

MPs' guide to the Auditor-General

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Purpose of this booklet

This booklet is specifically for members of Parliament (MPs). It complements a number of other documents such as the more general publication, *All about the Controller and Auditor-General*. That and other recent publications are listed at the back of this booklet and are available on our website, www.oag.govt.nz.

This booklet briefly explains:

- the role of the Controller and Auditor-General (the Auditor-General);
- the Auditor-General's independence;
- the support the Auditor-General can provide to MPs;
- the statutory functions of the Auditor-General; and
- what the Auditor-General does not do.

The booklet also lists sector managers and their portfolio responsibilities and provides our contact details.

The Auditor-General at a glance

The Auditor-General is an officer of Parliament. The role and functions of an auditor-general have been in place in New Zealand since the 1840s. The current role and functions are set out in the Public Audit Act 2001.

The Auditor-General is appointed by the Governor-General on the recommendation of Parliament for a non-renewable seven-year term. The current Auditor-General is Kevin Brady, whose term expires in 2009.

The Auditor-General is sometimes referred to as a “public watchdog”. The Auditor-General acts as a check and balance on how public money is spent. In carrying out his statutory functions, the Auditor-General is wholly independent, although he is accountable to Parliament for his use of public funds.

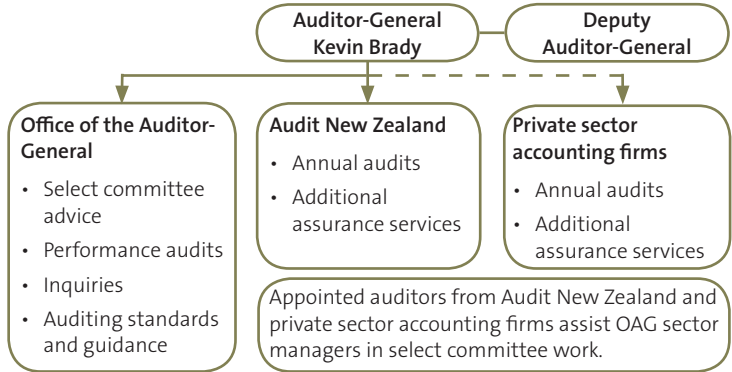
The Auditor-General is the statutory auditor of all public entities, about 4000 in total. These include all government departments, Crown entities (including schools and universities), State-owned enterprises and their subsidiaries, a range of statutory bodies, and all local authorities and their subsidiaries. The Auditor-General appoints auditors for these entities, and is responsible for the performance of those auditors.

As auditor of all public entities, the Auditor-General has five main concerns:

- **Performance:** Have public entities carried out activities in keeping with Parliament's intentions in an effective and efficient manner?
- **Authority:** Have public entities carried out activities, and observed accountability requirements, within the authority granted by Parliament?
- **Waste:** Have public entities obtained and applied resources in an economical manner? Are taxpayers' dollars being wasted?
- **Probity:** Are public entities meeting Parliament's and the public's expectations of an appropriate standard of behaviour?

- **Accountability:** Have entities given full and accurate accounts of their activities? Are governance and management arrangements able to address any concerns?

The Auditor-General employs staff and contracts private sector accounting firms. The Auditor-General’s employees are organised into two business units: the Office of the Auditor-General (the OAG) and Audit New Zealand. Here is a basic structure showing how work is allocated:



The Auditor-General may use different types of audit approach. We explain these approaches in detail later in this booklet. They include:

- annual audits of the financial statements that public entities are required to have audited – these include financial and service performance information;
- about 15 targeted performance audits each year – these are significant audits of aspects of public entities’ operations;
- inquiries into any matter concerning a public entity’s use of its resources – these can be minor or major; and
- assurance engagements – this is work of an audit nature that may be carried out by, or on behalf of, the Auditor-General for public entities, in addition to annual audit assurance.

