

# The Year in Review



I have much pleasure in presenting our report on the Audit Office's performance for the 1999-2000 financial year.

## Public Reports

Once again the Audit Office had an extremely busy and successful year. We produced 13 (1999 – 10) substantive public reports – covering the results of annual audits, planned special audits and unplanned special investigations. The following reports achieved a high public profile:

- *Inquiry into Events Surrounding the Chartering of Aircraft by the Department of Work and Income* (October 1999);
- *Inquiry into Gisborne District Council and the London Media Launch of Gisborne 2000 First Light* (April 2000);
- *Airways Corporation Of New Zealand Limited: Review Of Certain Matters Concerning The National Air Traffic Services (UK) Consortium* (June 2000); and
- *Student Loan Scheme – Publicly Available Accountability Information* (June 2000).

### Following Up Previous Reports

We also put significant effort into following up previous reports (such as *Health Benefits Limited: Payment of Claims for Pharmaceutical Service Subsidies*), and encouraging the Executive, select committees and various other seminars and working groups to debate and implement our previously published “think pieces” such as *Governance Issues in Crown Entities* (November 1996) and *The Accountability of Executive Government to Parliament* (June 1999).

It is particularly encouraging that the State Services Commission has been working on the Government’s initiative to produce new legislation for Crown entities. Hopefully, this will avoid a repeat of the issues arising in the various high-profile inquiries (such as *Inquiry into Certain Events Concerning the New Zealand Tourism Board* and *Report on the Expenditure of the Chief Executive, and Expenditure Control Systems in the New Zealand Qualifications Authority*) we reported on in 1999. In addition, the Commission has been actively considering the “capability” issues we raised in *The Accountability of Executive Government to Parliament*.

### Putting Impact Evaluation on the Agenda

This year we produced another “think piece” report entitled *Impact Evaluation – Its Purpose and Use* (March 2000). This report demonstrates the value of impact evaluation as a practical tool to enhance the quality of decision-making by the Government and Parliament and optimise the effectiveness of public expenditure. I am hopeful that this report will encourage debate on the need for effective identification of expectations and achievements, especially of outcomes, and consequent improvement in non-financial performance reporting.

### Providing Positive Guidance

We also produced a number of reports aimed at providing positive guidance to particular sectors of our audit portfolio. Examples are:

- *Towards Service Excellence: The Responsiveness of Government Agencies to Their Clients* (August 1999);

- *Contracting Out Local Authority Regulatory Functions* (November 1999); and
- *Governance and Oversight of Large Information Technology Projects* (April 2000).

Although each of these exercises used “live” case studies, our primary aim was to provide guidance for those public entities embarking on similar projects in the future.

### *Emphasising Environmental Issues*

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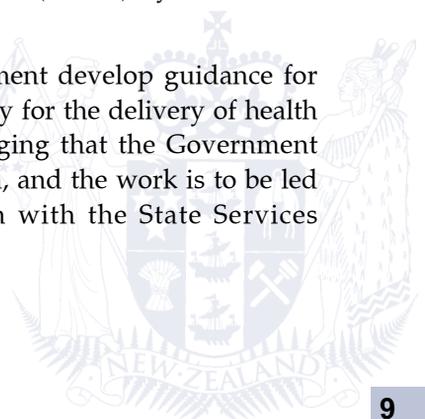
We also gave increasing emphasis during the year to environmental issues. We produced a joint study with the Parliamentary Commissioner for the Environment entitled *Local Government Environmental Management: A Study of Models and Outcomes* (August 1999), and a report entitled *Information Requirements for the Sustainable Management of Fisheries* (December 1999) which complemented a wider-ranging study by the Commissioner.

### *Contracting with Non-governmental Organisations*

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Sometimes we perform significant amounts of work that do not actually give rise to a detailed report. Earlier this year I was asked by a Member of Parliament to investigate a number of allegations relating to the Waipareira Trust. My ability to respond to this request was severely limited by my lack of power to audit a private sector organisation. However, from the work we did in the public entities contracting with the Trust, it was apparent that there is a consistent lack of good quality specification and monitoring of the performance of non-governmental organisations (NGOs) by the entities funding them.

