatory paragraph' in relation to fundamental uncertainty;
- a 'disclaimer' of opinion; or
- an 'adverse' opinion.

### **Local Authorities (Members' Interests) Act Review Committee**

The Local Authorities (Members' Interests) Act Review Committee provides input to decisions on significant investigations under the Local Authorities (Members' Interests) Act 1968, including whether to initiate proceedings against members of local authorities after an investigation by the OAG's Legal Group.

### **Project Steering Committees for Special Audits and Studies**

Each of our special audits and studies has a Project Steering Committee to provide oversight, project monitoring, and quality control. It is a key element in ensuring that our reports to Parliament and the public are of a high quality.





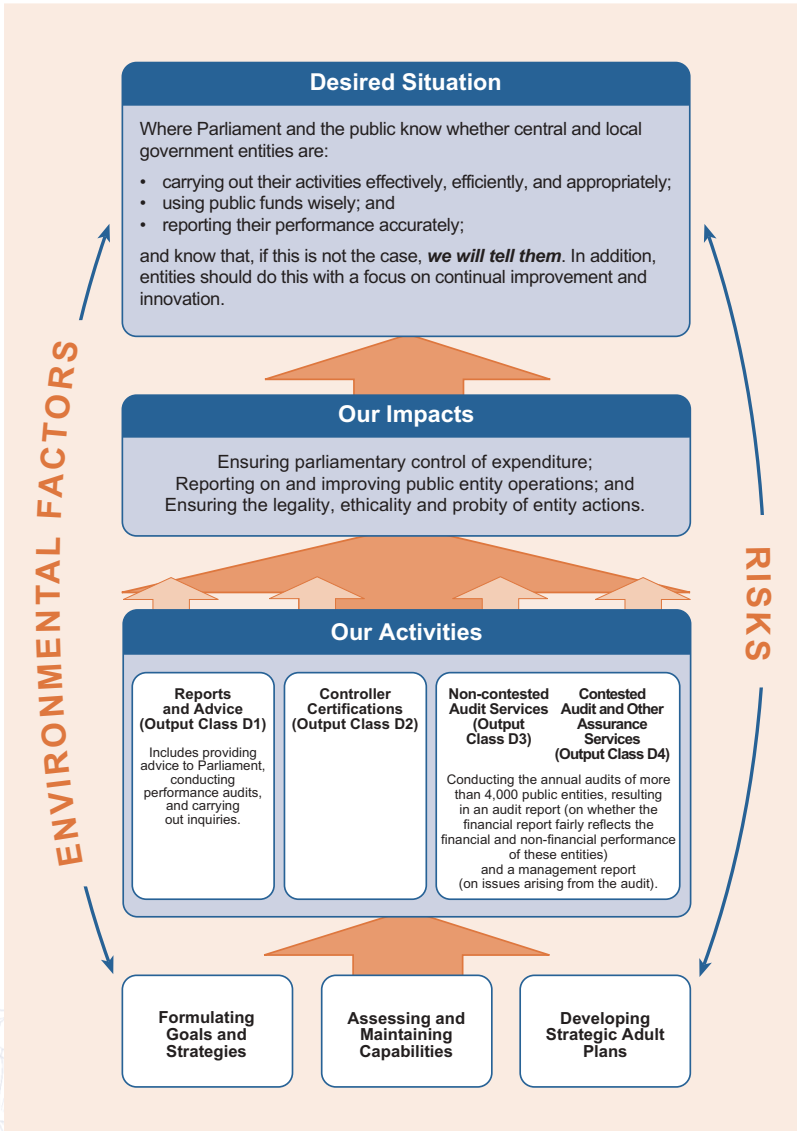
## Part One

# Statement of Intent

# STATEMENT OF INTENT

## Our Operating Environment and Risks

This diagram depicts the linkages between our desired situation (outcomes), the impacts we aim to have, our outputs, and our work programme. Each of these elements is described in detail in the following pages.

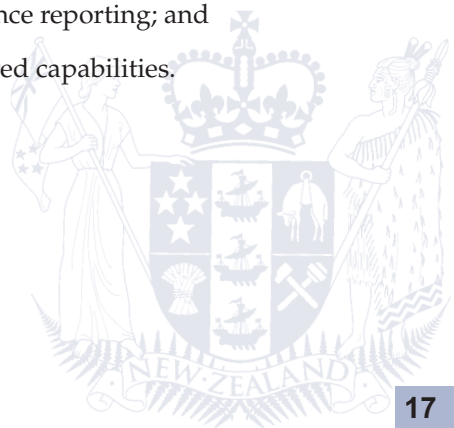


# Our Operating Environment and Risks

In this part of the Plan we set out the challenges and risks to the Audit Office that we expect in our operating environment. Our operating environment affects the activities we undertake and the situation we are trying to achieve (see pages 26-34). It is important that we understand our environment so that we are able to improve and adapt the way we work to meet the challenges it poses.

Our assessment is that our main challenges and risks will come from:

- the consequences of recent events that have affected the credibility of the accounting and auditing profession;
- increases in Parliamentary and public expectations about public sector performance and accountability;
- the existence of an *expectation gap* between what our stakeholders want us to do and what our mandate from Parliament allows us to do;
- ongoing change in, and the increasing complexity of, both central and local government operations;
- increasing litigiousness in the public sector;
- advances in information systems and information and communications technology (ICT);
- ongoing changes in performance reporting; and
- difficulties in obtaining required capabilities.



## Credibility of the Accounting and Auditing Profession

Events related to the recent bankruptcy of large corporations (such as Enron Corporation in the United States) are raising broad challenges to current accounting and auditing standards and behaviour. Accounting bodies around the world – including our own Institute of Chartered Accountants of New Zealand – are examining issues relating to independence and ethics. While we believe our own independence standards are appropriate for our circumstances, we will need to keep them under review in the light of any international or local developments.

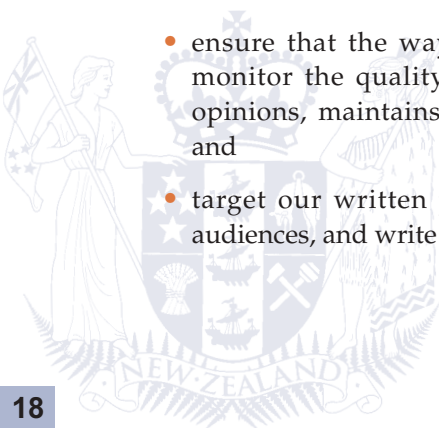
The recent announcement by the Accounting Standards Review Board recommending adoption of International Financial Reporting Standards by 2007 will pose significant issues for the public sector in New Zealand. The Audit Office is very concerned about the consequences of this decision for the future of New Zealand's sector-neutral standards (i.e. that apply to both the public and private sectors).

### What do we need to do?

The credibility of the Audit Office is built on the two pillars of independence and competence, both of which must be evident in our products and services. We must therefore maintain the quality of our key products and services – annual audits, performance audits, inquiries, and other support and advisory activities.

We must continue to:

- ensure that the way we select and brief auditors, and monitor the quality and timeliness of audit work and opinions, maintains the highest professional standards; and
- target our written products accurately to appropriate audiences, and write them clearly and authoritatively.



## **Increases in Parliamentary and Public Expectations About Public Sector Performance and Accountability**

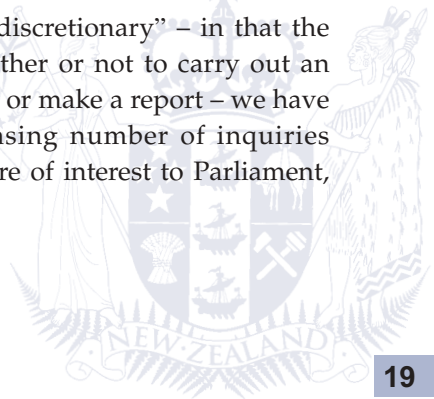
There is a long-term trend of increasing demand for the services of the Auditor-General, at a time when the costs of providing these services are increasing. For example, there is continual growth in public and media interest in select committee activities – both the regular activities (financial reviews and *Estimates* examinations) and special inquiries initiated by the committees. The Audit Office has traditionally acted as adviser to committees on their regular activities – it is now also being invited to assist with inquiries and the scrutiny of legislation.

Another reason for the increasing demand is heightened awareness of poor accountability and governance – noticeable in the increasing complexity (and potential risk to us of litigation) of requests for inquiries (under section 18 of the Public Audit Act) over recent years. For example, in 2002-03 we have completed or are undertaking four major inquiries entailing a breadth of scope and complexity well beyond that of a simple request to investigate. The growing demand for us to undertake this type of work means we often have to delay starting or alter the timetables for our other work – in particular, special audits and studies.

### *What do we need to do?*

We need to ensure that we have sufficient resources to respond to increases in demand, either through in-house capacity or the ability to buy in specialist resources.

While much of this demand is “discretionary” – in that the Auditor-General can choose whether or not to carry out an inquiry, undertake a special audit, or make a report – we have felt bound to take on an increasing number of inquiries because the concerns they raise are of interest to Parliament, select committees, and the public.



In the short term, we have been able to cope with this increase in demand by reprioritising our planned programme of special audits and studies. However, decisions on which audit, study, or inquiry will take priority are becoming increasingly difficult. A measure of our workload, and the trade-offs in prioritisation and their effects, will form a major part of the capability planning for our Strategic Business Plan for 2004 to 2007, to be completed later in the year.

### The Expectation Gap and Limitations on Our Effectiveness

Part of the trend noted above is the existence of high expectations but an imperfect understanding of the Auditor General's ability to "fix" policy, governance, and management problems in both local and central government. While we do our best to bring about improvements through our reports, the Auditor-General (consistent with the Auditor-General's constitutional position as an officer of Parliament) is not able to compel such changes directly. Change is primarily an executive responsibility.

A good working relationship between the Audit Office and Parliament has developed that helps to translate our work into improvements in entity performance. However, there are few formal mechanisms to ensure that either the Finance and Expenditure Committee or another committee considers the Auditor-General's reports. When there is no select committee scrutiny and, consequently, no committee report to the House, the Government is not obliged to respond to issues that we have raised and, therefore, the opportunity for improvement is limited. This risks limiting the effectiveness of the Office.

#### What do we need to do?

We need to continue to focus on strengthening our working relationship with Parliament. We will also discuss with Parliament any options for possible changes to the current system for dealing with our reports.

In addition, we will promote awareness of our reports among relevant sector representatives and central agencies – either to act on the reports directly or to use their influence to encourage government departments and other entities to act on the reports.

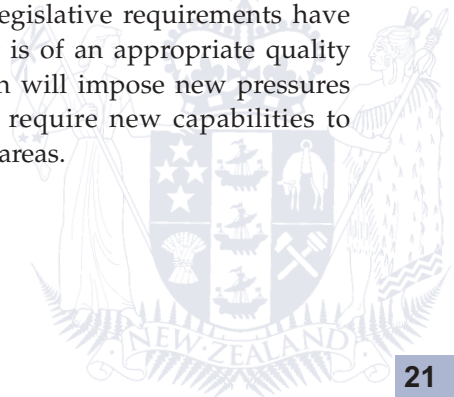
## Ongoing Change in, and the Increasing Complexity of, Central and Local Government Operations

Many governmental activities are in a state of continuous reform. Known changes and reforms which will be significant for us include:

- results from the “Review of the Centre”, including the reworking of Crown entity legislation;
- the passage and implementation of new legislation for Local Government;
- the expansion of “E-government”; and
- the growing interest in Public–private Partnerships.

Major changes enacted by the Local Government Act 2002 will significantly affect the methods and capabilities required to carry out our activities. The Act requires community planning every six years to identify the outcomes and priorities sought for the district or region, and a three-yearly Long-term Council Community Plan (LTCCP).

In the LTCCP, the local authority has to define a strategic direction and to justify activities on the basis of the extent to which they contribute toward community goals. From 2006, the Audit Office is required to provide assurances in relation to the LTCCP that legislative requirements have been met and information in it is of an appropriate quality and usefulness. This obligation will impose new pressures on our limited resources, and require new capabilities to provide opinions on specialised areas.



### What do we need to do?

As the public sector auditor, the Audit Office needs to be able to assess the effects of these changes and reforms, and contribute to addressing their financial management and accountability implications. To perform effectively, we have to build and maintain excellent systems for scanning, analysing, and prioritising information about the state of both central and local government and changes taking place within them.

