



The Controller and Auditor-General

Five-year Strategic Plan

1 July 2004 to 30 June 2009

inside this strategic plan

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introduction

Introduction by the Controller and Auditor-General

Having an independent Office, which **continues to be relevant**, and one which, through its work, **engenders real change and improvement** in the public sector, are my key goals for my term as Auditor-General.

I'm proud to present the Strategic Plan for the balance of my term as Auditor-General – that is, the five years to June 2009.

Underpinning this strategy is the belief that we can make **more of a difference** to our stakeholders – to Parliament (including local constituencies), to public entities and to our staff. We've set out an ambitious vision for the next five years – we'd like to be acknowledged as leaders in designing and delivering independent assurance services.

There is, currently, a very wide range of issues in our operating environment with audit implications – including significant changes in legislation. In devising our strategy, we've had regard to these issues and to what our stakeholders have been telling us about how they'd like us to respond.

The key to us being successful will be the **continual re-shaping of our services** and **using the best people**. Already, the change in the way we choose auditors who do the annual audits has freed up our ability to better share our knowledge and our people.

I believe our strategy positions the Office for the future.

Kevin Brady

Controller and Auditor-General

30 January 2004

introduction

Background to this Strategic Plan

This Strategic Plan is for the next five years (from 1 July 2004 to 30 June 2009), being the balance of the current Auditor-General's term. It should be read in conjunction with the Annual Plan for 2004-05 (particularly in relation to planned performance audits). The Annual Plan is also available on our web site at www.oag.govt.nz.

The Strategic Plan is presented in four parts:

- **Introduction**
which provides the reader with a summary of our key findings, and paints a picture of how we see the future for the Office and for our stakeholders – Parliament (including local constituencies), public entities and our staff.
- **Purpose and outcomes**
which explains why the Office exists, what it does and what outcomes it desires to achieve.
- **Strategic context**
which sets out the key issues in our environment and the needs of our stakeholders, and discusses the Office's current ability to respond to these.
- **Strategic responses**
which outlines our strategy and vision, identifies the strategic areas we need to focus on over the next five years and details our responses and actions. It also highlights the key risks facing the Office and how we intend to mitigate them, and outlines how we will measure the success of this strategy.

introduction

Overview

Purpose and Outcomes

Why the Office exists, what it does, and what situation it desires to create... (pages 9 – 11)

OUR PURPOSE

- Constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.
- Providers of independent assurance to Parliament and the public over the operations of public sector organisations and their use of public resources and the powers conferred on them.

DESIRED SITUATION

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.

Strategic Context

The key issues in our environment, our stakeholders' needs and our current ability to respond... (pages 13 - 20)

KEY ISSUES IN OUR ENVIRONMENT

Significant and ongoing changes in:

- The accounting and auditing profession.
- Public entities' legislative and operating environments.
- Information and reporting requirements and methods.

KEY STAKEHOLDER NEEDS

Stakeholders would like more:

- Performance audits .
- Help navigating through information and understanding and applying legislative changes.
- Best practice information.

We could do better by:

- Improved timeliness, especially for inquiries and performance audits.
- Greater responsiveness, and innovation.

OUR CURRENT ABILITY TO RESPOND

- + Our independence.
- + Strong knowledge and expertise of our people.
- + Depth and breadth of relationships.
- + Robust standards.
- Light mix of performance audits to financial audits.
- Lean capability in performance audits.
- Timeliness variable.
- Inadequately funded for inquiries.
- Depleted capability in product development and research.

Strategic Responses

Our strategy and vision, and our strategic areas of focus... (pages 22 - 37)

OUR FIVE-YEAR STRATEGY

"Product Leadership"

OUR VISION

To set the benchmark for design and delivery of independent assurance services by:

- shaping our services to anticipate and respond to Parliament and other stakeholders' needs and our changing environment;
- building our capability to create and deliver our services;
- fostering relationships and ways of working to support our strategy of product leadership; and
- acting independently in everything we do.

STRATEGIC AREAS OF FOCUS

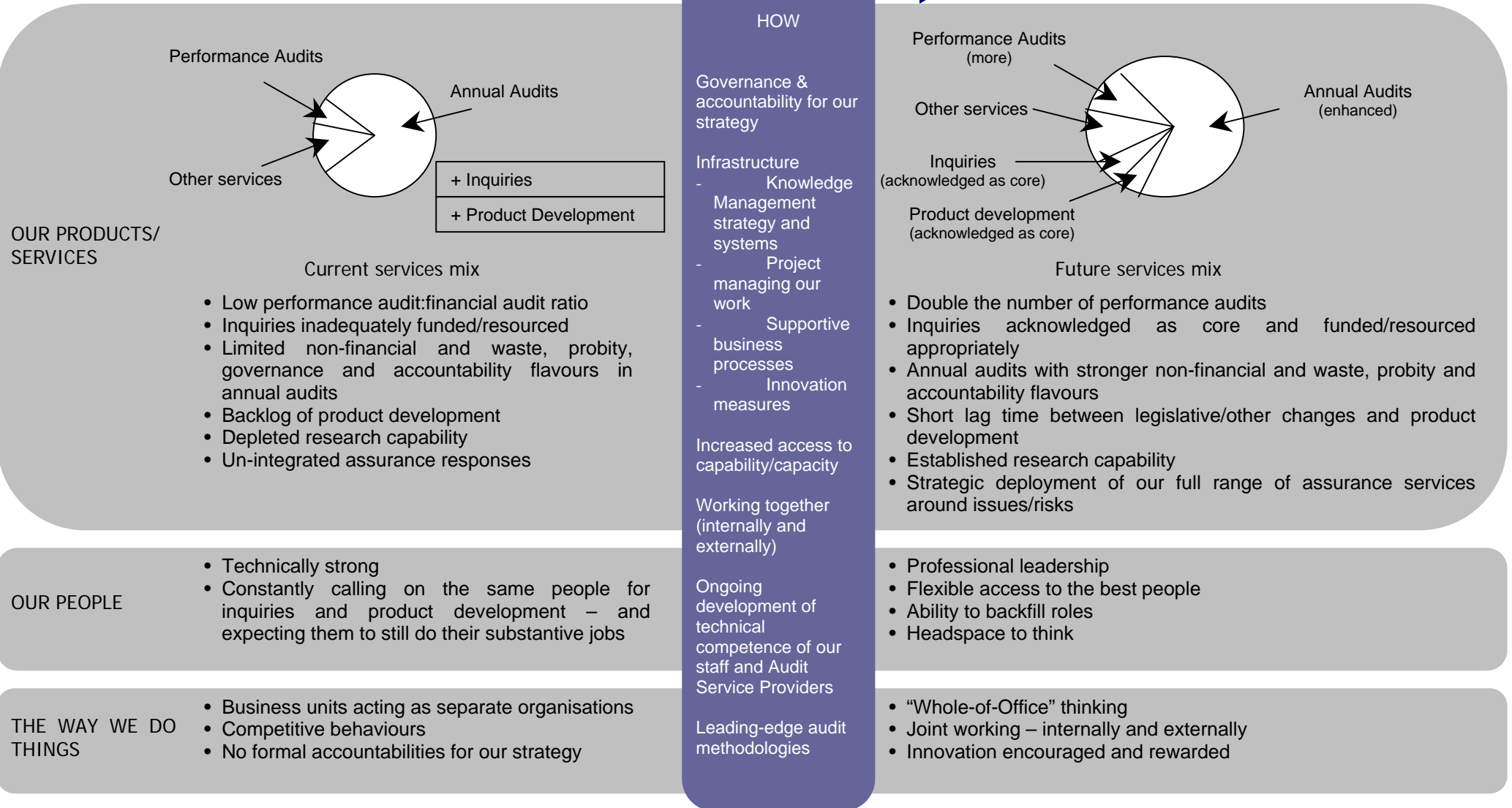
- Ongoing research and development, and product development, and innovation.
- Changes to the breadth and depth of our current assurance products and services.
- Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks.
- Continual adaptation of our organisation.