I recommended that the Government develop guidance for contracting with NGOs – especially for the delivery of health and social services. It is encouraging that the Government has accepted this recommendation, and the work is to be led by the Treasury in consultation with the State Services Commission and ourselves.



## Other Highlights

Our public reports present the most visible side of our activity. However, about 85% of what we do relates to financial audits of the more than 3,800 public entities that we audit. As foreshadowed in our last annual report, I am very pleased to report that we have significantly improved the arrears situation for these audits. (Arrears are generally caused by small entities not completing their financial statements for audit in a timely manner.)

We completed 312 more audits than in the previous year, and our arrears have reduced from 1,038 to 646. This is the result of strenuous efforts by both auditors in the field and staff in the Office of the Auditor-General (OAG).

All this activity was achieved with the distraction of the OAG temporarily vacating its offices for four months while they were completely refurbished. The fit-out was completed on time and on budget. The new design concept led to improved floor layouts and space that is user-friendlier. All staff enjoy natural light and views with an open plan concept allowing flexibility for future changes. What's more, our annual outgoings have been significantly reduced.

Lastly, after strenuous efforts by the Treasury, Parliamentary Counsel and my Office, the Public Audit Bill was introduced to Parliament in March 2000. Submissions are due to be considered by the Finance and Expenditure Committee in September. We have been considering the policy and operational implications of its passage, and we will present a new business plan to the Officers of Parliament Committee when it is finally enacted (hopefully later this year).

## Achieving Our Goals

Part Two of this report details our performance in achieving the six goals we set ourselves for 1999-2000. Items that deserve special mention here are:

### *Completing Annual Audits Professionally and On Time*

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As already mentioned, we were particularly successful in making major inroads into the “audit arrears” problem that I have mentioned in previous years. However, our performance in the timely issue of audit management letters still needs improvement. We set ourselves high targets but we have not always been successful in meeting them. I have taken steps to improve this performance and I expect to report significant progress in our 2000-2001 annual report.

We aim to carry out quality assurance reviews of each Approved Auditor’s performance once during their three-year contract period, and we are on target to achieve this coverage. Our reviews found that, generally, work was of a good quality. For the few exceptions, we took appropriate follow-up action.

### *Continuously Improving our Audit and Contract Management Processes*

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We strive to achieve continuous improvement in our audit processes and the OAG’s relationships with Approved Auditors in both Audit New Zealand and private sector auditing firms. Achievements during 1999-2000 were:

- Continuing with our policy of exposing a significant part of our audit portfolio to competitive tendering – approximately 89% (by audit hours) of the portfolio has been invited to participate. Excluding schools, four tender rounds were held – resulting in 10 tenders being won by Audit New Zealand and 11 by private sector auditing firms, and 120 entities electing to renegotiate with their existing audit service provider. Approximately 2,600 schools were invited to go to tender and about 75% chose to renegotiate with their existing audit service provider.
- Continuing to support our auditors (in both Audit New Zealand and private sector auditing firms) by updating our *Manual for Audit Service Providers*, providing training on a range of accounting and auditing issues in convenient

locations throughout New Zealand, and publishing our informal newsletter *the Watchdog*.

### Relationship with Parliament

Through our ongoing interaction with select committees and central agencies we monitor areas of parliamentary interest and emerging issues within the Executive. This helps us determine what planned special audits and studies we might carry out.

We also place considerable emphasis on our relationship with Parliament, especially in the first year of a new Parliament. Recent initiatives include:

- discussing the quality and effectiveness of our relationship with a number of select committee chairpersons;
- providing briefings to incoming select committees on roles and relationships; and
- putting more emphasis on “marketing” our reports with key stakeholders.

For some time I expressed concern that Parliament had no formal mechanism to consider our reports. So I was very pleased when the Finance and Expenditure Committee decided to form a subcommittee with the task of considering our reports or referring them on to the relevant select committee. Hopefully this will provide a higher level of engagement with the issues raised in our reports.