## Increasing Litigiousness in the Public Sector

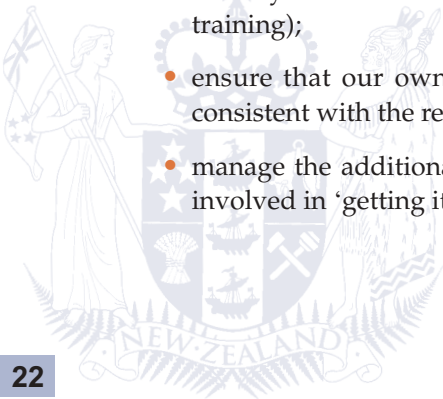
Western societies have become more litigious in recent decades. The New Zealand public sector is not immune to this trend, as several high profile court cases have shown. We must also operate in this environment.

The Public Audit Act has brought our functions into focus as public law remedies, which can be used to challenge administrative actions. Also, we face the risk of challenge to how we go about our work – especially in regard to the more high-profile inquiries we undertake.

### What do we need to do?

We must successfully adapt to the modern litigious environment. To do so we must:

- ensure that our methods for choosing what work we undertake (especially inquiries) are sound and transparent;
- identify where additional capability is required (including training);
- ensure that our own processes are fair, transparent, and consistent with the requirements of natural justice; and
- manage the additional time and costs (such as legal costs) involved in ‘getting it right’.



## Advances in Information Systems and Information and Communications Technology

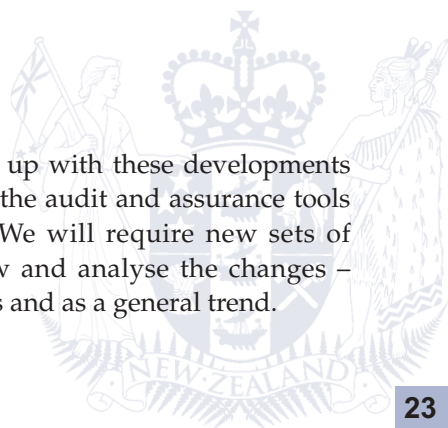
Changes in information systems and ICT are accelerating worldwide, and the public sector is embracing various aspects and making a number of changes. The extent of these changes remains unclear, but there are some obvious trends:

- Internal and external transactions, workflows, and data storage are increasingly being computerised.
- Public entities are looking to share information more frequently as they need to co-operate more closely.
- More information that can be used for accountability purposes is becoming available on web sites.
- Innovation is a constant factor in development of systems.
- The capabilities of systems are increasing – allowing handling and manipulation of larger amounts of information than before, and the ability to simulate events rather than simply react to them.
- The internationalisation of accounting standards and the development of business reporting tools such as XBRL.

The changes in information systems and ICT will all create risks that we need to manage. Changes include increased information sharing, an increase in accountability information available on websites, and the risks from the development of new systems (such as the maintenance of historical data, integrity of systems, and proper management of transitions between systems).

### *What do we need to do?*

The Audit Office needs to keep up with these developments in the public sector, and also in the audit and assurance tools available to deal with them. We will require new sets of skills in order to assess, review and analyse the changes – both in individual circumstances and as a general trend.



## Ongoing Change in Performance Reporting

Performance reporting is changing to place greater emphasis on the evaluation of impacts and outcomes, and also to recognise a wider range of influences on performance. This is shown by the “Managing for Outcomes” initiative and the increasing adoption of ‘whole of system’ reporting (including, for example, sustainable development reporting).

Traditional accounting methods provide management with information about business activity that can be expressed only in dollar terms. They also do not easily show the linkages between financial and non-financial information.

### *What do we need to do?*

The Audit Office needs to ensure that it has adequate capability, informed processes, and appropriate products in order to successfully address these new areas of performance reporting. While we do not see the form of our basic products changing significantly, we recognise that the subject matter within them will change because the world of audit and assurance is changing. We need to strengthen our capability to accommodate the developmental needs associated with these changes.

## Difficulties in Obtaining Required Capabilities

There is a long-term trend of increasing demand for skilled people in disciplines that are essential to enable the Auditor-General to respond to the challenges described above and their consequences. At the same time, the number of external sources that are able to provide these services on behalf of the Auditor-General is shrinking through:

- mergers of private sector firms; and
- the potential tightening of independence standards as a result of recent corporate failures.

*What do we need to do?*

The trends indicated in the environment described above require constant assessment, recruitment of people, and acquisition of information to maintain our capability to respond to the increasing breadth of knowledge we are dealing with.

We need to ensure that we keep skill levels up and institutional memory strong, in order to maintain the quality of our reporting and advice. We also need to formulate strategies to obtain external capability when required.

More fundamentally, we will need to maintain a viable in-house audit capability (see page 37). Implementing the results of our contestability review will play a key role in this.



# What We Are Trying to Achieve

This part of the Plan demonstrates the linkages between the products and services we deliver (our outputs), the impacts we aim to have, and what we are trying to have an impact upon – which we call the desired situation (our outcomes).

## The Desired Situation

As depicted at the top of the diagram on page 16, the desired situation is where Parliament and the public know whether public entities (including central and local government entities, and others such as schools) are –

- carrying out their activities effectively, efficiently, and appropriately;
- using public funds wisely; and
- reporting their performance accurately -

and know that, if this is not the case, we will tell them. In addition, entities should do this with a focus on continual improvement and innovation.

## How We Achieve Our Impacts

To help ensure that the desired situation is achieved, we aim to have three impacts:

- improved public entity operations;
- public entities that act legally, ethically, and with probity; and
- parliamentary control of expenditure.



We expect the first two impacts to result from our products and services under Output Classes D1, D3 and D4, and the third impact to result from our services under Output Class D2 (see pages 30-31).

To bring about those impacts we tell Parliament and the public whether, in our opinion, public entities:

- are acting lawfully, ethically and with probity;
- are performing effectively and efficiently in implementing legislation and policies and in providing goods and services, in accordance with Parliament's intentions;
- are providing legislators and policy decision-makers with relevant, materially complete, timely, and accurate information and sound, impartial advice.
- have the appropriate capability to continuously improve and adapt their organisations in a constantly changing environment;
- are operating information systems that enable them to obtain a materially complete and accurate view of both their internal operations and external operating environment; and
- are fulfilling their accountability requirements by accurately reporting their performance.

The points above are an expanded view of our five key concerns listed on page 8.

We cannot accomplish this level of assurance on our own, as there are many other agencies that contribute. Nevertheless, we are a key player, and Parliament and the public need to have confidence that we are making the greatest possible contribution to the assurance they require.

On pages 28-30, we outline how we will achieve our impacts, including the measures and indicators that we will use to monitor them. These measures and indicators are our first attempt at defining how our impacts will be identified. We will continue to refine the measures and indicators over the coming years to determine those that are the most appropriate and useful.

### Improved Public Entity Operations

Our core activities (Output Classes D1, D3 and D4) involve us in assessing whether public entities are:

- performing in an effective and efficient manner;
- accurately reporting their performance; and
- using sufficient and appropriate information systems.

When we tell relevant stakeholders of our assessments, we aim to provide assurance on the adequacy of the above three factors, and to influence their continual improvement.

These individual efforts, when combined, also help to ensure that Parliament is informed whether or not entities are providing legislators and policy decision-makers with relevant, materially complete, timely and accurate information and sound, impartial advice.

<b>Impacts:</b>	By assessing entity operations, and then telling relevant stakeholders, we will continuously improve the: <ul style="list-style-type: none"><li>• sufficiency and appropriateness of public entity information systems;</li><li>• effectiveness and efficiency of entity operations; and</li><li>• the accuracy and adequacy of entity reporting.</li></ul>
<b>Measures and Indicators:</b>	<ul style="list-style-type: none"><li>• Improvements in aspects of entity management, as measured through our assessments (including local government in the future).<sup>7</sup></li><li>• The level of uptake of formal recommendations we make in our reports.</li><li>• Others taking action as a result of our work (including adoption of Audit Office advice by select committees in their own reports).</li><li>• Fewer non-standard audit reports being issued over time.</li></ul>

<sup>7</sup> See, for example, *Government Departments – Results of the 2000-01 Audits*, parliamentary paper B.29[01b], 2001, pages 20-26.

## Public Entities That Act Legally, Ethically, and With Probity

The expectation that a public entity will act legally is without question in New Zealand. This expectation is mostly borne out because it is rare to find any major instances of unlawfulness. However, we still need to be vigilant, and we are in a key position to help monitor compliance and deter breaches of statutory obligations.

While the expectation to act ethically and with probity is just as high, determining whether the behaviour of an entity meets this expectation is often a more difficult task. There are few written standards for ethical behaviour, or guidelines for acting with probity.

<b>Impacts:</b>	By being vigilant for any behaviour below expectation as part of our day-to-day activities, and high lighting and fully investigating any irregularities we come across, we will ensure that an effective deterrent to unlawful or unethical actions, or those undertaken without probity, exists.
<b>Measures and Indicators:</b>	<ul style="list-style-type: none"><li>• Transparency International ranking.<sup>8</sup></li><li>• Analysis of themes emerging from the inquiries we conduct.</li></ul>

## Parliamentary Control of Expenditure

The controller function (Output Class D2) is a key part of the mechanisms for the release of public money to government departments. These mechanisms ensure that public money released from the Crown bank account is applied only for purposes that are lawful and are within the appropriations voted by Parliament.

8 While the Transparency International ([www.transparency.org](http://www.transparency.org)) ranking serves as an adequate measure at this stage, we will try to establish a better measure for this impact.

## STATEMENT OF INTENT

### What We Are Trying to Achieve

We check that the amounts being released meet the criteria and, if so, issue a certificate allowing release. If the amounts do not meet the criteria, we will not issue the certificate.

<b>Impacts:</b>	If we properly carry out our controller function, the mechanisms that are designed to ensure Parliamentary control of public money will function properly and no funds will be released without appropriate authorisation.
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<b>Measures and Indicators:</b>	That no funds are released to government departments without appropriate Parliamentary approval.
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## Outputs to be Produced

In order to achieve our impacts, we intend to deliver the following outputs. Full details of the outputs are set out in the Proposed Work Programme on pages 45-63 and the Statement of Objectives on pages 69-83.

### Output Class D1 – Reports and Advice Arising from the Exercise of the Function of Legislative Auditor

- Reporting to and advising parliamentarians – either in Select Committees, or as Ministers or individual MPs – on the results of audits and investigations. The bulk of this is done through financial reviews and *Estimates* examinations.
- Responding to enquiries from taxpayers, ratepayers or individual MPs on matters that we think appropriate to investigate. Nearly 300 enquiries are received each year.
- Undertaking and reporting on performance audits of public entity operations. These audits examine questions such as entity performance, the quality of accountability to Parliament, and the probity of activities. Subjects for the audits are chosen using the Strategic Audit Planning process (see pages 38-39).

Under the Public Audit Act 2001, this output class now covers almost all of the public sector. The quality of this work is ensured by rigorous internal procedures, including peer review and substantiation of major reports. Principles of natural justice are applied in the clearance of published reports, so that public agencies and affected individuals have an opportunity to check the factual accuracy of the findings and comment on the conclusions drawn.

**Output Class D2 – Certification of Authority to Release Funds from the Crown Bank Account**

To act as a monitor on behalf of Parliament, to control the issue of funds from the Crown Bank Account. Operationally, this includes monitoring departmental and Crown financial reporting systems to ensure that releases of funds are supported by Parliamentary appropriations and are for lawful purposes. A key part of this activity is checking that warrants issued by the Governor-General for the release of funds, and daily amounts released to Departments to fund their activities, are supported by appropriations.



**Output Class D3 – Provision of Non-contested Audit Services**

**Output Class D4 – Provision of Contested Audit and Other Assurance Services**

Both Output Classes D3 and D4 relate to the conduct of the annual audits of public entity financial reports. The Auditor-General is the statutory auditor of more than 4,000 public entities. These audits are undertaken by either Audit New Zealand or by private sector auditors.

Annual audits result in –

- **Audit Reports** – on whether the financial reports fairly reflect the financial and non-financial performance of the entities; and
- **Management Reports** – to the management and governing bodies of entities, on issues arising from the audit.

Audit service providers also provide other auditing and assurance services to public entities.