introduction

Current state – Future state

Where we are now

Where we want to be



introduction



What will be different for our stakeholders in five years

PARLIAMENT

- An Auditor-General's Office appropriately resourced for the future
- Greater depth and breadth of assurance work
- Significant increase in the number of performance audits
- Timely completion of inquiries
- Greater confidence that public entities are carrying out their activities efficiently, effectively, and appropriately; are using public funds wisely; and have accurately reported their performance
- Observable improvements in public entities' performance

PUBLIC ENTITIES

- Leading-edge audit and assurance products
- Greater responsiveness to their needs
- Pre-emptive, predictive and timely assurance
- An Auditor-General's Office equipped to deal with challenges in the environment
- More effective representation of the best interests of the public sector in accounting and auditing, governance, accountability and reporting
- Better advice and guidance on key issues and developments

OUR STAFF

- Working in an environment that promotes innovation and collaborative working
- Ideas turned into action
- Investments made in their future
- Greater depth at senior levels
- More managed opportunities and richer experiences
- Even more sought after for their expertise

purpose and outcomes

The Auditor-General's Resources

The office of Auditor-General is a statutory office created by Parliament in the Public Audit Act 2001. The Auditor-General is an officer of Parliament, and in that capacity is independent of executive government and answerable to Parliament. The Public Audit Act 2001 sets out the Auditor-General's mandate.

The Auditor-General employs staff and engages private sector auditing firms to carry out his functions in relation to public entities. Staff are organised into the Office of the Auditor-General and Audit New Zealand. The current Auditor-General has recently introduced an audit resourcing model which replaces the previous contestable model for annual audit service delivery. The audit resourcing model allows the Auditor-General to choose the auditors to carry out annual audits. The introduction of this new way of working has created opportunities for greater collaboration. The Auditor-General wishes to harness the best people, skills, and resources to assist him achieve his outcomes.

The resources of the Auditor-General can be represented as follows:

The **Office of the Auditor-General** undertakes:

- Strategic audit planning
- Policy development and standard setting
- Appointing auditors and overseeing their performance
- Carrying out performance audits
- Parliamentary reporting and advice
- Inquiries and other special studies

Audit New Zealand undertakes audits allocated to it under the audit resourcing model.

Audit New Zealand is the largest ASP and also provides assurance services within the Auditor-General's mandate to public entities on a contestable basis.

Audit Service Providers are private sector accounting firms which carry out annual audits allocated to them under the resource allocation model.

ASP's also compete with Audit New Zealand for wider assurance services.

purpose and outcomes

Our Purpose

The Auditor-General exists as a **constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.**

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 both to Parliament and the public.

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 listed below derive from section 16 of the Act, which states that the Auditor-General may examine such matters at anytime 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 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?

purpose and outcomes

Desired Situation

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.

Impacts

To help ensure 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.

Outputs

Our outputs fall into two broad categories: assurance products (including inquiries); and advice and guidance.

Assurance products take the form of:

- Parliamentary and Public Reports – which contain those matters arising from audits that warrant the attention of Parliament or other constituencies.
- Controller Certifications – which ensure that funds released from the Crown Bank Account are for purposes consistent with Parliament's intentions.
- Audit and Assurance Reports – which express opinions on the financial statements and results of the audit of the public entities within our portfolio, and also provide assurance on particular issues or transactions at the request of entities.

Flowing from the conduct of audits, we provide *advice and guidance* to:

- Parliamentary Select Committees
- Taxpayers and ratepayers
- The Government
- Audited entities
- Related professional bodies.

strategic context

In this section we outline a high level summary of the **key issues in our environment** which we expect to have to deal with over the next five years.