### Relationship with Local Government

We continue to use the wide-ranging skills of my Local Government Advisory Group to check that our strategic planning identifies the critical issues facing local government and that our planned work is both relevant and credible.

We also continue to use independent experts to act on the steering committees for certain specialised projects – for example, *Contracting Out Local Authority Regulatory Functions* and *Local Government Environmental Management: A Study of Models and Outcomes*.

Last year local authorities were required for the first time to report under the requirements of the new financial management regime. This placed a huge workload on councils and auditors, and I am pleased to say that both parties rose to the challenge. As a result, local authorities' financial management has significantly improved.

However, there are still two issues causing some concern to the sector and us:

- first, valuing and accounting for infrastructural assets; and
- secondly, the requirement for projected operating revenues to cover projected operating expenses (including depreciation).

The sector is addressing the first of these issues, but we believe legislation is needed to resolve the second.

### “Closing the Gaps”

The Government's “Closing the Gaps” initiatives – particularly, the need for government departments to report against these initiatives in their annual report – are presenting challenges to all concerned. We have issued supplemental guidance to our auditors to help departments meet their requirements.

My own Office is also required to report. We do not have any programmes targeted solely at improving outcomes for Maori or Pacific Island peoples or at-risk groups. But, for a number of years I have required that we are well informed about the issues in these sectors in order that we can:

- maintain an effective and credible relationship with the Maori Affairs Committee (we have had a dedicated sector manager position for over seven years); and
- design appropriate special audits and studies (for example, *Review of Maori Trust Boards* (1995 and 1998), *The Settlement of Claims under the Treaty of Waitangi* (1995), and *Delivering Effective Outputs for Maori* (1998)).

In addition, as I discuss later, we are building on our own internal “Effectiveness for Maori” initiatives.

## Management Performance

Part Three of the report highlights our performance under the headings of:

- financial performance; and
- human resources.

It then discusses how the two business units of the Office – the Office of the Auditor-General and Audit New Zealand – have met their respective key objectives for 1999-2000 as set out in our *Forecast Report*.

Our results continue to demonstrate an encouraging degree of success in achieving our goal of being *a leading example of a public sector organisation in terms of performance, financial management and accountability*.

### Financial Performance

We achieved an operating surplus of \$803,000, compared with a forecast of \$569,000 and last year's figure of \$593,000. All expenditure was within appropriation and budget.

Our working capital situation is usually adequate, but it is subject to large seasonal fluctuations. We are in the process of making arrangements with the Treasury to manage these fluctuations more effectively.

In recent years we have successfully managed within static appropriations for the discretionary part of our business (Output Class D1). However, this is now placing increasing strain on the Office, and we have not always been able to achieve all we planned or have been asked to do.

We have signalled our intention to approach the Officers of Parliament Committee with a new business plan later this year. The plan will seek additional funding to help us satisfy the increasing demands from Parliament and external enquirers, and the likely impact of increased responsibilities under the soon-to-be-enacted Public Audit Act.

## *Human Resources*

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In the past year we continued our development of human resource and professional development policies and practices. Particular areas of emphasis include:

- continuing to improve the working environment for our employees by measures such as identifying hazards within our refurbished premises and developing effective emergency plans;
- introducing a leadership development programme for senior staff of Audit New Zealand;
- creating secondment opportunities with other Audit Offices in Canada, the United Kingdom and Australia; and
- continuing our policy of sending at least one senior staff member to a senior management development course.

## *Effectiveness for Maori*

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We are reviewing our own Effectiveness for Maori strategy – during the year we formulated an internal strategy, drafted action plans, and decided to establish an Advisory Forum comprising Office representatives and tangata whenua.

This process builds on the initiatives that I made in the previous year to consult with a range of stakeholders on the Office’s role and its relevance to Maori.

## *OAG Management Objectives*

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The OAG has reported against its six key management and development objectives set out in the *Forecast Report*. Highlights include:

- Considering the Office’s strategic priorities, including how demands on the Office are changing and whether we need to rethink our products and services.
- Reconsidering our operational priorities and skill requirements – especially in the light of the likely implications of the new audit legislation.
- Developing and implementing a Technical Advice Register, an electronic document management system and an intranet.