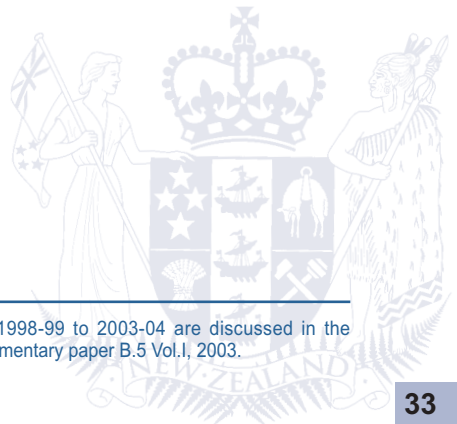
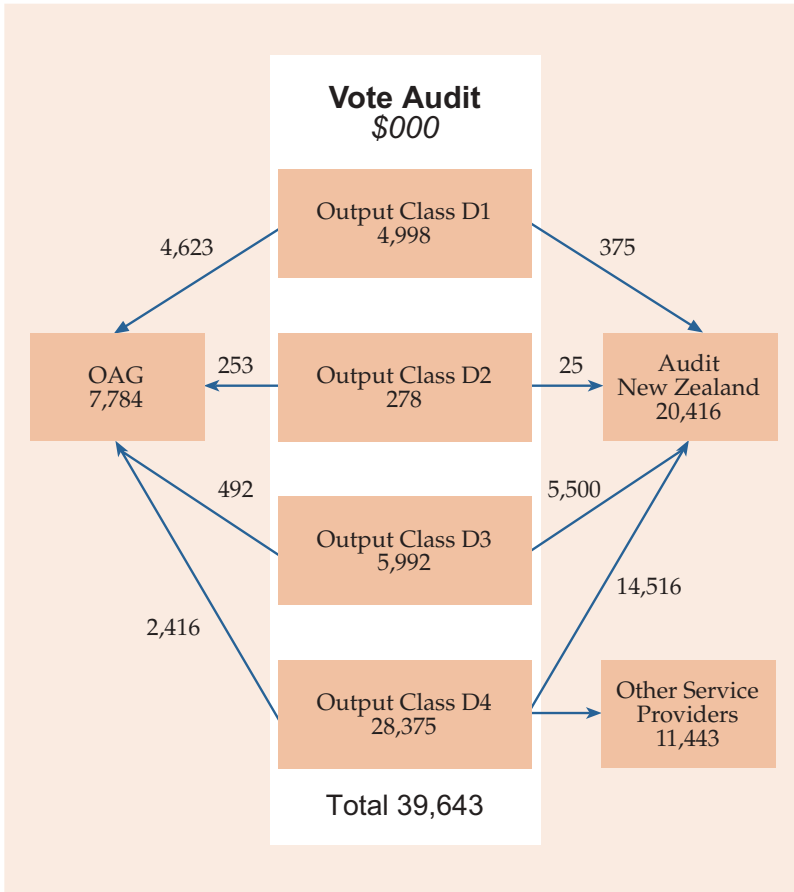
Both Output Classes D3 and D4 are funded mainly by fees paid by the public entities being audited. The difference in output classes relates to the method by which the audit service provider has been selected – D3 is non-contestable and D4 involves a competitive tender process.

The quality of audit and assurance work carried out under these two output classes is maintained by:

- being subject to the *Auditor-General's Auditing Standards*<sup>9</sup>;
- provision of detailed guidance on audit risks and issues;
- training and support of auditors; and
- post-audit quality control which evaluates every auditor's work at no more than three-yearly intervals.

<sup>9</sup> See [www.oag.govt.nz](http://www.oag.govt.nz) under "Key Corporate Documents".

## Analysis of Output Costs<sup>10</sup>



<sup>10</sup> Trends in Vote Audit over the six years 1998-99 to 2003-04 are discussed in the *Estimates of Expenditure* for 2003-04, parliamentary paper B.5 Vol.1, 2003.

## STATEMENT OF INTENT

### *What We Are Trying to Achieve*

In 2003-04, the Audit Office expects to fund the costs of producing its outputs by receiving \$39.911 million, comprising:

\$5.271 million in revenue from the Crown, and \$0.015 million from other sources – which will be used to fund the costs incurred in the production and delivery of Output Classes D1 and D2.

\$34.525 million in revenue from audited entities and \$0.100 million from the Crown – which will be used to fund the costs incurred in the production and delivery of Output Classes D3 and D4.

In addition, the Audit Office has access to a borrowing facility of \$0.500 million to cope with the seasonal nature of its cashflows. Repayments of any borrowing are charged against a separate appropriation, while the interest costs are included in the output class expenses detailed above.



# Creating Our Work Programme

The diagram below shows the main elements of our planning process – the basis of which is our Strategic Business Plan 2000-2004<sup>11</sup>. The aim of the planning process is to make sure that we are applying the resources available to us in the most effective and efficient way.

The planning process is supported by intelligence-gathering on key issues, research and development, and risk analysis. This information forms a sound base from which decisions can be made about the strategies we need to adopt and the capabilities we require.



<sup>11</sup> Available on our web site [www.oag.govt.nz](http://www.oag.govt.nz) under "Key Corporate Documents".

We have determined three key responses from our planning process:

- the operating strategies we will use;
- Strategic Audit Plans; and
- how we aim to enhance our capabilities to implement this *Annual Plan* and deal with arising issues.

## Our Operating Strategies

The Audit Office's strategy is to deliver an effective and efficient audit service that provides soundly based reports and advice – recognising the needs of Parliament and our stakeholders, while adding value to our system of government.

There are a number of main challenges and risks in our operating environment (as described on pages 16-25) that we need to manage in order to achieve our impacts. In addition, there are a number of risks to our performance that we must also consider. Below we outline our five operating strategies and how we will give effect to them.

### 1. *Maintaining an Effective and Efficient Audit Service*

We need to deliver high-quality audit services that will maintain and improve the high standards and professionalism of our audit and audit-related services. Key contributions to this strategy will be:

- maintaining a pool of independent, qualified, and experienced audit service providers;
- subjecting all audit processes to appropriate quality assurance reviews; and
- providing our auditors with appropriate training and support.



## 2. *Making Sure We Meet the Needs and Expectations of Our Stakeholders*

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We need to identify and address the needs and expectations of Parliament and the audited entities in the areas of performance, assurance, and accountability. Key contributions to this strategy will be:

- operating a well-structured and highly effective strategic audit planning process;
- targeting our audits at matters offering greatest potential for us to contribute to improved performance and accountability in the public sector (see pages 19-20); and
- reviewing our current products and services for their relevance, mix and delivery, introducing innovative approaches, and improving their quality and effectiveness.

## 3. *Maintaining a Viable Audit New Zealand*

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We need to maintain a viable, professional, in-house technical audit capability to ensure that expertise is available across all sectors and adequate geographical coverage is preserved. Key contributions to this strategy will be for Audit New Zealand to:

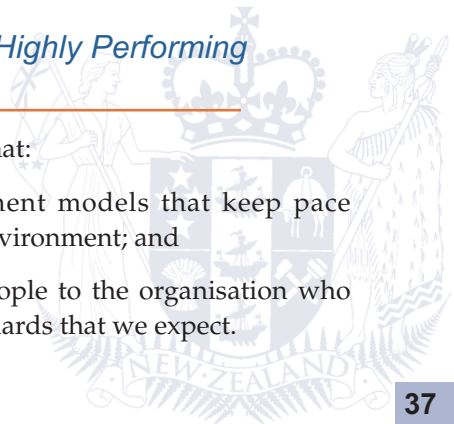
- use the best audit methodologies and practices for all audit activities;
- successfully respond to the findings of a review of the impact of contestability; and
- increase its audit-related assurance business.

## 4. *Ensuring That We Use Highly Performing People*

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We need to be an organisation that:

- uses best-practice employment models that keep pace with the changing external environment; and
- attracts highly competent people to the organisation who will perform to the high standards that we expect.



Key contributions to this strategy will be:

- implementing well-designed learning programmes for our staff that will assist them in maintaining standards of professionalism and performance; and
- implementing 360-degree performance reviews in all management levels of the organisation.

### **5. *Continuously Improving Our Business Management***

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We need to achieve better business practice and reduce risk by using suitable information systems and governance arrangements that will support decision-making and maximise efficiency. Key contributions to this strategy will be:

- effective operation of our corporate governance framework;
- implementing procedures to give effect to the risk management framework introduced earlier in 2003; and
- achieving cost-effective ICT, corporate, and support services.

## **Our Strategic Audit Planning Process**

The products and services we deliver are supported by a Strategic Audit Planning process. While we audit the financial and non-financial reports of all public entities (including local government), it is not useful – or possible without great expense – to scrutinise their activities in more detail at all times.

We therefore use Strategic Audit Planning to identify and give priority to the most important issues, both for financial report audit work and for performance audits and other work. This helps us to target our work to the areas in which we can achieve the most impact.

Preparing the Strategic Audit Plan involves:

- surveying current and forecast activities by all the entities within their respective sectors;
- analysing these activities for issues and risks, and their causes;
- identifying what other relevant work is being done by other agencies, and what we have already done in respect of that issue or related issues;
- identifying possible audit actions that will address the issue or mitigate the risk;
- subjecting the possible actions to a thorough process of peer review;
- comparing and ranking the proposed actions; and
- selecting the most appropriate actions, on the basis of agreed criteria.

A key product resulting from our Strategic Audit Planning process is our proposed annual work programme. The proposed programme for 2003-04 is set out in Part Two on pages 45-63.

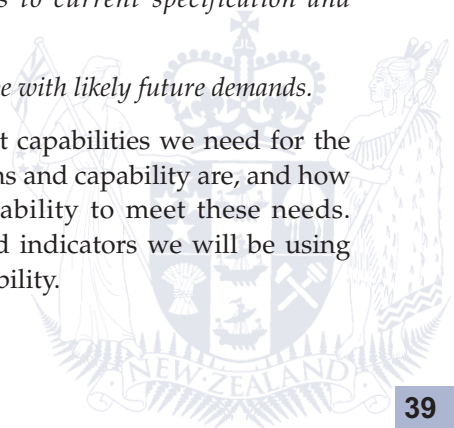
## Assessing and Enhancing Our Capabilities

Capability is crucial to ensuring that our activities have impact. We have defined capability as:

*Having, or having access to, a combination of resources and systems that are fit for the purpose of:*

- *delivering outputs and results to current specification and customer satisfaction; and*
- *maintaining the capability to cope with likely future demands.*

On pages 40-44 we outline what capabilities we need for the future, what our current strengths and capability are, and how we intend to enhance our capability to meet these needs. We also detail the measures and indicators we will be using to assess and report on our capability.



### *Assessment of Required Capability*

The capabilities we need to effectively and efficiently produce our outputs are:

#### **People**

We need people who are skilled, experienced, competent, and well qualified in auditing and support activities, and the provision of advice, in an ever-changing and increasingly more complex environment.

A necessary support for our people is a culture in which they are valued, morale is high, and values are well understood and practised throughout the organisation. Strong leadership also needs to be present at every level of management.

#### **Resources**

We need sufficient funding to satisfy the increasing demand for more special audits and studies and inquiries. We also need to maintain appropriate levels of working capital to sustain a viable audit practice. We need knowledge management systems to gather and retain institutional knowledge and allow shared learning, as well as adequate software and hardware to help us to do our jobs.

#### **Systems, Structures, and Processes**

We need to ensure that our systems, structures, and processes help us to meet the challenges in our operating environment, and that they also support our goal of continuing to produce high-quality audit products and services.

Our organisational structures, including governance and management arrangements, need to support these processes and enable us to make the most of our other capabilities. Relationships are a key part of our business – in particular, establishing strong working relationships with our closest stakeholders while also ensuring the protection of the Auditor-General's independence. Internally, we need to ensure that Audit New Zealand and the OAG work closely together in appropriate ways.

## Our Current Strengths

Our key strength is our people, who bring to their work dedication and commitment to the goals and values of the Office, a willingness to innovate, and a body of institutional knowledge. The Office fosters an open, inclusive culture that provides career opportunities to people from all backgrounds. We also make use of a wide range of skills and experience in the 71 private sector auditing firms that carry out audits on our behalf.

Our people are supported by sound systems and processes – most of them automated. For example:

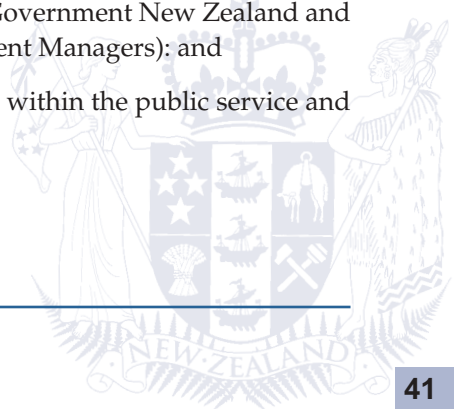
- TeamMate<sup>12</sup> – a computer-based audit tool; and
- the Audit Status Database on-line service – which helps auditors to manage their tasks and enables them to electronically file associated returns with us.

These systems and processes enable us to collect and share within the Audit Office information necessary for us to do our job. Policies and procedures are readily accessible and auditing standards are well-defined. Reporting structures ensure accountability throughout the organisation without stifling the potential for new ideas.