These are in the following areas:

- The accounting and auditing profession
- Public entities' legislative and operating environments
- Information and reporting requirements and methods

In addition, we outline **what our stakeholders are telling us** we are doing well, what they would like more of and where they see areas for us to improve.



strategic context

Environmental scan - external analysis

KEY ISSUES IN OUR ENVIRONMENT

There is a very wide range of issues in our environment with audit implications. The key issues fall broadly into the significant and ongoing changes in:

- the accounting and auditing profession,
- public entities' legislative and operating environments, and
- information and reporting requirements and methods

Accounting and auditing profession

- Credibility of the profession under pressure after major international corporate collapses
- "Back to basics" response from the accounting and auditing profession, e.g. increased emphasis on risk and quality, audit methodologies being reappraised, firms rationalising service lines, increased ratio of senior staff to junior staff, increased emphasis on core auditing and accounting skills, resultant increases in audit fees
- Implementation of International Financial Reporting Standards (IFRS) in the public sector by 2007

Public entities' legislative and operating environments

- Considerable flow-on audit implications arising from ongoing legislative changes (e.g. Local Government Act 2002, Public Finance Act amendments, Crown Entity legislation, Land Transport Management Act 2003) and significant decisions (e.g. that New Zealand will adopt IFRS).
- Increased level of scrutiny on the activities of the NZ public sector, particularly in the areas of NGO contracting, governance and accountability
- New and different ways of doing business, e.g. e-government/business

Information and reporting requirements and methods

- Significant changes in reporting requirements and methods e.g. Long Term Council Community Plans, XBRL, Sustainable Development Reporting, Managing for Outcomes/Statements of Intent etc
- Information is becoming more complex, e.g. inter-generational equity, spending choice, capability, value for money
- Entities are being asked to enhance their reporting – particularly in non-financial areas, and they are looking for enhanced external reporting on probity and waste, capability and risk
- Our stakeholders are asking for more help in navigating their way through information, new legislative requirements and reporting
- They are also looking for us to leverage off our sector knowledge to provide best practice information, where appropriate

strategic context

Stakeholder needs

Our key external stakeholders are Parliament, local constituencies and public entities within the Auditor-General's mandate.

We have some well-established stakeholder validation and feedback mechanisms, including the Auditor-General's meetings with Select Committee Chairpersons, Parliamentary Party Leaders and public entities; client satisfaction surveys undertaken by Audit New Zealand and other Audit Service Providers; and the Local Government Advisory Group. We also recently carried out a pilot focus group. In addition, we receive extensive feedback from our ongoing liaison with sectors and entities.

Our stakeholders are telling us that:

WE ARE DOING WELL AT:

- Preserving our independence and maintaining our credibility
- Servicing Parliament's assurance needs
- Maintaining strong sector relationships
- The depth in our relationships with public entities
- The robustness of our standards
- The knowledge and quality of our people

THEY WOULD LIKE MORE:

- Performance audits (value for money assurance)
- Help to navigate through information & understand and apply legislative changes
- Best practice information

WE COULD DO BETTER BY:

- Improved timeliness, especially for inquiries and performance audits
- Greater responsiveness, and innovation

Each of these areas of stakeholder feedback is discussed further on the following pages.

strategic context

Stakeholder needs (continued)

WHAT OUR STAKEHOLDERS FEEL WE ARE DOING WELL AT

Preserving our independence and maintaining our credibility

Our independence is prized by our stakeholders and there is a high degree of confidence in the work of the Office – reflected by the fact we are looked to increasingly for advice and inquiries

Servicing Parliament's assurance needs

Parliamentarians have expressed a high degree of satisfaction with the work of the Office. The Auditor-General's authoritative views are highly valued

Maintaining strong sector relationships

Our coverage and depth of relationships in our key sectors are acknowledged

The depth in our relationships with public entities

Audit New Zealand and the other Audit Service Providers have strong relationships with public entities arising from the annual audit process

The robustness of our standards

The Office is acknowledged for its well-developed standards, policies and sector information

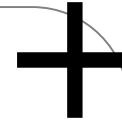
The knowledge and quality of our people

The expertise and knowledge of our people is highly valued, as is the quality of the work produced by the Office

strategic context

Stakeholder needs (continued)

OUR STAKEHOLDERS WOULD LIKE MORE:



Performance audits (value for money assurance)

Parliamentarians have expressed a desire for us to do more in the area of performance audits (value for money)

Help to navigate through information & understand and apply legislative changes

With the complexity of information and reporting requirements increasing, our stakeholders are looking for more help in navigating their way. Historically, we have tended to be reactive in this area

Best practice information

Our stakeholders are looking for us to leverage off our strong sector knowledge and expertise to provide best practice information, where appropriate

OUR STAKEHOLDERS THINK WE COULD DO BETTER BY:



Improved timeliness, especially for inquiries and performance audits

Our stakeholders are looking for greater speed in how we deliver our work – particularly inquiries and performance audits

Greater responsiveness, and innovation

Our stakeholders want us to respond more quickly to changes in legislation, and reporting and information, with relevant, timely and innovative assurance activities

strategic context

In the previous section we outlined the key issues in our environment and the key expectations of our stakeholders.

In the next section, we discuss **how the Office is currently positioned to deal with these** by looking at our Strengths, Weaknesses, Opportunities and Threats, and considering these alongside the internal objectives the Office has for its capability.

We then summarise the key issues in our environment, our stakeholder needs and our current capability to respond to what we see as the **key strategic issues** which will impact on us over the next five years.



strategic context

Our current ability to respond

Our ability to currently deal with these changes in our environment and to respond to stakeholders' needs can be characterised as follows:

Strengths

- Our independence
- Reputation and credibility
- Clear mandate from the Public Audit Act 2001
- Knowledge and expertise of our people
- Sector knowledge and presence
- Strong knowledge of the accounting and auditing profession
- Well-developed standards, policies and sector information
- Rigorous Strategic Audit Planning process
- Depth of relationships with sectors and public entities
- Contribution to our international colleagues, particularly those in the South Pacific
- Our standing with Parliament

Weaknesses

- Light mix of performance audits compared to financial audits, and compared to our international counterparts
- Capability for performance audits is lean
- Timeliness variable (inquiries & performance audits)
- Not adequately resourced or funded to respond to increased complexity and volume of inquiries
- Limited product development/innovation occurring
- No knowledge management strategy for the Office as a whole
- Sharing of auditing best practice and sector knowledge inhibited under contestability
- Limited ability to invest (capital adequacy)
- Tension between innovation & task/productivity focus
- Level of work in non-financial reporting and waste, probity, governance and accountability in annual audits needs increasing
- Over-reliance on Audit Service Providers to develop audit approaches