### Audit New Zealand Management Objectives

Audit New Zealand has also reported against its six key management and development objectives as set out in the *Forecast Report*. Highlights include:

- Achievement of its 1999-2000 Business Plan.
- Development of a draft strategic plan for 2000-2003 that aims to make it *the leading provider of audit and assurance services to the public sector*.
- Approval by Parliament of a capital injection of \$1.2 million to fund the introduction of computer-based audit support tools.

## Input to Public Sector Accounting and Auditing Development

The Office continues to play a leading role in the development of public sector accounting and auditing standards – both in New Zealand and internationally.

This year has again been a busy one. Highlights include:

- Continuing participation by one of my Assistant Auditors-General, Kevin Simpkins, in the Public Sector Committee of the International Federation of Accountants. Previously Kevin had been one of New Zealand's two technical advisers. In June he was appointed New Zealand's representative for the next term.
- Continuing participation in international working groups on the audit of privatisations, environmental auditing, and the development of accounting standards.
- Continuing duties as Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI).
- Continuing participation of senior staff in the technical committees of the Institute of Chartered Accountants of New Zealand.

In addition, I attended the Commonwealth Auditors-General Conference in South Africa in October last year and the inaugural meeting of the Auditors-General Global Working Group in Washington in February.

The Global Working Group was an initiative of the Comptroller General of the United States to promote informal dialogue among the Auditors-General of a small number of countries facing similar issues and challenges. It was fascinating to observe the similarity of the “external” or “national” issues facing governments and how they are closely tied or linked with the “internal” issues and challenges facing audit offices. Issues that were discussed included fiscal discipline, globalisation, quality of life, government performance and accountability, structure of government, impacts of economic reform, and e-government.

## Personnel

I am very pleased that Kevin Brady was appointed Deputy Controller and Auditor-General in February of this year. Kevin has had a long and outstanding career with the Office and is widely known and respected, especially in local government circles in New Zealand and overseas.

I am also pleased that this month Angela Hands joins our senior management team as Assistant Auditor-General: Special Audits and Studies. Angela is on secondment from the National Audit Office in the United Kingdom and has wide experience in performance auditing and carrying out special studies.

## Looking Forward to 2000-2001

The following issues – which are set out in detail in the Office’s *Forecast Report 2000-2001* – are high on my list of things to achieve this year:

- Maintaining the high productivity of the Office, but also ensuring that our capability is maintained and enhanced. We will continue our efforts in consolidating and improving internal processes and systems, particularly in the area of knowledge management.
- Implementing the mandate changes that will come into force when our new legislation is enacted – this will have resource implications for the Office.

- Balancing the increasing demand for unplanned inquiries with our planned programme of special audits and studies.
- Commissioning an external peer review of the Office.

### Appreciation

Finally, I thank my Deputy, Assistant Auditors-General, Directors of Audit New Zealand and the OAG, all my staff, and the private sector auditors who work on my behalf for their hard work and dedication in contributing to what I believe has been a particularly demanding but successful year for the Office.



# Purpose and Outcomes

## Purpose

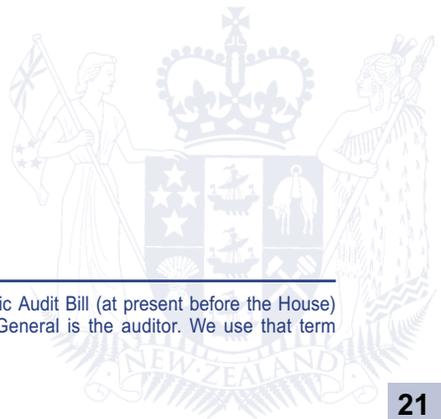
*The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.*

The Audit Office plays a key part in the system of checks and balances between Parliament and public entities<sup>1</sup>:

- Public entities are *accountable* to Parliament and to other constituencies for their use of the resources and powers conferred by Parliament.
- The Audit Office provides *assurance* to Parliament and to other constituencies that the entities are operating, and accounting for their performance, in a manner consistent with Parliament's intentions. We also seek to foster *improvement* in their performance and accountability.