Managing relationships is vital to ensuring that we achieve our goals. We have continued to seek ways to improve relationships with our key stakeholders – in particular, Parliament. We have positive and constructive relationships with:

- select committees;
- local government – through the Office’s Local Government Advisory Board, individual local authorities, and sector organisations (such as Local Government New Zealand and the Society of Local Government Managers); and
- the central and other agencies within the public service and the wider state sector.

12 This is a proprietary product with that name.



*Our Current Capability*

**The Office of the Auditor-General**

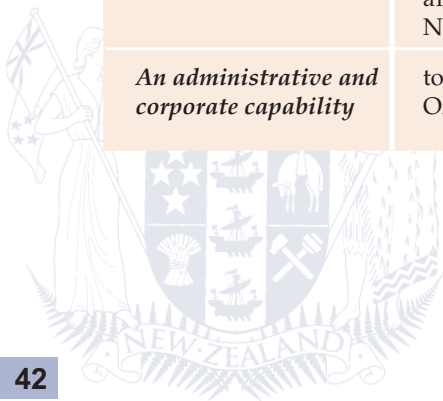
The OAG has about 50 staff with an operating budget of \$7.8 million.

**Audit New Zealand**

Audit New Zealand has about 215 staff operating from nine locations. It has an operating budget of \$20.4 million.

Capabilities within both the OAG and Audit New Zealand include:

<i>A research and planning capability</i>	to ensure that our effort is well-targeted and meets the needs of Parliament and other constituencies.
<i>An operational capability</i>	to carry out audit and other assurance services, performance audits and inquiries, and the controller function.
<i>A technical support capability</i>	to provide technical accounting, auditing and legal support both internally and to our field auditors.
<i>A quality assurance capability</i>	to ensure the quality of our products and services.
<i>A professional development capability</i>	to provide training to ensure that professional capability standards are met and personal development is achieved.
<i>A reporting capability</i>	to ensure that the results of audits are reported to Parliament and other stakeholders clearly and authoritatively.
<i>A sectoral capability</i>	to develop consistent and co-ordinated plans, audit and assurance approaches and decisions in sectors where Audit New Zealand is a major player.
<i>An administrative and corporate capability</i>	to provide support services and fulfil the Office's accountability obligations.



### *Enhancing Our Capability*

In order to enhance the capability of our people we will assess the requirements we have for skilled staff, and then set out to meet these requirements (through training, hiring, or buying them in). We will also work with our external audit providers to ensure that they can meet the challenges in our operating environment – especially for local government issues.

We will also work on enhancing our business management. We expect that the additional governance arrangements will be fully functional by the end of 2003. We will complete a Strategic Business Plan for 2004 to 2007 that will address the demand for our products and services and how we should prioritise our work. The plan will also consider the capital structure of the Audit Office.

Throughout 2003-04, we will be:

- implementing and refining the revised contestability regime for the provision of audit services;
- implementing a Communications Strategy that will enhance the effectiveness of our messages both internally and externally; and
- seeking opportunities to improve relationships.

We will continue to invest in ICT and knowledge management systems to assist in achieving better work methods within the Audit Office. This investment will include further upgrading our automated Audit Status Database system for managing the storage, retrieval and analysis of the high volume of information gathered as the result of our audits.



### *Measures and Indicators of Our Capability*

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The core measures of capability that we will report are:

- relevant formal qualifications;
- length of time in the job, or in directly relevant jobs;
- investment in training and development;
- back-up for critical functions and roles; and
- what we have delivered over time, for both products and support functions.

In the coming year, we will work on defining targets for the measures noted above, and consider further measures and indicators (for instance in the ICT area) to fully assess our capabilities.

### *Equal Employment Opportunity and Effectiveness for Maori*

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The Audit Office, as a good employer, has in place an effective Equal Employment Opportunity Programme and an Effectiveness for Maori Plan, both of which support our efforts in enhancing our capability. These documents are available on our web sites [www.oag.govt.nz](http://www.oag.govt.nz) (under “Key Corporate Documents”) and [www.auditnz.govt.nz](http://www.auditnz.govt.nz) (under “Careers”)

During 2003-04, we will be reviewing the Programme and the Plan to identify how they can be improved. Our preliminary assessment is that we will be reviewing our harassment policies, improving the Equal Employment Opportunity networks in both the OAG and Audit New Zealand, and considering support systems to further improve our Maori language and cultural awareness skills and knowledge.

However, some initiatives that are included in the Programme and the Plan will continue to be implemented for some years to come – such as Maori and Pacific Island Scholarship Schemes, secondments, and 360-degree performance reviews for managers.

## Part Two

# Proposed Work Programme



One of the products of our planning processes (especially our Strategic Audit Planning) is a list of issues that we believe require some form of response from us. Our responses can include performance audits (special audits and studies), further research and development by us, or assigning the themes as areas of focus for our annual audits.

## Public Sector-wide Themes

As part of our strategic planning process, we consider issues that have been raised in the Parliamentary sector (which includes government departments, Crown entities, statutory bodies, and State-owned enterprises) and the Local Government sector (including ports, energy companies and licensing trusts), and the extent to which such issues overlap to reveal a range of themes for public sector-wide consideration.

We have identified a number of public sector-wide themes to which we will be giving consideration.

### Conflicts of Interest

We are finding increasing evidence of conflicts of interest, both of a pecuniary and other nature. Sound processes and openness in managing conflicts of interest are essential to maintaining the integrity of governmental processes.

We intend to remain alert to conflict issues in all our work, and specifically to consider providing guidance to elected members in local government.

### Asset Management

We have worked with the Local Government sector on asset management in relation to long-term financial planning for several years now. It is apparent that this is a major issue in both the Local Government and the Parliamentary sectors. In the latter there is significant capital spending on the horizon – including, for example, transport infrastructure, defence capital items, new prisons, and

general demand in capital-intensive sectors such as health and education.

In the Parliamentary sector, we are considering undertaking a performance audit on the adequacy of asset management plans, and we will continue to work with the Local Government sector in the whole area of long-term asset management and financial planning.

### **Performance Reporting**

The introduction of “Managing for Outcomes” in central government, and local authorities having to take a sustainable development approach (with regard for social, economic, environmental and cultural dimensions), will present significant challenges for our auditors over the next few years.

We are preparing a performance reporting audit strategy that will identify a range of research and development, annual audit, and performance audit actions over the coming years, in order to help these sectors improve their performance reporting.

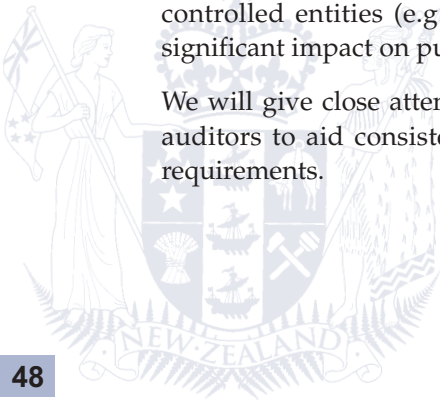
### **Implementation of Generally Accepted Accounting Practice**

Financial reporting standards on accounting for fixed assets and accounting for liabilities are presenting significant challenges for all sectors.

These requirements will again be areas of emphasis for 2003-04 annual audits.

In addition, new requirements relating to accounting for controlled entities (e.g. subsidiaries and trusts) will have a significant impact on public entities.

We will give close attention to this and prepare guidance for auditors to aid consistent implementation of these complex requirements.



## **Resource Management Act 1991**

The Resource Management Act straddles central and local government – from an over-arching policy and legislative perspective at the Crown level, through to application and enforcement of the Act by local authorities.

We have identified this as an area in which to conduct some exploratory work this year, with a view to undertaking further performance or annual audit actions in subsequent years.

## **Public-private Partnerships (PPPs)**

PPPs are already presenting themselves as reality in some sectors and appear likely to increase in a variety of forms.

We plan to draw on the existing body of knowledge assembled by our counterparts in the United Kingdom and Australia about how these arrangements impact upon entities and governments and the associated accounting and auditing issues that can arise.

## **Contract Management**

We have experienced a wide range of enquiries in relation to contract management practices in local government (such as contracting for infrastructure development) and in central government (contract management for funding Non-government organisations (NGOs), for example).

We will consider the potential for more generic advice about contract management insofar as it can cover common issues – with the potential for further performance or annual audit actions at a later date.

## **Risk Management**

Risk management is an important component of good management and of meaningful performance reporting. We do not consider it to be a strong aspect of management in the public sector.



As part of preparing our performance reporting audit strategy, we will consider how best to address risk management as one dimension of performance reporting. We are also planning a study on organisational risk management in the Local Government sector.

## Auditors' Special Focus Areas

In addition to the public sector-wide issues and planned performance audits that we have identified, we will require our Appointed Auditors to look specially at the following for 2003-04 annual audits.

### *Parliamentary Sector*

#### **Review of the Centre**

We will be closely monitoring any legislative, structural, or reporting changes arising from the Government's Review of the Centre initiatives and consider what effect these will have on the 2003-04 annual audits.

#### **Managing for Outcomes**

The "Managing for Outcomes" reporting framework in government departments presents some real challenges for planning and reporting in this sector that will materially affect the 2003-04 annual audits.

#### **E-government**

In June 2002, we published a brief article on public sector progress towards an e-society.<sup>13</sup> We will be maintaining a close interest in e-government initiatives, particularly as they might impact on the ways and means of conducting business by central government.

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<sup>13</sup> *Public Sector Progress Towards an E-society*, parliamentary paper B.29[02b], pages 9-40.

## *Local Government Sector*

### **Rating and Local Government Legislation**

We will be closely monitoring compliance with the Local Government (Rating) Act 2002, which comes into force in 2003, and the Local Government Act 2002, which will also start coming into force in 2003.

We will begin a phased approach to reviewing local authorities' progress towards producing meaningful Long-term Council Community Plans (LTCCPs) in 2006.

### **Timeliness of Reporting**

The Local Government Act 2002 requires council annual reports to be completed by the end of October rather than November as at present. (In 2002, 46 audits were completed in November.) We will work with the local authorities that have traditionally reported late to ensure that the new timelines can be met.

### *“Standard” Areas of Audit Emphasis*

In addition to the areas we have outlined in all of the above sections, our Appointed Auditors are required to place significant emphasis on core legislative audit issues, including:

- legislative compliance;
- policies and procedures, particularly those covering areas of sensitive expenditure like travel, entertainment and other expense claims;
- compliance with Government guidelines, for example –
  - setting charges for third parties;
  - contracting with NGOs;
  - managing and monitoring IT projects; and
  - public sector ethics;
- compliance with Cabinet and other delegations; and
- matters with governance, accountability, and reporting dimensions.

## Special Audits and Studies

Special audits and studies are planned pieces of work that are resource-intensive. We outline below the audits currently in progress, planned follow-up audits of earlier performance audits and, lastly, a range of possible future performance audits. We currently have resourcing to conduct only 10-12 of these audits in any one 12-month period.

### Studies in progress at 31 March 2003

#### **Student Loan Scheme – Publicly Available Information**

*(indicative publication May 2003)*

In June 2000, we reported on how the information requirements of the stakeholders of the Student Loan Scheme were being met. The follow-up study is to enable us to give Parliament assurance as to the quality of the information now available.

#### **Management of Hospital-acquired Infection**

*(indicative publication May 2003)*

This study will report on the systems in use to minimise hospital-acquired infection. It is auditing against infection control standards in use, and takes account of the changing regulatory environment in relation to infection control.

#### **Accuracy of Benefit Payments**

*(indicative publication June 2003)*

This study is examining the accuracy with which the Ministry of Social Development processes claims for social security benefits. It is also reviewing the methods that the Ministry uses to measure and report processing accuracy.

## **Inland Revenue Department – Taxpayer Audit**

*(indicative publication June 2003)*

The study is examining how the Inland Revenue Department uses taxpayer audit as part of its overall compliance strategy – including how taxpayer audit fits within the IRD’s legislative mandate and strategies, and the people, processes and technology used by the IRD in taxpayer audit work.