Opportunities

- Introduction of Resource Allocation Model for provision of annual audits
- Enhanced integrated Strategic Audit Planning involving all Audit Service Providers and strategically deploying the full range of assurance interventions around risks/issues
- Increased collaboration (knowledge and resource sharing) internally and within the auditing market
- Freeing up of senior time for product development and innovation

Threats

- Failure to respond to the key changes in our environment or to meet stakeholder needs
- Impact on the Office of challenges to the credibility of the accounting and auditing profession
- Reputational risk through our wide exposure and coverage of work
- Competition for people and resources
- Difficulties in maintaining currency and sustainability of audit methodology
- Inefficiency or loss of quality

strategic context

Our current ability to respond (continued)

In addition to the changes in our environment and our stakeholder needs, the Office itself desires to:

- Use the best people (internally and externally)
- Work collaboratively (OAG – Audit NZ – ASPs)
- Gain sector consistency
- Invest in our future
- Build depth
- Maintain ongoing efficiency
- Continue delivering to Parliament, local constituencies and public entities
- Manage through all the changes
- Become more innovative
- Restore and build capability
- Grow and develop our people

Already we have made some progress, e.g. the changes in the way we choose the auditors who carry out annual audits - moving from a pure market model to a planned approach (the audit resourcing model) - will enable us to do the first three bullet points better. But it only goes part of the way, and we need to make further changes and investments.

The SWOT analysis on the previous page is also telling us that the Office is under stress and we have some significant challenges to deal with. The indicators of this are:

- We are struggling to maintain our capability and market competitiveness (i.e. we have depleted capability in research and development; we have reduced the amount available to purchase expert advice on performance audits; we have deferred key appointments; and we have difficulties matching what other public sector employers can offer by way of employment benefits/remuneration)
- We are continually having to apply senior resources to deal with unplanned work, i.e. inquiries
- We have limited ability to invest in product development
- We have insufficient depth in our senior staff
- Our timeliness is variable, especially for inquiries and performance audits, and
- Our ability to invest in the capability development of our staff is limited.

AUDIT OFFICE'S OWN CAPABILITY OBJECTIVES

- Use the best people (internally and externally)
- Work collaboratively (OAG – Audit NZ – ASPs)
- Gain sector consistency
- Invest in our future
- Build depth
- Maintain ongoing efficiency
- Continue delivering to Parliament, local constituencies and public entities
- Manage through all the changes
- Become more innovative
- Restore and build capability
- Grow and develop our people

strategic context

Key strategic issues we need to deal with

We have summarised the key strategic issues the Office needs to deal with - arising from our environmental scanning, our assessment of stakeholder needs and our consideration of the Office's current ability to respond - as:

Key strategic issues

- The significant and ongoing changes in the profession, in public entities' legislative and operating environments, and in information and reporting requirements and methods
- The current desire for more of what we do
- The improved timeliness sought by our stakeholders, especially for inquiries and performance audits
- Our stakeholders' desire for us to show greater responsiveness and innovation
- The increasing scrutiny of the New Zealand public sector
- The opportunities created by the change in the way we choose the auditors who carry out annual audits, and
- Our desire to use the best people (internally and externally)

strategic responses

As outlined in the previous section, on the basis of our current capability the Office will struggle to respond to the challenges in our environment and to meet the expectations of our stakeholders over the next five years.

In the next section, we outline **our strategy to position the Office to properly respond.**

This includes our overarching strategy to become “product leaders”, and identifies the **strategic areas we need to focus** on over the next five years.



strategic responses

Our strategy of “product leadership”

In formulating our response to the key issues, we stood back and reflected on the strategy needed for the Office to more positively and effectively respond to our environment and stakeholder needs.

We decided on a strategy of “product leadership” – where the Office will strive to make more of a difference through the continual re-shaping of our products/services and the ways we deliver them to meet the changing environment and the needs of its stakeholders.

The characteristics of “product leaders” are:

- Innovation
- Speed
- Responsiveness
- Building on current key advantages/points of difference
- Flexibility, and
- Access to the best people

These characteristics are consistent with what the Office needs to do to respond to the key strategic issues.

This strategy of product leadership relies on the Office still being very good operationally and maintaining strong relationships with our key stakeholders. But it focuses us on enhancing our key strategic advantage – the design and delivery of responsive, high quality, innovative, and independent assurance services.

Product leadership = making more of a difference

strategic responses

Our vision

Emerging from our strategy of “product leadership”, we have developed a five-year vision:

To set the benchmark for design and delivery of independent assurance services by

- shaping our services to anticipate and respond to Parliament and other stakeholders’ needs and our changing environment
- building our capability to create and deliver our services
- fostering relationships and ways of working to support our strategy of product leadership, and
- acting independently in everything we do.

In the future, we aim to:

- be acknowledged as the innovators in designing public sector, independent assurance services and high quality deliverers of such services
- constantly challenge and enhance the way we work
- be the place where people want to work
- do as we want others to do/practise what we preach
- facilitate real change and improvement, and
- be seen as an essential part of the public system

Page 7 further describes the changes between where we are today and where we want to be in the future.

five-year	vision
To set the benchmark for design and delivery of independent assurance services	

strategic responses

Strategic areas of focus

In order to become “product leaders” and more positively and effectively respond to the key strategic issues, we need to focus on the following four strategic areas:

1

Ongoing research and development and product development, and innovation

2

Changes to the breadth and depth of our current assurance products and services

3

Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks

4

Continual adaptation of our organisation

strategic responses

Strategic areas of focus (continued)

Ongoing research and development and product development, and innovation

We need the capability to carry out ongoing research and development, and product development. We need to be innovative. In the last decade we have had an over-reliance on Audit Service Providers (ASPs) to develop assurance approaches. This development did not occur to the extent needed – primarily due to the limitations of sector coverage for many ASPs, and lean pricing of audits through a decade of contestability amongst ASPs. We need to lead our own product development. This means getting on top of the current backlog (e.g. assurance responses to legislative changes and performance reporting) and thinking out to the future about where and how we want to shape our assurance products and services.