The Audit Office, as an Office of Parliament, is *independent* of the Executive Branch of Government.

1 "Public entity" is the term used in the Public Audit Bill (at present before the House) to mean any entity of which the Auditor-General is the auditor. We use that term consistently throughout this report.



## Desired Outcomes

If the Audit Office has done a good job:

- *Parliament and the public will be confident* that public entities:
  - are delivering what they have been asked to;
  - have operated lawfully and honestly, and have not been wasteful;
  - have fairly reported their performance;and know that, if this is not the case, we will tell them.
- The Government and public entities will effect *improvements* in public sector performance and accountability in areas where we have advised that there is potential for improvement.



# Outputs

## The Audit Office provides assurance through:

### *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 an opinion on the financial statements and results of the audit of over 3,800 public entities, and also provide further assurance on aspects of management performance at the request of the entities.

## Flowing from the conduct of audits, the Audit Office provides advice to:

Parliamentary select committees  
Taxpayers and ratepayers  
The Government  
Audited entities  
Related professional bodies.



## Organisational Arrangements

The Audit Office consists principally of two people – those holding the statutory offices of Controller and Auditor-General<sup>2</sup> and Deputy Controller and Auditor-General. But, of course, they need assistance to plan, conduct and report on the results of over 3,800 audits each year. The Audit Office therefore also includes those who are authorised by the Auditor-General to carry out any particular function, duty or power assigned by him. These additional resources may be either staff employed by the Auditor-General or private sector auditing firms.

The staff directly employed by the Auditor-General are organised into two business units:

- *The Office of the Auditor-General*<sup>3</sup> – which is responsible for assisting the Audit Office in strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out special audits and studies, and parliamentary reporting and advice.
- *Audit New Zealand* – which carries out audits that it has won the right to conduct on behalf of the Audit Office in competition with private sector auditing firms, as well as those audits not awarded under the contestable audit arrangements.

The organisational structure of the Audit Office is illustrated in Figure 1 on page 25. The management structure of the OAG and Audit New Zealand is illustrated in Figure 2 on page 26.

2 Usually abbreviated to “Auditor-General” in the remainder of this report.

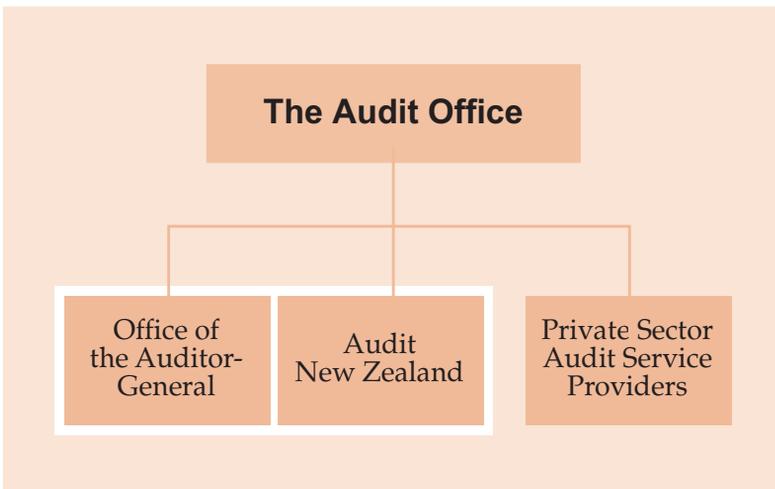
3 Usually abbreviated to “OAG” in the remainder of this report.

Because of the potential for conflict between the Auditor-General's purchase interest and his ownership responsibilities as chief Executive of the Audit Department, an advisory board for Audit New Zealand assists in discharging those responsibilities. The board comprises three non-executive directors with wide experience, and is responsible for:

- developing a strategic focus for Audit New Zealand's business, and a business plan which is consistent with this focus; and
- ensuring service delivery against the plan.

The Auditor-General approves the business plan annually, and the advisory board periodically reports to him on progress against the plan.