## **Managing Threats to Domestic Security**

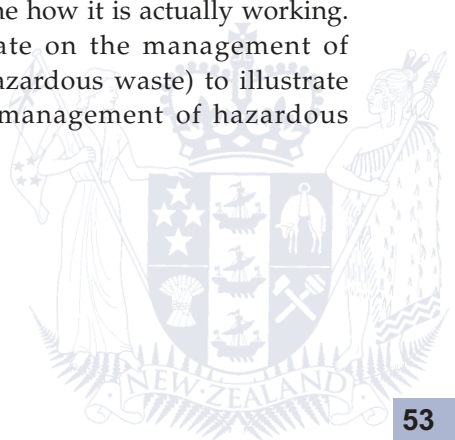
*(indicative publication June 2003)*

This study is examining the management of threats to domestic security, especially from organised terrorist activity. There is a wide range of agencies involved in assessing and managing such threats, including the security agencies – New Zealand Security Intelligence Service; Government Communications Security Bureau, and External Assessments Bureau (within the Department of the Prime Minister and Cabinet) – the Police; Ministry of Foreign Affairs and Trade; Ministry of Defence; New Zealand Immigration Service; and New Zealand Customs Service.

## **Hazardous Waste Management**

*(tentative publication July 2003)*

This study is looking at the effectiveness and efficiency of the current legislative and regulatory framework for the safe management of hazardous waste in communities and their environment. We will describe how the management of hazardous waste by both central and local government is intended to work, and examine how it is actually working. We have chosen to concentrate on the management of trade waste (a sub-group of hazardous waste) to illustrate broader issues affecting the management of hazardous waste.



## **Co-ordination in the Justice Sector**

*(tentative publication July 2003)*

This study is examining the effectiveness and efficiency of the arrangements that have been put in place to facilitate co-ordination within the Justice Sector – including the information systems that support both co-ordination and the operations of individual agencies.

## **The Maori Trustee and the Maori Land Court**

*(tentative publication July 2003)*

This study examines the effectiveness of the Maori Trustee and the Maori Land Court in assisting the administration and management of Maori land by its owners. Given that a variety of issues can affect Maori land administration, selected key functions of the two agencies are being examined.

## **The State Services Commission's Effectiveness for Maori**

*(tentative publication August 2003)*

This study involves the application to the State Services Commission of our model for assessing the capability of departments to deliver effective outputs for Maori<sup>14</sup>. It was initiated in 1999-2000 and was postponed. We intend to substantially complete this study in 2002-03.

## **Human Resource Management in the Public Sector**

*(tentative publication September 2003)*

The study is examining how well departments individually – and the public sector generally – are performing the strategic human resource management function. Failures of strategic human resource planning can result in the inefficient delivery of public services, or in serious service failures, especially in areas which are potentially of high cost to the economy and society. The study is being conducted in close consultation with the State Services Commission.

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<sup>14</sup> *Third Report for 1998, parliamentary paper B.29[98c], pages 73-98.*

## **ACC Case Management**

*(tentative publication October 2003)*

This study is reviewing the effectiveness and efficiency of ACC's case management processes and procedures in the context of ACC's rehabilitation policy and practice, claims streaming, claims payment accuracy, and dispute resolution.

## **Sharing Services Between Local Authorities**

*(tentative publication November 2003)*

Sharing services between local authorities has the potential to bring about efficiency gains. A number of local authorities are currently embarking on major initiatives in this area. This study will look at several examples, and draw out some of the potential benefits and lessons to be learned by local authorities.

### *Follow up studies planned*

*(follow-up of previous performance audits)*

## **Information Requirements for the Sustainable Management of Fisheries**

In our *Fifth Report for 1999*<sup>15</sup>, we reported to Parliament on the adequacy of the arrangements for sustaining New Zealand's fisheries. We propose to re-visit this study to examine what response the Ministry of Fisheries has made to our recommendations.

## **Civil Aviation Authority (CAA)**

In 1997<sup>16</sup> and 2000<sup>17</sup> we examined the CAA's safety audit function. Both studies identified weaknesses in the way in which the CAA applied risk management principles to its safety audit. We will consider how the CAA has implemented our recommendations. Depending on our findings, we may also examine other aspects of the CAA's aviation safety programmes.

15 Parliamentary paper B.29[99e], pages 49-112.

16 *Fourth Report for 1997*, parliamentary paper B.29[97d], pages 77-121.

17 *Civil Aviation Authority Safety Audits – Follow-up Audit*, ISBN 0-477-02874-8.

## **New Zealand Defence Force – Acquisition of Light Armoured Vehicles (LAV)**

In undertaking the LAV study in 2001, one issue we raised was the accuracy of the work that the Army had done on the maintenance requirements for the LAVs. We signalled that we would be following up the work that the Army has done in this regard. In undertaking this follow-up, we are also likely to report on progress made on the LAV contract.

## **Transport Safety**

The Transport Select Committee undertook an inquiry into truck crashes in 1996, to which we contributed by way of a secondment of a staff member from the Office of the Auditor-General. We plan to follow up the findings and recommendations made in the Committee's report.

### *High-ranking studies arising out of our 2002 Strategic Audit Planning*

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We presented a preliminary draft work plan to all Select Committees and Ministers on 24 December 2002. In doing so, we sought feedback on the 22 studies that we put forward (including views on relative priorities) and inviting suggestions for potential new studies not included in our draft plan. We received valuable feedback that could broadly be categorised as:

- giving support for a selection (12) of the 22 studies;
- providing feedback on the relative priority of these studies;
- adding areas of emphasis to some of the studies; and
- offering suggestions for potential new studies, not put forward in our preliminary draft annual plan.

We indicated that we currently have the capability to conduct between 10 and 12 of the 22 studies outlined. The following studies were ranked highest following feedback, and are the most likely to be started in 2003-04:

## **Housing New Zealand**

This study is likely to examine Housing New Zealand's property portfolio management – including its decision-making process and practice in acquiring and disposing of properties.

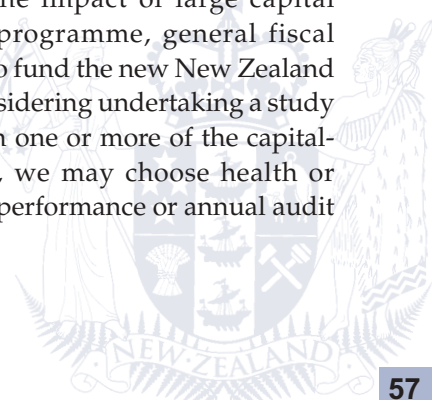
## **Contracting/Funding NGOs**

We have been alerted to a number of problems with how government departments and agencies fund and contract with NGOs. In particular, the issue came to a head a few years ago when we were asked to undertake an inquiry into the funding of the Waipareira Trust. We declined to undertake an inquiry, but suggested to the Government that better guidance was required for funding and contracting with NGOs. The Treasury promulgated some guidelines as a consequence. However, we are still aware of significant issues in the health, social services, and education sectors in relation to how NGOs are funded.

## **Long-term Financial Planning in Central Government**

We have previously looked at long-term financial planning in local government, and this has been an important foundation for the further work on the subject that we have done with the sector. We have also been discussing, in broad terms, the adequacy of long-term financial planning at a whole-of-Government level, and raised the issue with the Finance and Expenditure Committee.

The Government has identified the need for better balance sheet management and is aware of the impact of large capital expenditure on its borrowing programme, general fiscal management, and also its ability to fund the new New Zealand Superannuation Fund. We are considering undertaking a study of long-term financial planning in one or more of the capital-intensive sectors – for example, we may choose health or defence as case studies for future performance or annual audit actions in this area.



### **Economic Development Initiatives**

A study is proposed that will look at how various government organisations (e.g. the economic trade development agency to be formed from the integration of Industry New Zealand and Trade New Zealand, the Ministry of Economic Development, New Zealand Tourism Board, and the Ministry of Research, Science and Technology) co-ordinate and deliver the Government's economic development initiatives.

### **Overseas Development Assistance**

A study is proposed that focuses on the effectiveness and efficiency of the delivery of Overseas Development Assistance.

### **Public-private Partnerships (PPPs)**

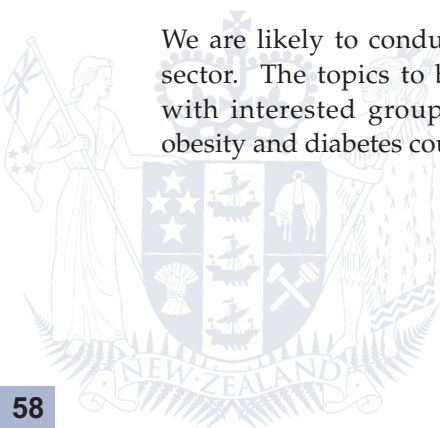
We have observed increasing interest within local government in partnerships with the private sector. We are considering reviewing one or more specific arrangements based on international experience.

### **Water Management Arrangements (Water Quality and Sustainable Land Use)**

This would be a study of the effectiveness of water management arrangements in achieving adequate water quality and sustainable land use.

### **Health Sector**

We are likely to conduct a performance audit in the health sector. The topics to be covered will be discussed further with interested groups. Higher-risk areas like smoking, obesity and diabetes could be covered by this work.



## **Resource Management Act 1991 (RMA)**

We propose to carry out a scoping exercise on the RMA in order that we better understand:

- how the RMA affects a wide range of government and non-government stakeholders;
- current priority issues with the RMA (as perceived by stakeholders);
- where responsibility lies for the resolution of any shortcomings; and
- work being done by local and central government agencies to address the perceived shortcomings.

Our greater understanding would provide a sound basis for determining possible further audit actions in relation to the RMA.

## **SOE Governance and the Role of the Crown Company Monitoring Advisory Unit (CCMAU)**

We examined governance issues in Crown entities in 1996<sup>18</sup>. This has proved valuable in dealing with subsequent inquiries that we have undertaken in relation to Crown entity governance. The Public Audit Act 2001 has given the Auditor-General full mandate in relation to SOEs. We propose to undertake a study outlining and examining the governance and accountability arrangements for SOEs – including the role of CCMAU.

## **Departments' Strategic Planning**

The Auditor-General has stated that one of his key objectives during his term of office is to enhance performance reporting across the public sector. As part of this, we are currently developing a performance reporting audit strategy that will include public sector-wide and sector-specific actions.

18 *Governance Issues in Crown Entities*, November 1996, ISBN 0-477-02854-3.

As part of the general performance reporting environment, departments are producing new planning information under the “Managing for Outcomes” (Statement of Intent) initiative. The SOI regime is reliant on having sound underlying systems and processes in departments in order to produce the quality of performance information that is expected under SOIs. For example, the SOI should be closely aligned to the departments’ own strategic planning process. We will concentrate on these underlying systems and processes.

### **Schools in Need of Governance Support**

This would be a study of mechanisms for early identification of schools in need of governance support – including:

- the quality of the Ministry of Education’s and the Education Review Office’s monitoring of governance capability in schools;
- the effectiveness of provisions for the training and support of school boards; and
- the quality of data-warehousing initiatives and, in particular, whether the analysis of that data contributes usefully to the support of schools.

### **Youth at Risk**

The co-ordination of services to at-risk youth is an important issue and is a significant strategic focus for the Government. The Department of Child, Youth and Family Services operates a “youth at risk” strategy and the Government Youth Offending Strategy is currently being implemented. A cross-sectoral study could be conducted of the quality, co-ordination, efficiency and effectiveness of services to youth.

We received a range of feedback on the highest-ranking studies suggesting particular emphases. Where possible, we will ensure that this feedback is incorporated into the planned study as it is being scoped.

No feedback was received on the following study, but it remains among our highest priorities.

## Department of Conservation's Land Holding and Purchasing Policies

The proposed study would evaluate the Department's objectives in holding and purchasing land. It would assess the state of the Department's information on its land holdings, and how spending on land is determined.

### *Proposed high-ranking studies not accorded priority by Parliament*

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The following studies were put forward in our preliminary draft work plan, but were not afforded priority based on the feedback we received. It is less likely that these studies will be started in 2003-04:

- Immigration Policies and Practices
- Regional Councils – Information on Site Risks
- Training in the New Zealand Defence Force
- Risk Management
- Dealing with Conflicts of Interest
- Depreciation and Funding for Asset Replacement
- Monitoring Human Resource Capability in Science and Innovation
- Review of Te Puni Kokiri's Audit Functions
- Fines Collections by the Department for Courts.

### *Suggestions for other studies*

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In addition to the 22 studies we outlined in our preliminary draft annual plan, we received suggestions for studies on the following topics:

- The budget and financial management processes relating specifically to the Department of Corrections' *Regional Prisons Development Project*.
- The management processes for ensuring the Victims' Rights Act 2002 works effectively and appropriately.