Changes to the breadth and depth of our current assurance product and services

We believe most of what we do now is the right work. However, within that broad product/services mix, we believe the breadth and depth of our assurance products and services needs to change over the next five years. Specific changes are highlighted on pages 26 to 31.

Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks

We already have a well-developed strategic audit planning process, which is recognised as among the best internationally. However, there are opportunities for greater involvement, communication and knowledge sharing between people working in and for the Office. In addition, our assurance responses to date have been somewhat linear – that is, dealing with single issues with single responses. Moving forward, we will enhance how we deploy the full range of our assurance interventions around key issues/risks. As an example, we have had a performance audit planned for several years on the funding of Non-Government Organisations (NGOs) by public sector entities but we have been unable to commence this work due to insufficient resources. In 2003-2004, our focus was diverted to the Awatere-Huata inquiry. Under our new scenario, the way in which we would plan to approach the NGO funding issue is to leverage off the work already done in our inquiry by:

- undertaking a performance audit to clearly flesh out the full range of issues
- developing best practice guidance on funding of NGOs
- undertaking specific work on funding of NGOs in annual audits, and
- offering wider assurance to entities on their NGO funding activities where appropriate.

Continual adaptation of our organisation

Changes to the way we choose auditors who do the annual audits opens the way for many of our processes and systems to be simplified across the Office. We are committed to “practising what we preach”, and maintaining operational excellence. We will position our support capabilities for this future strategy, not the past or present settings.

strategic responses

Specific changes to our assurance products/services mix

We have concluded that we will continue to deliver largely the same range of assurance products/services over the next five years, however the volume in some areas is expected to increase significantly and the distribution of our efforts may need to change.

SUMMARY OF PROPOSED CHANGES

Assurance products/services	Proposed changes
Annual Audits	Enhance
Controller Function	Maintain @ same levels
Advice to Parliament	Maintain @ same levels
Inquiries	Acknowledge as core – resource and manage appropriately
Advice & Liaison	Target effort
Working with the Profession	Target effort
Wider Assurance Work	Maintain @ same levels
Performance Audits	Do more and better
International Liaison & Involvement	Target effort

Each of these changes is described in detail on the following pages.

strategic responses

Specific changes to our assurance products/services mix (continued)

Annual Audits

Annual audits will change over the next five years in several ways:

- firstly, we need to **undertake significantly more work in the area of non-financial reporting**
- secondly, we need to **enhance the level of work done in the areas of waste, probity, governance and accountability**, and
- thirdly, we need to **ensure that our auditing practices remain leading-edge and responsive** to the significant changes that are happening in the accounting and auditing profession internationally

Each of these is discussed further below.

The need to undertake significantly more work in the area of non-financial reporting

We need to do more audit work in a range of areas relating to non-financial reporting, including assurance over:

- Local authorities' Long-Term Council Community Plans under the Local Government Act 2002
- Managing for outcomes initiatives in government departments and Crown Entities
- Sustainable development reporting
- More information generally from public entities on outcomes, capability, risk, ownership and stewardship

Enhancements needed to the level of work done in the areas of waste, probity, governance and accountability

We need to enhance the level of audit work in key areas of our audits that are unique to the risks that public entities face and where it is expected that the Audit Office will have coverage. These areas are around issues of:

- Waste
- Probity
- Governance and accountability

KEY CHANGES TO ANNUAL AUDITS

- Significantly more work in the area of non-financial reporting
- Enhancements to the level of work done in the areas of waste, probity, governance and accountability
- Ongoing need to ensure our auditing practices remain leading-edge and responsive

strategic responses

Specific changes to our assurance products/services mix (continued)

Annual Audits (continued)

The need to ensure our auditing practices remain leading-edge and responsive

There are significant changes happening in the accounting and auditing profession internationally that will have a direct impact on New Zealand and on our public sector. These changes primarily flow from the major corporate collapses in the US and Italy and, closer to home, Australia. The changes include:

- The refocused attention and efforts that the major accounting firms are making on
 - Independence
 - Quality
 - Risk management
 - Core accounting and auditing technical skills
 - Client acceptance and continuance procedures
 - Auditing practices and techniques, and
 - Policies and procedures generally
- The legislative and regulatory responses that a number of countries have made that directly impact on the accounting and auditing profession, particularly relating to independence
- The heightened awareness that governing bodies have on their duties and responsibilities and the key role that independent audit assurance has in supporting them in the execution of their duties
- The major changes that the profession and regulators are making internationally which again flow directly to New Zealand and our public sector:
 - the adoption of International Financial Reporting Standards (IFRS)
 - the likely adoption of International Standards on Auditing (ISAs)

There are indications in the New Zealand private sector audit environment that these changes have already led to fee increases in the vicinity of 15% in order to meet the increased costs of undertaking audits.

Putting all of these changes together in our own annual audit context, we believe that the size of our annual audits will increase over the next three to five years. This enhancement of our annual audit products will need to be carefully managed over this time and we will have close dialogue with public entities, sector groups and other stakeholders as to how we intend to handle the inevitable cost increases that will arise.

strategic responses

Specific changes to our assurance products/services mix (continued)

Controller Function

The overall level of work in the Controller function will remain largely the same, although we note **the Public Finance (State Sector Management) Bill, if enacted, will change the mix of our work in Controller activities in the future.**

Controller Function

Maintain @ same levels

Advice to Parliament

The feedback that we regularly seek from select committee chairs in relation to the advice we provide to Parliament in Estimates Reviews, Financial Reviews and Select Committee Inquiries and advice on some legislation indicates that **the current level and quality of service is at an appropriate level.** Accordingly, we do not envisage any change to this area of our work, though note that assistance to Select Committees can be a substantial call on our resources – the Primary Production Committee’s inquiry into Scampi Fishing is a recent example of this assistance.

Advice to Parliament

Maintain @ same levels

Inquiries

The Office has received and responded to a range of significant inquiries over the last five years, which we have dealt with by re-prioritising planned work in the area of performance audits and research and development/product development work that we would have otherwise undertaken, particularly in relation to the non-financial reporting dimension of our annual audits. We have formed the view that **the Office is well positioned to undertake inquiry work, primarily because of our independence** but also because of the existing infrastructure and professional practices in relation to gathering of evidence, accounting and auditing analysis, natural justice, and reporting. However, inquiries have placed a significant demand on the Office, particularly on our senior people, and we wish to place greater emphasis on appropriately resourcing and managing these inquiries in the future. This will enable us to focus on the other key areas of this strategy and complete inquiries on a more timely basis where possible.