The Auditor-General and independence

To be effective and credible in providing assurance to Parliament, the Auditor-General must be independent of the public sector organisations being audited. To ensure independence, the Auditor-General:

- is established as an officer of Parliament rather than as a government department;
- reports to the Officers of Parliament Committee, chaired by the Speaker of the House;
- is appointed by the Governor-General on the recommendation of Parliament for a once-only term of no more than seven years;
- has a Deputy who is also a statutory office-holder and officer of Parliament and who can perform all the functions and exercise all the powers of the Auditor-General;
- can report directly to Parliament and anyone else; and
- makes requests for funding directly to the House of Representatives (rather than through the Executive Government), after which the House commends the sum required to the Governor-General for inclusion in an Appropriation Bill.

The Auditor-General appoints auditors to carry out annual audits on his behalf. Auditors and their staff must also be independent – both in fact and in appearance. There are strict constraints on auditors and their staff that cover such matters as:

- personal involvement with an audited entity (such as between family members);
- financial involvement with the entity (such as financial investments);
- providing other services to the entity (such as carrying out valuations); and
- dependence on fees from one source.

What help can the Auditor-General provide?

The Auditor-General, at his discretion, assists select committees and MPs in their related roles of holding to account each individual department, Crown entity, State-owned enterprise, or other public entity.

This assistance usually includes one or more of the following processes:

- briefing select committees to inform their examinations of Estimates of Appropriations (called Estimates);
- assisting select committees with their reviews of public entities' performance and current operations (called financial reviews);
- advising select committee inquiries;
- assisting select committees in their consideration of the reports of the Auditor-General presented to Parliament; and
- responding to MP inquiries or requests made directly to the Auditor-General.

The Auditor-General has a direct relationship with the Finance and Expenditure Committee (FEC). He consults with the FEC on the general nature and extent of the assistance he provides to the FEC and other select committees in their examination of Estimates and departmental performance. The FEC may also invite the Auditor-General to provide advice on the formulation of any standard questionnaire to be used by committees in their examination of the Estimates.

The Officers of Parliament Committee has approved the *Code of Practice for the Provision of Assistance by the Auditor-General to Select Committees and Members of Parliament*, which provides guidance on the main ways in which the Auditor-General may assist Parliament, its select committees, and MPs.

The code of practice does not restrict the powers of the Auditor-General under the Public Audit Act 2001 but provides guidance for the Auditor-General and Parliament on how this assistance is provided. The code of practice includes further information about the types of assistance

outlined in this section. It also explains the circumstances when the Auditor-General acts as an advisor and as a witness to committees.

Estimates of Appropriations

We brief select committees on the Estimates during the Budget process. In preparing our Estimates briefing, we review the following documents:

- the Estimates and the information supporting the Estimates;
- public entities' Statements of Intent;
- public entities' annual reports; and
- the Minister's responses to the Standard Estimates Questionnaire.

We also draw from other sources, including information we have received in the course of our work as statutory auditor. We suggest lines of enquiry that the committee may wish to pursue with the relevant Vote Minister. These lines of enquiry will usually relate to matters of performance, authority, waste, probity, and accountability within public entities.

Financial reviews

We assist select committees with their annual financial reviews of public entities by providing written and oral briefings. We provide further details on the results of the annual audit, and suggest lines of enquiry and questions relevant to the performance and current operations of the particular public entity under review.

The lines of enquiry we suggest are informed by the Auditor-General's mandate under the Public Audit Act 2001. To identify lines of enquiry, we:

- analyse the results of the annual audit and the accountability documents;
- refer to any relevant performance audit or inquiry work; and
- use our specific knowledge of the entity gained during the audit process and by ongoing contact with the entity.

Select committee inquiries

A select committee that wants to conduct an inquiry into the financial administration, expenditure, activities, and other aspects of a public entity's performance can ask the Auditor-General to provide advice on options and/or terms of reference for the inquiry, and the methodology to be used. The Auditor-General can also act as an advisor to the committee, or could agree to take up the matter himself, as either an inquiry or a performance audit.

Select committee consideration of the reports of the Auditor-General presented to Parliament

In a new process, operating from October 2008, Standing Orders provide that all reports by the Auditor-General presented to Parliament are referred to the FEC. The FEC may examine the report or, if it considers that the subject area of the report is primarily within the terms of reference of another select committee, refer the report to that committee for examination.