- The management processes (including budget and financial management processes) relating specifically to the Department for Courts' *Case Management System*.
- Monitoring Crown expenditure to ensure that it is efficient – e.g. the rapid increase in health expenditure without a corresponding increase in output.
- Effectiveness and efficiency of the Overseas Investment Commission.
- Effectiveness of the Government Superannuation Fund.
- Accountability of Air New Zealand Limited.
- Central and local government's initiatives on waste management.
- Special education funding in schools.
- Evaluation of the effectiveness of Food Standards Australia New Zealand and its relationship with the newly established Food Safety Agency.
- Government ICT purchasing policies and procedures.
- Use of data from family youth conferences by the Ministry of Justice.

It is useful to have feedback on other areas of work. We will ensure that these suggestions are factored into our strategic audit planning process later this year for our 2004-05 annual plan.

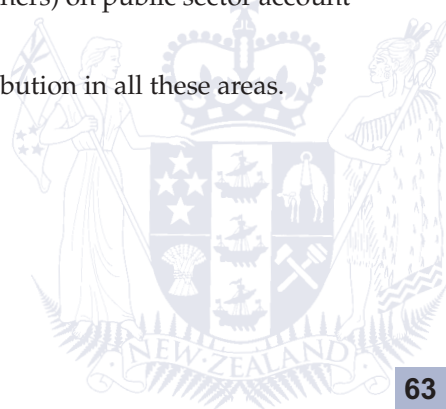


## **Contributing to Better Public Sector Administration**

The Office plays an important role in enhancing accountability and in the development of professional and technical standards for accounting and auditing. It does this through:

- commenting and making submissions on draft legislation – such as the review of Crown entity legislation, Remuneration Authority (Members of Parliament) Amendment Act 2002, Pecuniary Interest Bill, and the review of the Public Finance Act 1989;
- making senior staff available for membership on committees of ICANZ – including the Professional Practices Board and the Financial Reporting Standards Board;
- considering and making submissions on proposed New Zealand and, where appropriate, international financial reporting, auditing and ethical standards;
- participating in committees and working groups of public sector auditing bodies – such as the International Organisation of Supreme Audit Institutions (INTOSAI) and the Australasian Council of Auditors-General (ACAG);
- liaising with the Auditor-General’s appointed auditors (including those in private practice) on accounting, auditing, and policy developments; and
- liaising with, and assisting, government agencies (including the Treasury, the SSC, the Society of Local Government Managers and others) on public sector account ability and reporting issues.

We intend to continue our contribution in all these areas.





## Part Three

# Forecast Financial Statements for 2003-04

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## Introduction

The Audit Office's forecast financial statements have been prepared in accordance with section 34A of the Public Finance Act 1989 and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Audit Office. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here and that the variations could be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Auditor-General reasonably expects to occur associated with the actions he reasonably expects to take as at the date this information was prepared.

These statements have been prepared also in the context of the budgetary process.

It is not intended that this published information will be updated.

Forecasts should be contrasted with projections. Projections are based on one or more hypothetical assumptions.



## Statement of Significant Underlying Assumptions

The forecast financial statements on pages 69-97 have been compiled on the basis of existing Government policies and after consultation by the Audit Office with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Audit Office's *portfolio of public entities* will remain substantially the same as for the previous year.
- The Audit Office will continue to deliver the *range of products* currently provided, and will also position itself to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of *annual audits* will remain substantially the same, but the *other assurance work* will continue to grow.
- The balance of activity associated with *performance audits, advice to Parliament and others, and inquiries* will continue to be variable because of increases in demand and the effects of the Public Audit Act.
- The Auditor-General will continue to utilise audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 30 April 2003.



# Statement of Objectives for Output Class D1

## Reports and Advice Arising from the Exercise of the Function of Legislative Auditor

### Description

**Output Class D1 includes the following products and services of the Audit Office:**

Reports to Parliament and other constituencies – on matters arising from annual audits, programmed performance audits and special studies, and unprogrammed inquiries.

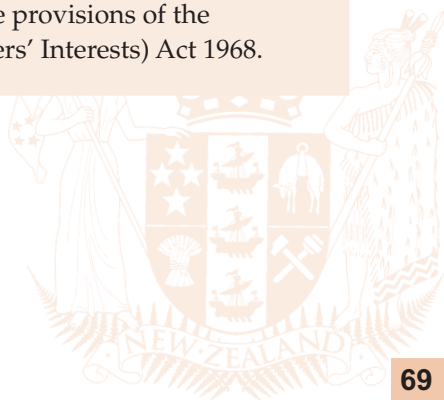
Reports and advice to Select Committees – to assist in their reviews of performance, estimates examinations, or other inquiries for which our assistance is sought.

Reports to portfolio ministers on the results of annual financial report audits.

Responses to enquiries from taxpayers, ratepayers and Members of Parliament.

Advice to government bodies and other agencies – on auditing, accountability, and financial management in the public sector.

Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.



The products and services contained in this class of outputs are either demand-driven (e.g. ratepayer enquiries or advice to Select Committees), or are subject to the discretion of the Auditor-General as to the particular audit undertaken and reported (e.g. performance audits). Given the discretionary element in this class of outputs, we provide greater detail in our Proposed Work Programme (see Part Two on pages 45-63).

### Planned Activities and Costs

#### Reports to Parliament and Other Constituencies

\$000

Results of annual audits:

- Audit results for central government, local government, and selected other sectors
- Specific issues arising from particular audits or in relation to sectors generally

Results of programmed performance audits and special studies (see pages 52-62 for more detail)

Matters arising from unprogrammed inquiries<sup>19</sup> initiated in response to particular concerns brought to the attention of the Audit Office during 2003-04

3,238

19 Spare capacity is not held for such investigations. The extent of the resource usage on unprogrammed enquiries will directly affect the resource availability for other planned activities.

**Reports and Advice to Select Committees<sup>20</sup>** \$000

To assist their financial reviews of:

- Government departments and Offices of Parliament
- State-owned enterprises and Crown entities

To assist their examination of the *Estimates*

Advice or assistance (as requested) for inquiries conducted by Select Committees

560

**Reports to Ministers**

\$000

Reporting the results of annual financial report audits to portfolio Ministers

40

<sup>20</sup> The extent and cost of these activities is largely determined by the demands made by Select Committees.



**Responses to Enquiries from Taxpayers, Ratepayers, and Members of Parliament**

\$000

Acknowledgement, investigation<sup>21</sup> and reporting the results of enquiries directed to the Audit Office by:

- Taxpayers
- Ratepayers
- Members of Parliament

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500

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**Advice to Government Bodies and Other Agencies**

\$000

Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including:<sup>22</sup>

- Central agencies
- Government departments, local authorities and other public entities
- Professional bodies, such as the Institute of Chartered Accountants of New Zealand
- Sector organisations, such as Local Government New Zealand and the Society of Local Government Managers
- Foreign delegations
- Other audit institutions and related organisations, such as INTOSAI

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600

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21 Not all enquiries will result in an investigation. Enquiries assessed as warranting investigation may be considered either at the time of the next annual audit or by way of an immediate, specific inquiry.

22 The cost associated with each area of advice is difficult to predict with any reliability, as it is largely demand-driven. Accordingly, the cost of these activities has been estimated based on past experience.

**Administration of the Provisions of the  
Local Authorities (Members' Interests) Act 1968**

\$000

Responding to specific requests in relation  
to the Audit Office's powers to:<sup>23</sup>

- Approve increased limits for contract payments
- Grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest
- Consider alleged breaches of the Act

60

<sup>23</sup> This activity is demand-driven. The nature and extent of the activity is determined by the number and complexity of the requests made to the Audit Office.

## Performance Measures and Targets

Output	Quantity <sup>2,4</sup>	Cost \$000	Timeliness	Quality
1. Reports to Parliament and other constituencies, comprising results of: <ul style="list-style-type: none"> <li>• annual audits</li> <li>• programmed performance audits and special studies</li> <li>• unprogrammed inquiries.</li> </ul>	At least 2 reports At least 10 reports	3,238	Reports to Parliament will be completed in a manner which ensures that the subjects being reported are timely and relevant.	All reports will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to: <ul style="list-style-type: none"> <li>• internal peer review</li> <li>• substantiation</li> <li>• entity confirmation of factual accuracy.</li> </ul>
2. Reports and advice to Select Committees, for the purposes of: <ul style="list-style-type: none"> <li>• financial reviews</li> <li>• <i>Estimates</i> examinations</li> <li>• inquiries.</li> </ul>	100 reports 40 reports 20 reports	560	Reports presented at least 2 days before an examination, unless otherwise agreed with the committee.	All Select Committees will be surveyed as to their satisfaction with the quality of our reports and advice.
3. Reports to portfolio Ministers on the results of annual financial report audits.	120 reports	40	Reports to portfolio Ministers before Select Committee scrutiny of departmental and Crown entity performance.	All reports and advice will be prepared with due professional care by an appropriately qualified person and, ... continued on next page.

Output	Quantity <sup>24</sup>	Cost \$000	Timeliness	Quality
4. Responses to enquiries from: <ul style="list-style-type: none"> <li>• taxpayers</li> <li>• ratepayers</li> <li>• Members of Parliament.</li> </ul>	60 enquiries 180 enquiries 60 enquiries	500	An initial response within 5 working days; 80% cleared within 30 working days; and 100% advised if delay is longer than 30 days.	where the circumstances require it, be subject to: <ul style="list-style-type: none"> <li>• internal peer review</li> <li>• substantiation</li> <li>• entity confirmation of factual accuracy.</li> </ul>
5. Advice to government bodies and other agencies.	On demand	600	As requested.	
6. Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.	80 enquiries	60	An initial response within 5 working days; 80% cleared within 30 working days.	
	<b>Total Cost</b>	<b>4,998</b>		

<sup>24</sup> The quantity of reports and enquiries handled, and their consequent cost, are largely demand-driven. Accordingly, these figures have been estimated based on past experience.

# Statement of Objectives for Output Class D2

## Certification of Authority to Release Funds from the Crown Bank Account

### Description

Output Class D2 relates to the Controller function under section 22 of the Public Finance Act 1989. The function is to act as a monitor, on behalf of Parliament, to control the issue of funds from the Crown Bank Account.

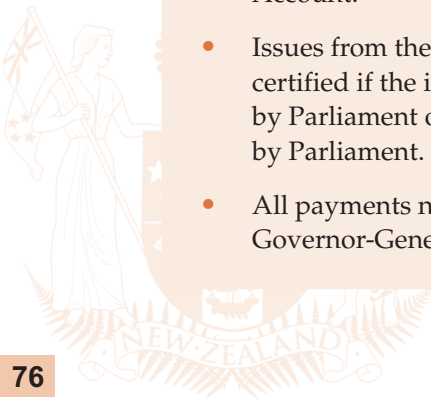
Operationally, this includes monitoring departmental and Crown financial reporting systems to ensure that releases of funds are supported by appropriations and are for lawful purposes.

### Performance Measures and Targets

#### Quality

The Controller and Auditor-General will ensure that:

- Warrants and controller statements will only be certified once correct documentation is provided by the Treasury to support the certification of a warrant or the release of funds from the Crown Bank Account.
- Issues from the Crown Bank Account will only be certified if the issue is supported by appropriation by Parliament or other lawful authorities granted by Parliament.
- All payments not within a warrant from the Governor-General will be refused.



**Quantity<sup>25</sup>**

Number of warrants and controller statements expected to be certified:

- 6 Governor-General warrants.
- 245 controller statements.

**Timeliness**

- All valid certifications will be given promptly on the day that documentation is provided by the Treasury to support certification.

**Cost**

- The cost will not exceed \$278,000.

<sup>25</sup> The quantity of Governor-General warrants and controller statements is determined by the Treasury. Accordingly, these figures have been estimated based on past experience.



# Statement of Objectives for Output Classes D3 and D4

## Provision of Audit Services

### Description

These two output classes relate to the provision of audit services to public entities. The Auditor-General has a statutory duty to conduct an audit of the financial reports of more than 4,000 public entities.

Annual audits result in:

#### **Audit Reports –**

On whether the financial reports fairly reflect the financial and non-financial performance of these entities.

#### **Management Reports –**

To the management and governing bodies of these entities, on issues arising from the audit.

The difference between the output classes relates to the method by which the audit service provider has been selected:

#### ***Output Class D3 – Non-contested Audit Services***

This output class includes only audits which have not been allocated to audit service providers by a contestable process. These are audits of national sensitivity; or where the Auditor-General considers that subjecting particular audits to contestability at this time is potentially too disruptive to the entity; or those audits which have yet to be subject to competitive tender.

#### ***Output Class D4 –***

#### ***Contested Audit and Other Assurance Services***

This output class includes those audits or audit-related services awarded to private sector auditors or Audit New Zealand through a competitive tender process or under the threat of competition. This output class is appropriated on a Mode B net basis.