Inquiries

Acknowledge as core - resource and manage appropriately

strategic responses

Specific changes to our assurance products/services mix (continued)

Advice and Liaison

Advice and liaison with central agencies, public entities and other sector groups is an integral part of the Office's involvement and presence in the public sector. We see our level of involvement in this area remaining largely at similar levels as the current state, however we will need to **ensure that our involvement continues to be targeted at areas where our Office has core competencies – that is in areas of governance, accountability and reporting.** Recent examples of this type of work were in Local Government legislation and the planned amendments to the Public Finance Act and Crown Entities legislation.

Advice and Liaison

Target effort

Working with the Profession

The Office plays an important role in representing public sector interests in working with the accounting and auditing profession, both in New Zealand and internationally. Again, we see our level of involvement remaining at similar levels to our current state. However, with the increasing demands that will arise out of international harmonisation of accounting and auditing standards, there will be a particular need to **target our efforts into areas where we will achieve the most influence and best outcomes for the New Zealand public sector.**

Working with the
Profession

Target effort

Wider Assurance Work

Wider assurance work is the audit work undertaken by Audit New Zealand in response to particular needs of public entities (and accordingly is paid for by them). As an example of this type of work, Audit New Zealand is often asked to provide independent assurance over tender processes for large or sensitive projects in the public sector. **This wider assurance work forms an important part of the overall level of assurance being provided by the Auditor-General** in the public sector and we envisage that the level of work will remain broadly in proportion to its current levels over the next five years. Enhancements in this dimension of our work will be to ensure that the work undertaken is contributing to our overall strategy and also providing opportunities for the Office to innovate.

Wider Assurance Work

Maintain @ same
levels

strategic responses

Specific changes to our assurance products/services mix (continued)

Performance Audits

Performance audits are significant audits covering value-for-money or issues of effectiveness and efficiency. Our Office has a relatively lean mix of performance audits in proportion to our overall mix of work (currently 7%) compared to our comparable international counterparts (where performance audits comprise up to 40% of their work).

Parliamentarians are asking the Office to **do more performance audits** in order to provide greater breadth and depth of assurance in areas of value-for-money, effectiveness and efficiency. Increasing the number of performance audits - and our capability to deliver more performance audits - will also provide a more sustainable critical mass of audit professionals in this aspect of the Office's outputs. We wish to increase the number of reports from **10 to 21 over the next two years** in order to start addressing the many issues we identify in our strategic audit planning process. These issues are clearly mapped out in our annual plan.

In addition, we wish to **improve our timeliness** in the completion of performance audits.

International Liaison and Involvement

The Office has had strong involvement with our international counterparts and various working groups that have been established. In particular, **we make a significant contribution to the training and development of our South Pacific counterparts**. We also make significant contributions to Asian countries, actively work together with our Australian counterparts at state and federal level and are active members of the INTOSAI working group on environmental auditing. Given the amount of time involved, we will continue to target our efforts to maximise the benefits to the work of the Office as a whole.

Performance Audits

Do more and better

International Liaison & Involvement

Target effort

strategic responses

In the previous section we outlined our four strategic areas of focus:

- Ongoing research and development and product development, and innovation
- Changes to the breadth and depth of our current assurance products and services
- Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks
- Continual adaptation of our organisation

In the next section, we outline **our strategic actions** to address these four strategic focus areas over the next five years.



strategic responses

Strategic Actions

Our response to these strategic areas of focus is as follows:

Strategic Focus Area

1

Ongoing research and development and product development, and innovation

Strategic Actions

We will build the **infrastructure** to support research and development and product development, specifically we will:

- implement a “project” approach¹ to how we resource, manage and monitor research and development and product development
- develop strategies, processes and systems for turning ideas into action and for managing our knowledge
- make sure our business processes encourage innovation
- develop clear accountabilities for research and development and product development, and
- measure how innovative we are

We will ensure we have **access to the capability and capacity** we need for research and development and product development. This will include:

- seeking adequate funding for resources
- reaching agreement with Audit Service Providers on how to involve them in ways that are commercially realistic

We will **work together** (internally and externally) in ways, which support innovation and knowledge/resource sharing

strategic responses

Strategic Actions (continued)

Strategic Focus Area

2

Changes to the breadth and depth of our current assurance products and services

Strategic Actions

Annual Audits

We will **develop the capability** of our Audit Service Providers to deliver enhanced annual audits particularly in the area of performance reporting and issues of waste, probity, governance and accountability. Specifically we will:

- increase the depth of our senior resource
- continually upskill Audit Service Providers in our audit requirements
- look for ways to share resources/knowledge between Audit Service Providers, and
- measure the quality of the technical competence of our people

We will ensure our **audit methodology** is current (i.e. at least equivalent to leading audit methodologies) and sustainable

Performance Audits

We will seek to **increase our capability and capacity** for performance audits. This will include:

- seeking additional parliamentary funding for additional resources and the capacity to buy-in specialist resources (and taking further account of flow-on impacts on the Office)
- continually develop our technical competence in performance auditing

We will **improve our timeliness**. Specifically, we will:

- implement a “project” approach to how we resource, manage and monitor performance audits

Strategic Actions (continued)

Strategic Focus Area

2 ctd

Changes to the breadth and depth of our current assurance products and services

Strategic Actions

Inquiries

We will seek to **increase our capability and capacity** for inquiries. This will include:

- seeking additional parliamentary funding for more resources and the capacity to buy-in specialist resources (and taking further account of flow-on impacts on the Office)

We will **improve our timeliness**. Specifically, we will:

- implement a “project” approach to how we resource, manage and monitor inquiries

strategic responses

Strategic Actions (continued)

Strategic Focus Area

3

Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks

Strategic Actions

We will **maximise our efforts**, specifically we will:

- implement a “project” approach to how we resource, manage and monitor the Strategic Audit Planning process
- co-ordinate our stakeholder feedback mechanisms
- facilitate greater involvement of, and communication with, Audit Service Providers and internal business units in the process
- look for opportunities to simplify/innovate the process

We will **work together** (internally and externally) in ways which support delivery of integrated assurance responses

strategic responses

Strategic Actions (continued)

Strategic Focus Area

4

Continual adaptation of our organisation

Strategic Actions

We will establish clear **governance** of, and **leadership** for, our strategy

We will **position ourselves for the future**. Specifically, we will:

- constantly look for ways to streamline efforts across the Office
- fully consider the flow-on impacts of our strategy (i.e. how we best manage and accommodate increased resources and flexible involvement), and
- maintain our efficiency (including continually benchmarking how efficient we are)

We will **work together** (internally and externally) in ways which reinforce the Office's values and encourage innovation and collaborative working

We will **attract, develop and retain high performing staff**. Specifically, we will:

- implement an Office-wide talent management approach, including targeted retention strategies
- develop and implement a technical capability development plan
- increase our resource and capability in areas where additional funding is received
- invest in the development of professional leadership capabilities, and
- continue to implement our EEO and Effectiveness for Maori strategies

strategic responses

Our proposed “project” approach

Throughout this Strategic Plan, we have made reference to the need to improve our project management and take a “project” approach to getting things done, including:

- improving the timeliness of our inquiries
- being more efficient in conducting performance audits
- undertaking R&D/product development, and
- implementing other major initiatives under this Strategic Plan, like the development of our knowledge management strategy.

We already have well-developed project management for many aspects of our work, particularly our annual audits. Our “project” approach looks to extend good project management across all aspects of our work. We need to do this because we:

- want to maintain our efficiency and ensure we deliver value for money in all of the work we do
- want to be realistic in resourcing of tasks and ensure they get done on time, are clearly scoped and executed efficiently
- are moving to work on a more collaborative basis – harnessing the resources of all our Audit Service Providers and using external expertise.

In practice, the “project” approach will mean:

- taking a project management approach to all professional and corporate work over a set level of resource hours
- providing sound training, technical guidance and professional project management support for this work, i.e. the tools to run a good project
- enhanced tracking of resource allocation and utilisation
- improved governance and accountability of work from:
 - clearer project scoping
 - project management disciplines, and
 - more sophisticated management information.

strategic responses

In the previous section we outlined the key actions we are going to take to address our strategic areas of focus. We believe these actions will enable the Office to adequately respond to the issues in our environment and our stakeholder needs.

Inevitably, however, there is a range of risks we need to manage to ensure the successful implementation of our strategy over the next five years. In addition, we need to be able to demonstrate to our stakeholders the success of our strategy.

In the next section, we outline **our strategic risks** and how we will manage them over the next five years, together with the ways we will go about **measuring our success** in the implementation of this strategy.



strategic responses

Strategic risks

We see the following as strategic risks to the successful implementation of our strategy. We have completed a risk assessment based on likelihood and impact, and we have identified strategies to mitigate each strategic risk.

Risk	Risk Assessment	Risk Mitigation Strategies
<p>Serious Audit Failure This is the risk that the Office issues an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process.</p>	LOW	<ul style="list-style-type: none"> Professional standards and policies that are at least the equivalent of our professional counterparts High quality audit planning and methodologies Peer review and substantiation practices Quality Assurance regimes Quality and training of our people Professional indemnity insurance
<p>Not meeting our stakeholders' expectations If we are not seen to meet our stakeholders' expectations, it makes our job harder and undermines our ability to achieve our desired outcomes</p>	MEDIUM - HIGH	<ul style="list-style-type: none"> Robust stakeholder feedback mechanisms An effective strategic audit planning process Deployment of the right audit interventions Our strategy of product leadership
<p>Not maintaining our credibility and reputation Any damage to the credibility and reputation of the Office would seriously impair our effectiveness</p>	MEDIUM - HIGH	<ul style="list-style-type: none"> Quality and capability of our people Maintenance of our independence Peer review, substantiation and quality assurance regimes Responding to the right issues with the best audit interventions
<p>Not maintaining our independence The key point of difference for our Office is our independence – it is fundamental to all we do and must be cherished</p>	LOW	<ul style="list-style-type: none"> Professional standards and policies that are at least the equal of our professional counterparts Quality Assurance regimes Integrity, independence and objectivity of our people
<p>Failure to successfully implement our five-year Strategic Plan The strategy as outlined in this document will place significant demands on our people, capability and resources in its implementation over the next five years</p>	MEDIUM	<ul style="list-style-type: none"> Seeking appropriate resources and funding to fully implement this strategy Strong governance and accountability Project management disciplines Other strategic actions as outlined in this document
<p>Not maintaining and building our capability The office's ongoing ability to attract and retain suitably qualified staff, and maintain its investment in their development may be placed at risk by our inability to maintain competitiveness as an employer compared with public sector organisations</p>	MEDIUM - HIGH	<ul style="list-style-type: none"> Active talent management programmes Plans to build depth at senior levels and provide job enrichment opportunities Moving to a culture of collaboration and cooperation Preserving the very good reputation that the Office enjoys as an employer and developer of managers in the public sector

strategic responses

Measuring our success

We will measure and report in three key areas:

- The **impacts** that our work has and how we make a difference to the public sector
- The **outputs** we produce
- The **success of this Strategic Plan**

The measures for our impacts and outputs are set out in the current Annual Plan for 2003/04 (pages 28 – 31, and 74 – 83). These, together with measures of the success of this Strategic Plan, will be developed further in the Annual Plan for 2004/05 based on the outcome of our funding proposal.