*Figure 1*  
*Organisation of the Audit Office*



*Figure 2*  
**Management Structure**



Part Two of our *Forecast Report 1999-2000* set out our six goals for the year and the strategies we thought appropriate for achieving those goals.<sup>4</sup> This part of the report describes how we succeeded.

## Maintaining Audit Quality

**Goal 1:** *That we plan and conduct all audits professionally, and having regard to the full mandate of the Office.*

### Auditing Standards

The *OAG Auditing Standards* consist of the Institute of Chartered Accountants of New Zealand (ICANZ) Auditing Standards and Guidelines, supplemented by the Audit Office statements of general policy and specific standards (where an ICANZ standard does not exist). The *OAG Auditing Standards* establish the minimum standards to be applied to annual audits conducted on behalf of the Audit Office.

At the end of 1998, ICANZ completed the process of updating its auditing standards to be more in harmony with current international standards. This resulted in the release of 32 new standards in November 1998. We undertook a major exercise to align all the Audit Office's supplementary standards with the new ICANZ standards. All but one of the Audit Office's realigned supplementary standards were issued in July 1999. We expect to issue shortly the one remaining supplementary standard, concerning the consideration of laws and regulations in an audit .

4 Parliamentary paper B.28FR(99), pages 18-20.

## Training and Support for Our Auditors

### Manual for Audit Service Providers

Our primary vehicle for formally communicating to Approved Auditors<sup>5</sup> is our *Manual for Audit Service Providers*. The *Manual* was first published in 1993 and includes:

- background information to assist auditors;
- the *OAG Auditing Standards*; and
- annual audit plans (known as “audit briefs”), which are issued for all major sectors, together with sector information where appropriate.

The *Manual* contains guidance for auditors in the form of statements of general policy on matters that, for example, affect entities in more than one sector or are unique to the public sector. Audit Service Providers contribute to these statements by reporting issues that they encounter during audits, and raising issues at periodic Technical Forum meetings.

We hope to provide access to the *Manual* in electronic form in the 2000-2001 year.

### Support for Audit Service Providers

During 1999-2000 we continued to provide advice and support to Approved Auditors – both individually on request and collectively – on a range of accounting and auditing issues. We conducted 14 general-purpose seminars for auditors in seven locations throughout the country.

At those seminars we highlighted various aspects of both the *OAG Auditing Standards* and the ICANZ Auditing Standards and Guidelines. We also communicated Audit Office policy on a variety of accounting and auditing issues.

As well as the 14 general-purpose seminars, we conducted nine special seminars for Audit Service Providers undertaking local government audits and two special seminars for new school auditors.

5 An “Approved Auditor” is the person in charge of and responsible for all aspects of a particular audit. An “Audit Service Provider” is the party formally engaged by the Auditor-General to carry out a particular audit – either Audit New Zealand or a private sector auditing firm.

We keep in touch with Approved Auditors in a less formal way through a periodic newsletter – *the Watchdog* – four editions of which were published in 1999-2000. Extracts from issues of *the Watchdog* can be seen on our web site ([www.oag.govt.nz](http://www.oag.govt.nz)).

## Reviewing Our Auditors' Performance

We aim to review each Approved Auditor's performance once during their three-year contract period. Follow-up reviews may be initiated if we identify a need for improvement.

Our quality assurance programme:

- focuses on ensuring that Approved Auditors fulfil the requirements of the *OAG Auditing Standards* and relevant audit briefs;
- is part of the OAG's continuous improvement programme; and
- provides feedback to our policy, sector, and technical managers.

We undertake desk reviews of audit files, and also visit Approved Auditors in their offices to:

- review the systems they have developed to ensure compliance with the standards set; and
- review working paper files for evidence of compliance with those standards.

During 1999-2000 we proposed to review the quality of the work of 60 Approved Auditors. We completed 50 reviews (1999 – 60 reviews) which is a sufficient number to ensure that we achieve our targeted coverage of auditors. Our 2000-2001 target has been set at 50 reviews.