## Statement of Objectives for Output Class D3 – Non-Contested Audit Services Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/03	Planned Audit Completions in 2003-04	Expected Number of Audits in Arrears as at 30/6/04	Timely Issue of Audit Reports Target <sup>26</sup>	Timely Issue of Management Reports Target <sup>27</sup>
Government Departments and Offices of Parliament	11	–	11	–	100%	100%
Major Statutory Bodies <sup>28</sup>	29	5	29	5	100%	100%
Other Local Authorities <sup>29</sup>	23	5	23	5	100%	100%
Miscellaneous Public Bodies <sup>30</sup>	120	60	120	60	75%	100%
Audits for which fees are not charged <sup>31</sup>	155	100	155	100	75%	100%
<b>Totals</b>	<b>338</b>	<b>170<sup>32</sup></b>	<b>338</b>	<b>170</b>		

**Goal:** To maintain arrears at no higher than the level attained at 30 June 2003.

<sup>26</sup> Audits will be completed and audited financial statements available within the statutory deadline or within 5 months of balance date.

<sup>27</sup> Management reports will be issued within 6 weeks of the date of the audit report.

<sup>28</sup> State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

<sup>29</sup> Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies, and Sinking Fund Commissioners.

<sup>30</sup> Mainly Maori Trust Boards, smaller Crown entities, and subsidiaries of major statutory bodies.

<sup>31</sup> Those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities include Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees and Patriotic Funds. (From 2001-02, the Crown is funding up to \$100,000 of the cost of these audits.)

<sup>32</sup> An estimated 130 entities have audits in arrears, some for a number of years, and the 100 audits in the final category represent only 44 entities. Most have not prepared financial statements for the periods involved.

## Statement of Objectives for Output Class D4 – Contested Audit and Other Assurance Services

### Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/03	Planned Audit Completions in 2003-04	Expected Number of Audits in Arrears as at 30/6/04	Timely Issue of Audit Reports Target <sup>33</sup>	Timely Issue of Management Reports Target <sup>34</sup>
Government Departments and Offices of Parliament	36	–	36	–	100%	100%
Major Statutory Bodies <sup>35</sup>	93	–	93	–	100%	100%
Regional, City and District Councils	86	–	86	–	100%	100%
Other Local Authorities <sup>36</sup>	477	20	477	20	100%	100%
School Boards of Trustees	2,582	140	2,582	140	50%	100%
Miscellaneous Public Bodies <sup>37</sup>	450	20	450	20	75%	100%
<b>Totals</b>	<b>3,724</b>	<b>180<sup>38</sup></b>		<b>3,724</b>	<b>180</b>	

**Goal:** To maintain arrears at no higher than the level attained at 30 June 2003.

<sup>33</sup> Audits will be completed and audited financial statements available within the statutory deadline or within 5 months of balance date.

<sup>34</sup> Management reports will be issued within 6 weeks of the date of the audit report.

<sup>35</sup> State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

<sup>36</sup> Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies, and Sinking Fund Commissioners.

<sup>37</sup> Mainly Maori Trust Boards, smaller Crown entities, and subsidiaries of major statutory bodies.

<sup>38</sup> An estimated 150 entities have audits in arrears, some for more than one year. Most of the arrears are for schools whose audits for the 31 December 2002 year will not have been completed at 30 June 2003.

## Performance Measures and Targets (continued)

### Audits in Arrears

The number of audits to be completed during the year will fluctuate according to the readiness of each entity to present its financial report for audit. The number of audits actually finished during the year will relate mainly to those financial reports due in the year, together with some not presented for audit in earlier years.

Where entities have not presented their financial report for audit in previous years, the term “audit arrears” is used to describe the outstanding audits. Most arrears are from small bodies such as school boards of trustees, cemetery trustees, or minor subsidiaries of a parent body. Because an entity might have arrears for a number of years, the number of entities with arrears is lower than the arrears numbers shown.

The Audit Office measures and reports the number of entities with one or more audits in arrears as at each balance date as well as the total number of audits in arrears.

### Performance Measures of Quality

The Audit Office will ensure that audits are conducted with due professional care – ensuring that standards of appropriateness, quality, efficiency and independence are adhered to as set out in *The Auditor-General’s Auditing Standards*.<sup>39</sup> These standards recognise the particular requirements of the public sector and are designed to cover the audit of service performance information, legislative compliance, waste, and probity matters.

39 Available on our web site [www.oag.govt.nz](http://www.oag.govt.nz) under “Key Corporate Documents”.

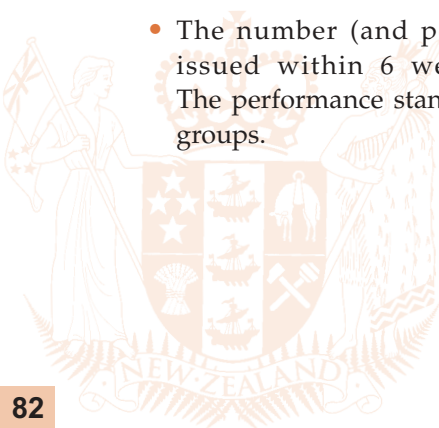
Compliance with these standards is tested by a programme of quality assurance reviews conducted by the Audit Office. The programme seeks to review every appointed auditor at least once during their 3-year contract period. The Audit Office intends to review the work of 45 auditors during the year, the results of which will be reported in our Annual Report for 2003-04.

### *Performance Measures of Timeliness*

Completion of audits is influenced largely by the quality of records and financial reports subject to audit. The Auditor-General expects, however, that the majority of audited entities will meet the statutory deadlines for completing their financial report, so as to allow completion of the audits within deadline also.

The Audit Office therefore measures:

- The number (and percentage) of audit reports issued within statutory deadlines during the reporting period, or within 5 months of balance date if there is no statutory deadline. It should be noted that not all sectors perform uniformly well. Consequently, the performance standards for each group of entities are:
  - 100% for government departments, Offices of Parliament, major statutory bodies, regional, city and district councils, and other local authorities;
  - 75% for miscellaneous public bodies, and audits for which fees are not charged; and
  - 50% for school boards of trustees.
- The number (and percentage) of management reports issued within 6 weeks of issuing the audit report. The performance standard for this measure is 100% for all groups.



### Performance Measures of Effectiveness

The Audit Office will report on the trend in types of non-standard audit reports<sup>40</sup> issued up to and including the current year.

### Cost

	\$000
• Cost of services for Output Class D3 – Non-contested Audit Services	5,992
• Cost of services for Output Class D4 – Contested Audit and Other Assurance Services	28,375

40 A non-standard audit report is an audit report that:

- contains a qualified opinion, because there is a limitation on the scope of the auditor's examination or the auditor disagrees with the treatment or disclosure of a matter in the financial report and, in the auditor's judgement, the effect of the matter is or may be material; or
- contains an explanatory paragraph, separate from the opinion, drawing attention to a failure to comply with a particular law; or
- contains an explanatory paragraph, separate from the opinion, drawing attention to a fundamental uncertainty about the outcome of a future event.

A fuller discussion can be found in our report *Local Government: Results of the 2000-01 Audits*, parliamentary paper B.29[02c], 2002, pages 30-31.

# Statement of Accounting Policies

These accounting policies have been drawn up so as to apply to both the financial statements in this Annual Plan and the financial statements that will be included in our Annual Report for 2003-04.

## Reporting Entity

These are the financial statements of the Auditor-General prepared pursuant to section 34A of the Public Finance Act 1989.

The Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purposes of the Public Finance Act 1989.

Section 4 of the Public Audit Act 2001 defines the Auditor-General to include the Controller and Auditor-General, all employees, and appointed auditors who undertake work on behalf of the Auditor-General.

In these financial statements, we refer to the combination of internal and external resources as “the Audit Office”.

## Measurement Base

Generally accepted accounting practice (GAAP) is used to measure and report the activities and financial position of the Audit Office on a historical cost basis.

Non-financial information, in the form of objectives and performance measures, is prepared from internal management information.

## Accounting Policies

### Revenue

The Audit Office derives revenue from the Crown for outputs provided to Parliament, from audit fees for services to third parties, and from other assurance work undertaken by Audit New Zealand.

### Expenses

The remuneration of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, are recognised as expenses of the Audit Office.

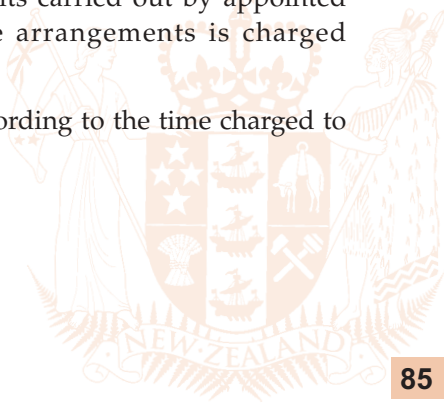
### Output Cost Allocation

#### Definitions

- *Direct costs* are those costs which are directly attributable to a single output.
- *Indirect costs* are all other costs. These costs include: payroll costs; variable costs such as travel; and operating overheads such as property costs, depreciation, and capital charges.

#### Method of Assigning Costs to Output Classes

- *Direct costs* that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by appointed auditors under contestable arrangements is charged directly to Output Class D4.
- *Indirect costs* are allocated according to the time charged to a particular activity.



Receivables and Work in Progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.

Leases

The Audit Office leases office premises and office equipment. As substantially all of the risks and rewards of ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed on a systematic basis over the period of the lease.

Physical Assets

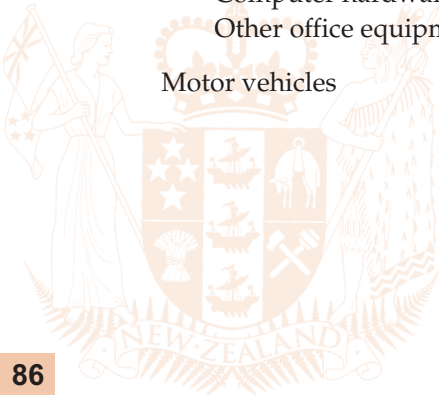
The initial cost of a physical asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

All physical assets costing more than \$500 are capitalised.

Depreciation

Depreciation of physical assets is provided on a straight-line basis so as to allocate the cost of the assets, less their residual value, over their expected useful lives. The estimated useful lives are:

Furniture and fittings	4 years
Office equipment –	
Computer hardware and software	2.5-5 years
Other office equipment	4 years
Motor vehicles	5-7.5 years



### *Provision for Employee Entitlements*

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees based on current rates of pay. Long service leave and retiring/resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

### *Foreign Currency*

Foreign currency transactions, relating primarily to subscriptions and travel, are paid for at the New Zealand dollar exchange rate at the date of the transaction.

### *Financial Instruments*

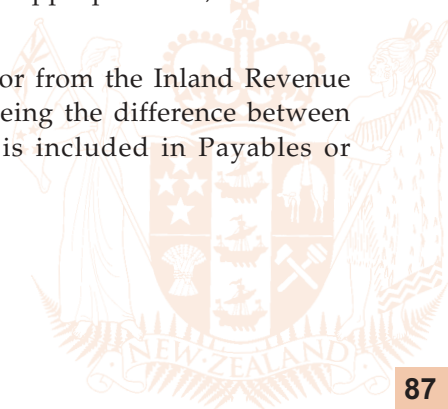
Financial instruments primarily comprise bank balances, receivables, and payables which are recognised in the Statement of Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

### *Goods and Services Tax (GST)*

Amounts in the financial statements are reported exclusive of GST, except for:

- Payables and Receivables in the Statement of Financial Position, which are GST-inclusive.
- Figures in the Statement of Appropriations, which are GST-inclusive unless noted.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).



### *Income Tax*

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The Audit Office is exempt from the payment of income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

### *Changes In Accounting Policies*

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There have been no changes in accounting policies, including cost allocation accounting policies, from those stated in the annual financial statements of the Audit Office for the year ended 30 June 2002 included in our Annual Report for 2001-02.



# Statement of Prospective Financial Performance<sup>41</sup>

For the Year Ending 30 June 2004

## *Description of Statement*

The Statement of Prospective Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. A statement showing the revenue and expenses of each output class appears on page 95.

	2002-03		2003-04 Forecast
	Budgeted <sup>42</sup>	Estimated Actual <sup>43</sup>	
	\$000	\$000	\$000
<i>Continuing Activities</i>			
<b>Revenue</b>			
Crown	5,331	5,331	5,371
Departments	6,947	6,947	6,947
Other	27,211	27,211	27,593
<b>Total Revenue</b>	<b>39,489</b>	<b>39,489</b>	<b>39,911</b>
<b>Expenses</b>			
Personnel costs	19,027	19,027	19,027
Operating costs	18,915	18,915	19,130
Depreciation	1,181	1,181	1,181
Capital charge	305	305	305
<b>Total Expenses</b>	<b>39,428</b>	<b>39,428</b>	<b>39,643</b>
<b>Surplus</b>	<b>61</b>	<b>61</b>	<b>268</b>

41 Prepared in accordance with section 34A(3) of the Public Finance Act 1989.

42 Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 2002-03.