We are available to brief or advise select committees on these reports as required.

Members of Parliament inquiries or requests for assistance

MPs may ask the Auditor-General to conduct an inquiry into a specific matter. In deciding how to respond to such a request, the Auditor-General assesses the merits of an inquiry against other potential inquiries and programmed work, and considers whether conducting the inquiry would be in the wider public interest. Further information about requests for inquiries from MPs and the public is included on pages 11 and 12.

Statutory functions of the Auditor-General

The Auditor-General has two statutory functions – that of Auditor-General (the audit function) and that of Controller.

The audit function

The audit function involves both non-discretionary and discretionary work. We carry out annual audits (non-discretionary work), performance audits, inquiries, and other assurance services (discretionary work).

Annual audits

The majority of our work (about 85%) relates to carrying out annual audits of the financial and service performance information of public entities.

Annual audits involve auditing the financial statements and other information (for example, service performance information) that a public entity is required by Parliament to have audited.

In an annual audit, the auditor:

- examines a public entity's financial statements, service performance information, and other information that must be audited;
- assesses the results of that examination against a recognised framework (usually generally accepted accounting practice); and
- forms and reports an audit opinion.

An audit of the annual financial statements and other information of a public entity results in two kinds of report. One is the audit report (including the audit opinion) that is included in the public entity's published annual report. The other is a report to the public entity's governing body and/or management on matters arising from the audit.

The published audit report on a public entity's annual financial statements and other information provides readers with assurance about the fairness of those statements.

An annual audit provides a high, but not absolute, level of assurance about whether a public entity's financial statements comply with generally accepted accounting practice and fairly reflect its financial position and its financial performance for the period audited. The auditor also evaluates the overall adequacy of the presentation of information.

Performance audits and good practice guides

The Auditor-General also gives Parliament independent assurance of the performance and accountability of public entities by carrying out performance audits. Under section 16 of the Public Audit Act 2001, the Auditor-General may at any time examine:

- the extent to which a public entity is carrying out its activities effectively and efficiently;
- a public entity's compliance with its statutory obligations;
- any act or omission of a public entity, to determine whether waste has resulted, may have resulted, or may result; and
- any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or one or more of its members, office holders, and employees.

We aim to provide Parliament and the public with assurance that public entities are delivering what they have been asked to and that they have operated lawfully and honestly. We report both good performance and bad.

Benefits for the public entities that we audit include:

- independent assurance of their operations; and
- guidance to improve their effectiveness and efficiency.

Performance audits usually result in a report that is presented to Parliament. We offer a briefing on a performance audit report to the relevant Minister(s) just before presentation. Under Standing Orders, a performance audit report will be referred to the FEC. If the FEC refers the report to another select committee, we will offer a briefing on the report to the relevant select committee(s).

We also produce good practice guides to help public entities develop effective systems, policies, and procedures. Recent good practice guides have covered the areas of procurement, audit committees, sensitive expenditure, and managing conflicts of interest.

Every year, we consult with Parliament, through the FEC, on our proposed discretionary work programme. We outline our core areas of focus and proposed performance audits, and invite individual MPs and select committees to provide feedback on these areas and proposed audits (and on any other matters that may be of interest and/or concern to Parliament).

Inquiries

An inquiry may involve looking into financial, accountability, governance, or conduct issues in a public entity. The concerns may have been raised by a member of the public, an MP or a select committee, another organisation, or the Auditor-General. The final decision on whether to carry out an inquiry into any particular issue rests with the Auditor-General.

An inquiry will usually question whether the public entity:

- applied its resources effectively and efficiently and without waste;
- complied with its legal obligations;
- acted honestly and with integrity in its dealings; and
- managed its finances prudently.

The Auditor-General has broad powers when carrying out an inquiry, including:

- requiring a public entity or any person to provide documents, information, or explanations;
- requiring any person to give evidence;
- examining a private bank account in some circumstances; and
- entering premises to obtain evidence.