To demonstrate the **success of this Strategic Plan**, the Office has developed the following measurement framework:

MEASUREMENT FRAMEWORK For measuring the success of our Strategic Plan

Measurement Dimension	Impact Measures the extent to which the investment resulted in improvements on our impacts (intermediate outcomes)	Performance Measures the extent to which the Office used the funding efficiently and for the purposes it was provided	Capability Measures the extent to which the Office maintained/built capability for the future	Risk Measures the extent to which the Office managed the risks associated with the strategic intervention
Measurement Categories	<ul style="list-style-type: none"> • Our Impacts (Assessment against each area of impact)	<ul style="list-style-type: none"> • Quantity • Cost • Timeliness • Quality 	<ul style="list-style-type: none"> • People (development, retention, utilisation) • Culture • Processes/Systems 	<ul style="list-style-type: none"> • Our Strategic Risks (Assessment against each Strategic Risk)

strategic responses

Measuring our success (continued)

Our measurement framework is structured as follows:

Measurement Dimensions

Each Strategic Focus Area is assessed against four measurement dimensions:

- Impact
- Performance
- Capability, and
- Risk

Where:

Impact measures the extent to which the investment resulted in improvements on our impacts

Performance measures the extent to which the Office used the funding efficiently and for the purposes it was provided.

Capability measures the extent to which the Office maintained/built capability for the future, and

Risk measures the extent to which the Office managed the risks associated with the strategic intervention.

Measurement Categories

Within each measurement dimension, measurement categories have been used to assess our success:

Impact

The Office aims to have three impacts (see page 11):

- Improved public entity operations
- Public entities that act legally, ethically and with probity
- Parliamentary control of expenditure

Each Strategic Focus Area is assessed as to the contribution it makes towards the Office's achievement of its impacts (intermediate outcomes).

strategic responses

Measuring our success (continued)

Performance
<p>The Office's performance in using the funding efficiently and for the purposes it was provided is assessed against categories of:</p> <ul style="list-style-type: none"> - Quantity - Cost - Timeliness, and - Quality
Capability
<p>How the Office maintained/built capability for the future is assessed in the following areas:</p> <ul style="list-style-type: none"> - People (considering staff development, retention and utilisation indicators) - Culture (considering changes to the ways in which people work together), and - Processes/Systems (considering the implementation of governance and infrastructure)
Risk
<p>On page 40, we outlined our Strategic Risks. These are:</p> <ul style="list-style-type: none"> - Serious audit failure - Not meeting our stakeholders' expectations - Not maintaining our credibility and reputation - Not maintaining our independence - Failure to successfully implement our five-year Strategic Plan - Not maintaining and building our capability <p>Each Strategic Focus Area is assessed relative to each of these strategic risks.</p>

After assessing each Strategic Focus Area using the above methodology, we have then developed **Success Indicators** and **Targets**.

SUCCESS INDICATOR	<i>If we have successfully implemented the Strategic Focus Area, what will we see?</i>
TARGET	<i>What are our/others' expectations on how well we will achieve each success indicator?</i>

strategic responses

Key Strategic Plan Measures – External Reporting

Using the above methodology, we have developed a preliminary suite of measures for internal and external reporting purposes.

The following lists what we see as the **key measures of success** relating to the implementation of our Strategic Plan for **external reporting purposes**. These will be further developed in our 2004/05 Annual Plan, once the outcome of our funding proposal is known.

Strategic Focus Area	Key Measures - External Reporting	Draft Targets
Ongoing Research & Development and Product Development, and Innovation	<ul style="list-style-type: none"> • Cost • Hours • Actual R & D and Product Development completed • Stakeholder assessment of relevance/responsiveness of Product Development/R & D • Internal staff assessment of whether environment supports innovation and collaborative working 	<ul style="list-style-type: none"> • Actual cost within budget • Hours within budget • Plans substantially achieved (i.e. 90%) • Agreed satisfaction level achieved from sample stakeholder assessment • Agreed satisfaction level achieved from staff assessment
Changes to the breadth and depth of our current assurance products and services - Annual Audits	<ul style="list-style-type: none"> • Ratio of non-financial to financial work performed as part of annual audits • Technical competence maintained • International peer review 	<ul style="list-style-type: none"> • Agreed ratio achieved • Agreed competence level achieved • International peer review completed within agreed timeframe
Changes to the breadth and depth of our current assurance products and services - Performance Audits	<ul style="list-style-type: none"> • Number of performance audits completed • Cost (including amount spent on expert advice) • Improved timeliness • Efficiency/productivity gains • Parliament assessment of increased value from more performance audits • Impact of performance audits on entity operations and performance 	<ul style="list-style-type: none"> • Actual number of performance audits completed within budget • Actual costs within budget • Hours within target time • Agreed efficiency/productivity levels achieved • Agreed satisfaction level achieved from sample stakeholder assessment • Agreed level of entity uptake of recommendations achieved

strategic responses

Key Strategic Plan Measures – External Reporting (continued)

Strategic Focus Area	Key Measures - External Reporting	Draft Targets
Changes to the breadth and depth of our current assurance products and services - Inquiries	<ul style="list-style-type: none"> • Cost • Number of inquiries completed • Improved timeliness 	<ul style="list-style-type: none"> • Actual cost within budget • Actual number of inquiries completed • Average hours elapsed within target time
Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks	<ul style="list-style-type: none"> • Pilot Implementation completed 2004/05 • Full Implementation completed 2005/06 • Impact of more integrated assurance responses to issues 	<ul style="list-style-type: none"> • Pilot implementation completed within timeframes • Full implementation completed within timeframes • Agreed % reduction over time in recurrence of key themes
Continual adaptation of our organisation	<ul style="list-style-type: none"> • Implementation Plan achieved, (e.g. Project Office, Governance, Infrastructure etc) • International peer efficiency comparators • Average staff tenure • Staff retention • Average hours and \$ spent on staff development • % of ready successors for key roles • EEO initiatives identified and actioned • Effectiveness for Maori initiatives identified and actioned • Staff satisfaction 	<ul style="list-style-type: none"> • Implementation plan substantially achieved (i.e. 90%) • Agreed targets achieved relative to agreed international peer efficiency comparators • Average staff tenure within target • Agreed retention targets achieved • Agreed targets for hours and \$ spent on staff development achieved • Agreed % of ready successors for key roles achieved • EEO initiatives substantially implemented • EFM initiatives substantially implemented • Agreed satisfaction level achieved from staff satisfaction assessment
Other	<ul style="list-style-type: none"> • No serious audit failures • No breaches of our independence 	<ul style="list-style-type: none"> • 100% achieved • 100% achieved