We visited 38 auditors (1999 – 22 visits) to review their work; and we conducted desk reviews on a further 12 auditors (1999 – 38 desk reviews) involved in the audit of schools. Consistent with our reviews in previous years the work was, with only a few exceptions, of good quality. For the exceptions, we took appropriate follow-up action.

## ACHIEVEMENT OF GOALS

### *Maintaining Audit Quality*

Another way of reviewing the quality of auditor performance is in the process of issuing a qualified audit opinion. If an Approved Auditor is considering issuing a major qualification to an audit opinion (for example, where there are doubts that the going concern assumption is appropriate), the auditor submits the matter to the OAG, stating the grounds for the proposed opinion. Fifty-three such submissions were made and responded to during the year (1999 – 53). Overall, the quality of the submissions was sound.



## Audits Carried Out

**Goal 2:** *That we complete all audits that we are required to perform.*

### Audits Completed

We completed 4,272 audits of public entities in 1999-2000. This is an excellent increase on the 3,960 completed in the previous year, and enabled us to make another significant reduction in the number of audits outstanding.

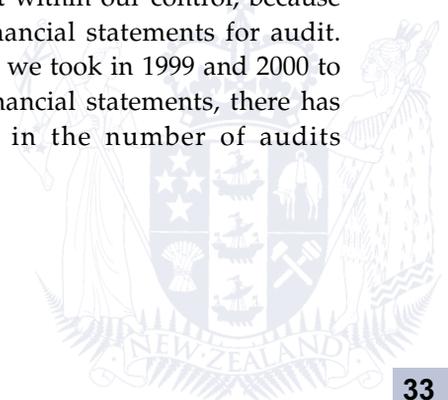
We have continued to make some improvement in the timely issue of audit reports and management letters – in most sectors and overall. However, we still have considerable room for improvement. We will make this a particular focus in the next year.

The tables on page 99 for Output Class D3 and page 104 for Output Class D4 show the results on a sector basis.

### Audits Outstanding

Over 1997 and 1998, we put a lot of effort into ensuring that our records of audits and audit completions were kept as up to date as possible. In 1999 and 2000, we built on this, and put significant effort into clearing outstanding audits.

We reduced audits in arrears from 1,038 to 646 during the year. Often, the arrears position is not within our control, because the entity has not produced financial statements for audit. But, following the positive steps we took in 1999 and 2000 to persuade entities to produce financial statements, there has been a significant reduction in the number of audits outstanding this year.



The outstanding audits were made up predominantly as shown in Figure 3 below.

*Figure 3  
Audit Arrears*

	<b>Audit Arrears As at 30 June</b>	
	<b>2000</b>	<b>1999</b>
Other Local Authorities	92	164
School Boards of Trustees	112	255
Miscellaneous Public Bodies	147	142
Audits Without Fees	269	458
Other	26	19
<b>Total</b>	<b>646</b>	<b>1,038</b>

The 269 audit arrears under the heading “Audits Without Fees” are made up of 151 audits of Cemetery Trustees, 87 of Hall and Reserve Boards, and 31 of Racecourse Trustees. We have reported before on the need for review of the reporting requirements and structures of these entities.<sup>6</sup>

Of the audits in arrears as at 30 June 2000, 360 relate to the current year and 286 to earlier years. Some entities have arrears stretching back a number of years.



<sup>6</sup> First Report for 1998, parliamentary paper B.29[98a], pages 139-142.

## Targeting of Audits

**Goal 3:** *That we are effective in targeting our audits at critical areas of performance and accountability in the public sector.*

### Strategic Audit Plans

We gather information to prepare a strategic audit plan for each broad sector group from the results of previous audits, developments in the different parts of the public sector, changes in legislation, and other environmental factors. These plans cover a period of three years and are updated annually.

The strategic audit plans are then subject to internal critical review so that we can determine priorities – given the limited resources we have available to undertake discretionary work. We list planned and likely projects annually in our *Forecast Report*, for scrutiny by parliamentarians and other interested stakeholders.