When a matter is referred to him, the Auditor-General decides whether to carry out an inquiry and also determines its scope. We may decide not to look into it (for example, because we are not the appropriate authority to do so), we might refer it to our appointed auditor to consider during the next annual audit of the public entity, or we may consider the matter when we plan our performance audits.

We decide what information to report, based on its relevance and subject to our principles of fairness and natural justice.

Other advice and assurance work

We provide reports and assistance to the Department of the Prime Minister and Cabinet, the State Services Commission, and the Treasury on matters of financial management and accountability.

We also provide advice and assurance to public entities on a range of matters – for example, to government departments about government advertising and publicity.

We can also perform other auditing or assurance services at the request of a public entity, such as auditing financial information in a prospectus or giving assurance to a public entity about its purchasing or contracting procedures.

We assist other stakeholders, such as professional and sector organisations, and overseas audit offices, on auditing, financial management, and accountability matters.

The Controller function

The Controller function supports the constitutional principle that the Government cannot incur expenses or capital expenditure without the consent of Parliament.

Under this function, the Auditor-General provides independent assurance to Parliament that the expenses and capital expenditure of government departments and officers of Parliament have been incurred

for purposes that are lawful and within the scope, amount, and period of the appropriation or other statutory authority given by Parliament.

The main features of the Controller function are:

- The Treasury must supply monthly statements to the Auditor-General, to enable the Auditor-General to examine whether expenses and capital expenditure have been incurred in keeping with appropriations or other authority.
- Appointed auditors check compliance with appropriations alongside their annual audit work.
- The Auditor-General can direct a Minister to report to the House of Representatives if the Auditor-General has reason to believe that any expenses or capital expenditure that have been incurred are unlawful or have been applied for a purpose that is not within the scope, amount, or period of an appropriation or other statutory authority.
- The Auditor-General can stop payments from a Crown bank account or a departmental bank account, to prevent money being paid out of the account that may be applied for a purpose that is unlawful or that is inconsistent with any appropriation or other statutory authority.

Further information about the Controller function can be found in our recent years' reports on Central Government: Results of audits.

What the Auditor-General does not do

Private entities

The Auditor-General can only inquire into the actions of public entities. We cannot inquire into private organisations, including organisations that may have received funding from a public entity. However, we can look at the activities of a public entity in contracting with or directly funding a private entity, and the manner in which the public entity has monitored the private entity's use of public funds.

Policy decisions

The Auditor-General does not have any authority to question matters of government policy or local authority policy. Making policy decisions is a job for elected representatives. For example, we would not inquire into a decision by the Government or a local authority to acquire or dispose of a particular asset. We could, however, consider the extent to which the public entity had implemented that decision in keeping with the applicable policy or whether the decision-making process met relevant legal or administrative standards.

Judicial function

The Auditor-General does not have a judicial function, so we cannot make findings on whether a public entity has acted lawfully or whether an individual is culpable for a particular action. The most we can do is express an opinion. We cannot overturn a public entity's decisions or actions. That is for the courts through the judicial review process. We also cannot provide any redress or remedies for particular concerns, or direct a public entity to act on our findings or recommendations.

Who to contact

Sector managers with the relevant select committees of their portfolio responsibilities:

Select committee	Sector manager(s)
Commerce	Felicity Caird, Simon Robb
Education and Science	Felicity Caird, Pania Gray, Mary Harvey
Finance and Expenditure	Wendy Venter
Foreign Affairs, Defence and Trade	Gareth Ellis
Government Administration	Felicity Caird, Mary Harvey, Andrew McConnell
Health	Colleen Pilgrim
Justice and Electoral	Andrew McConnell
Law and Order	Andrew McConnell
Local Government and Environment	Bruce Robertson, Hayden Everett, Jonathan Keate, Tony Uttley, Sarah Lineham
Māori Affairs	Pania Gray
Primary Production	Simon Robb
Social Services	Mary Harvey
Transport and Industrial Relations	Gareth Ellis, Andrew McConnell

If you have any questions about performance audits, please contact Mike Scott, the Assistant Auditor-General, Performance Audit Group.

Contact details

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