43 The amounts in this column reflect actual results to 28 February 2003 and the forecast results for the remaining four months to 30 June 2003.

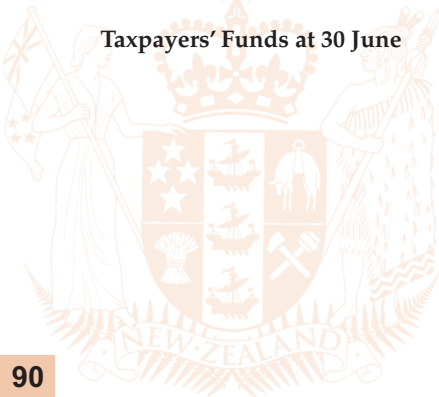
# Statement of Prospective Movements in Taxpayers' Funds (Equity)

For the Year Ending 30 June 2004

## Description of Statement

The Statement of Prospective Movements in Taxpayers' Funds combines information about the Surplus with other aspects of the financial performance of the Audit Office to give a degree of measure of comprehensive income. This statement, together with the Statement of Prospective Financial Position, provides information for assessing the return on investment in the Audit Office.

	2002-03		2003-04
	<i>Budgeted</i>	<i>Estimated Actual</i>	<i>Forecast</i>
	\$000	\$000	\$000
<b>Taxpayers' Funds brought forward at 1 July</b>	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
<b>Movements during the year</b>			
Surplus	<u>61</u>	<u>61</u>	<u>268</u>
<b>Total Recognised Revenues and Expenses for the Year</b>	<u>61</u>	<u>61</u>	<u>268</u>
<b>Flows to and from the Crown</b>			
Provision for payment to the Crown	<u>(61)</u>	<u>(61)</u>	<u>(268)</u>
<b>Taxpayers' Funds at 30 June</b>	<u><u>3,586</u></u>	<u><u>3,586</u></u>	<u><u>3,586</u></u>



# Statement of Prospective Financial Position

As at 30 June 2004

## Description of Statement

The Statement of Prospective Financial Position reports the total assets and liabilities of the Audit Office. The difference between the assets and liabilities is called Taxpayers' Funds.

	<i>Budgeted Financial Position as at 30/6/03 \$000</i>	<i>Estimated Actual Financial Position as at 30/6/03 \$000</i>	<i>Forecast Financial Position as at 30/6/04 \$000</i>
<b>Taxpayers' Funds</b>			
General funds	3,586	3,586	3,586
<b>Total Taxpayers' Funds</b>	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Represented by:			
<b>Current Assets</b>			
Cash and bank balances	598	598	936
Prepayments	290	290	290
Work in progress	1,118	1,118	1,118
Receivables	2,721	2,721	2,721
<i>Total Current Assets</i>	<u>4,727</u>	<u>4,727</u>	<u>5,065</u>
<b>Non-current Assets</b>			
Physical assets	2,530	2,530	2,399
<i>Total Non-current Assets</i>	<u>2,530</u>	<u>2,530</u>	<u>2,399</u>
<b>Total Assets</b>	<u>7,257</u>	<u>7,257</u>	<u>7,464</u>
<b>Current Liabilities</b>			
Payables and provisions	1,543	1,543	1,629
Provision for payment to the Crown	61	61	268
Provision for employee entitlements	950	950	950
<i>Total Current Liabilities</i>	<u>2,554</u>	<u>2,554</u>	<u>2,847</u>
<b>Term Liabilities</b>			
Provision for employee entitlements	860	860	860
Property lease liabilities	257	257	171
<i>Total Term Liabilities</i>	<u>1,117</u>	<u>1,117</u>	<u>1,031</u>
<b>Total Liabilities</b>	<u>3,671</u>	<u>3,671</u>	<u>3,878</u>
<b>Net Assets</b>	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>

# Statement of Prospective Cash Flows

For the Year Ending 30 June 2004

## Description of Statement

The Statement of Prospective Cash Flows summarises the cash movements in and out of the Audit Office during the year. It takes no account of money owed to the Office or owing by the Office, and therefore differs from the Statement of Prospective Financial Performance.

	2002-03		2003-04
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
<b>Operating Activities</b>			
Cash received from:			
The Crown	5,331	5,331	5,371
Departments	6,947	6,947	6,947
Others	17,919	17,919	16,150
Cash disbursed on:			
Production of outputs	(27,996)	(27,996)	(26,714)
Capital charge	(305)	(305)	(305)
<b>Net Cash Flow from Operating Activities</b>	<u>1,896</u>	<u>1,896</u>	<u>1,449</u>
<b>Investing Activities</b>			
Cash received from:			
Sale of physical assets	160	160	170
Cash disbursed on:			
Purchase of physical assets	(1,245)	(1,245)	(1,220)
<b>Net Cash Flow from Investing Activities</b>	<u>(1,085)</u>	<u>(1,085)</u>	<u>(1,050)</u>
<b>Financing Activities</b>			
Cash disbursed on:			
Payment to the Crown	(679)	(679)	(61)
<b>Net Cash Flow from Financing Activities</b>	<u>(679)</u>	<u>(679)</u>	<u>(61)</u>
<b>Total net increase in cash held</b>	132	132	338
Add Opening cash balance at 1 July	466	466	598
<b>Closing cash balance at 30 June</b>	<u>598</u>	<u>598</u>	<u>936</u>

# Reconciliation of Surplus in the Statement of Prospective Financial Performance to the Prospective Net Cash Flow from Operating Activities

For the Year Ending 30 June 2004

## Description of Statement

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Prospective Financial Performance on page 89 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 92.

	2002-03		2003-04
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
<b>Surplus</b>	61	61	268
<b>Non-cash Items</b>			
Depreciation	1,181	1,181	1,181
<b>Total Non-cash Items</b>	1,181	1,181	1,181
<b>Working Capital Movements</b>			
(Increase)/decrease in prepayments	(72)	(72)	-
(Increase)/decrease in receivables	1,214	1,214	-
(Increase)/decrease in work in progress	937	937	-
Increase/(decrease) in payables	(256)	(256)	86
Increase/(decrease) in current employee entitlements	(1,175)	(1,175)	-
<b>Total Net Working Capital Movements</b>	(1,890)	(1,890)	86
<b>Other Items</b>			
Increase/(decrease) in property lease liabilities	6	6	(86)
<b>Total Other Items</b>	6	6	(86)
<b>Net Cash Flow from Operating Activities</b>	<u>1,896</u>	<u>1,896</u>	<u>1,449</u>

# Forecast Details of Physical Assets by Category

As at 30 June 2004

	<i>As at 30 June 2003</i>		<i>Forecast Position as at 30 June 2004</i>		
	<i>Budgeted Net Book Value \$000</i>	<i>Estimated Actual Net Book Value \$000</i>	<i>Cost \$000</i>	<i>Accumulated Depreciation \$000</i>	<i>Net Book Value \$000</i>
Furniture and fittings	223	223	2,212	2,140	72
Office equipment	1,578	1,578	5,939	4,531	1,408
Motor vehicles	729	729	1,047	128	919
<b>Totals</b>	<b>2,530</b>	<b>2,530</b>	<b>9,198</b>	<b>6,799</b>	<b>2,399</b>



# Forecast Output Class Operating Statements<sup>44</sup>

For the Year Ending 30 June 2004

Departmental Output Class	Description	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Surplus \$000
<b>Mode B Gross</b>							
D1 – Reports and advice arising from the exercise of the function of legislative auditor.	Reports to Parliament and other constituencies on matters arising from annual audits; performance audits and studies; special investigations; advice to Select Committees; taxpayer, ratepayer, and Members of Parliament enquiries; administration of the Local Authorities (Members' Interests) Act 1968; and advice to government bodies and other agencies.	4,993	-	15	5,008	(4,998)	10
D2 – Certification of authority to release funds from the Crown Bank Account.	Certificate that all funds released from the Crown Bank Account are for lawful purposes and are supported by an appropriation.	278	-	-	278	(278)	-
D3 – Provision of non-contested audit services.	Conduct of and reporting on audits not subject to allocation to audit service providers by the contestable process.	100	1,667	4,296	6,063	(5,992)	71
<b>Total Mode B Gross Output Classes</b>		<u>5,371</u>	<u>1,667</u>	<u>4,311</u>	<u>11,349</u>	<u>(11,268)</u>	<u>81</u>
<b>Mode B Net</b>							
D4 – Provision of contested audit and other assurance services.	Conduct of and reporting on audit and other assurance services awarded to audit service providers as a result of a competitive tender process or under the threat of competition.	-	5,280	23,282	28,562	(28,375)	187
<b>Total Mode B Net Output Classes</b>		<u>-</u>	<u>5,280</u>	<u>23,282</u>	<u>28,562</u>	<u>(28,375)</u>	<u>187</u>
<b>Totals</b>		<u><u>5,371</u></u>	<u><u>6,947</u></u>	<u><u>27,593</u></u>	<u><u>39,911</u></u>	<u><u>(39,643)</u></u>	<u><u>268</u></u>

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<sup>44</sup> Details of the forecast performance for each class of outputs are set out on pages 69-83 of this report.

# Prospective GST Status of Appropriations

For the Year Ending 30 June 2004

## Description of Statement

This statement reconciles, for expenses and repayment of debt, the amounts reported GST-exclusive in the Statement of Prospective Financial Performance (on page 89) and the Forecast Output Class Operating Statements (on the previous page) with the GST-inclusive amounts of the corresponding appropriations appearing in Part B1 of Vote Audit for 2003-04 in the *Estimates of Appropriations* (parliamentary paper B.5 Vol.1).

<i>Departmental Output Classes</i>	<i>GST-exclusive (Annual Plan) \$000</i>	<i>GST \$000</i>	<i>GST-inclusive (Vote) \$000</i>
<b>Mode B Gross</b>			
Output Class D1			
• Annual appropriation	4,492	563	5,055
• Other appropriation	506	-	506
	<u>4,998</u>	<u>563</u>	<u>5,561</u>
Output Class D2	278	35	313
Output Class D3	<u>5,992</u>	<u>758</u>	<u>6,750</u>
<b>Total Mode B Gross Output Classes</b>	<u>11,268</u>	<u>1,356</u>	<u>12,624</u>
<b>Mode B Net</b>			
Output Class D4	<u>28,375</u>	<u>3,570</u>	<u>31,945</u>
<b>Total Mode B Net Output Classes</b>	<u>28,375</u>	<u>3,570</u>	<u>31,945</u>
<b>Total Departmental Output Classes</b>	<u>39,643</u>	<u>4,926</u>	<u>44,569</u>
<b>Repayment of Debt</b>			
Net Overdraft Repayment	<u>500</u>	<u>-</u>	<u>500</u>
<b>Total Repayment of Debt</b>	<u>500</u>	<u>-</u>	<u>500</u>
<b>Totals</b>	<u>40,143</u>	<u>4,926</u>	<u>45,069</u>

## Forecast Financial Indicators

### For the Year Ending 30 June 2004

	2002-03		2003-04
(after Supplementary Estimates)	Budgeted	Estimated	Forecast
	\$000	Actual	\$000
<b>Operating Results</b>			
Revenue: other than Crown	34,158	34,158	34,540
Output expenses	39,428	39,428	39,642
Surplus before capital charge	366	366	573
Surplus	61	61	268
<b>Working Capital</b>			
Net current assets <sup>45</sup>	2,173	2,173	2,218
Current ratio <sup>46</sup>	185%	185%	178%
Average receivables and work in progress	47 days	47 days	47 days
Average payables outstanding	29 days	29 days	31 days
<b>Resource Utilisation</b>			
Physical assets:			
Total at year-end	2,530	2,530	2,399
Additions as % of physical assets	49%	49%	51%
<b>Taxpayers' funds</b>			
Total at year-end	3,586	3,586	3,586
<b>Forecast Net Cash Flows</b>			
Surplus on operating activities	1,896	468	1,496
Deficit on investing activities	(1,085)	(1,085)	(1,050)
Deficit on financing activities	(679)	(679)	(61)
Net increase in cash held	132	132	338

45 Current assets minus current liabilities.

46 Current assets as a proportion of current liabilities.









**The Controller and Auditor-General**  
*Tumuaki o te Mana Arotake*

**Annual Plan 2003-04**