In all special audit projects, we identified the skills we needed and made use of advisers to ensure that specialist skills were available to the team undertaking the project. This advice is especially important during both the planning and the report drafting stages of the project.

In local government, we continued to consult widely with sector groups, and we also analysed the complaints received during the year to identify emerging trends. We also ensured that we reviewed for follow-up all the issues we raised in earlier reports. As a result, we were able to focus on those areas of greatest benefit to local authorities and their communities. The strategic audit plan for local government is also subject to review by our Local Government Advisory Group.

## Audits of Annual Financial Statements

Some 85% of our work relates to conducting audits of annual financial statements. Elements of that audit programme are subject to explicit direction by way of annual audit briefs.

The prime objective of each audit is to perform the work necessary to form an opinion and issue an audit report on the financial statements. In addition, however, audit briefs may identify matters of particular interest which the Approved Auditor is required to look into and report back on. Typical examples of matters we looked at during 1999-2000 were:

- Central government –
  - entities' policies and procedures for sensitive expenditure;
  - compliance with Cabinet expenditure delegations; and
  - policies on employee fraud.
- Local government –
  - identification of environmental obligations;
  - borrowing; and
  - members' remuneration.

## Special Audits and Studies

Apart from any additional coverage required as part of the annual financial statement audits, we develop a programme of special audits and studies from our office-wide and sector strategic audit planning.

The Crown funds the costs of special audits and studies. The results are reported either in one of our general reports to Parliament<sup>7</sup> or in a separate report (which may also be presented to the House).

The subjects we looked at in 1999-2000 are set out on pages 39-48.

<sup>7</sup> Those bearing the shoulder number series B.29.

# Reporting Audit Results

**Goal 4:** *That we communicate effectively with those who have a key interest in the results of our work.*<sup>8</sup>

## Emphasis on Communication

We place great emphasis on effective communication with our various audiences. Liaison arrangements with stakeholders (such as select committees, individual enquirers, and sector groups), and operating on a professional “no surprises” basis with public entities when we are reporting on them, take significant effort and time.

As a general election was held during the year, we placed particular emphasis on our relationship with Parliament. Relevant initiatives and events included:

- discussing with a number of select committee chairpersons the quality and effectiveness of our relationships;
- providing briefings to incoming select committees on roles and relationships;
- formation of a subcommittee of the Finance and Expenditure Committee that has the task of considering our reports, or referring them on to the relevant committee for consideration; and
- development of template “communication plans” for our major reports.

<sup>8</sup> Most of the reports we refer to in this part are available on our web site ([www.oag.govt.nz](http://www.oag.govt.nz)).

## Annual Audits

### *Government Departments, Crown Entities and State-owned Enterprises*

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The results of our audits of the 1998-99 financial statements of the Government and of government departments were reported in our *Fifth Report for 1999*.<sup>9</sup> That report also contained the results of the following audit examinations carried out during 1998-99:

- Maintaining the Standard of Financial Management During Organisational Change – using the Department of Work and Income and the Health Funding Authority as examples; and
- New Zealand Customs Service – Collection of Excise Duty.

### *Local Government*

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The results of our audits of the 1998-99 financial statements of regional and territorial local authorities were reported in our *Second Report for 2000*.<sup>10</sup>

That report also contained the results of other audit examinations carried out, or issues identified, during the 1998-99 audits, including:

- Management of and Accounting for Infrastructural Assets;
- Setting Operating Revenues to Cover Operating Expenses;
- Assurance about Annual Plans;
- Chief Executive Officer Contract Renewal;
- Separate Rating Apportionments;
- Advertising Expenditure Associated with Reorganisation Schemes;
- Making the Annual Report Available to the Public;
- Identifying Environmental Obligations;

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9 Parliamentary paper B.29[99e].

10 Parliamentary paper B.29[00b].

- Local Authority Borrowing;
- Members' Remuneration;
- Discussing and Voting: The Pecuniary Interest Rule; and
- Provincial Patriotic Councils.

## Special Audits and Studies

We completed work still outstanding from our *Forecast Reports* for 1998-1999 and earlier years on the following subjects:

### Unitary Authorities – Environmental Management

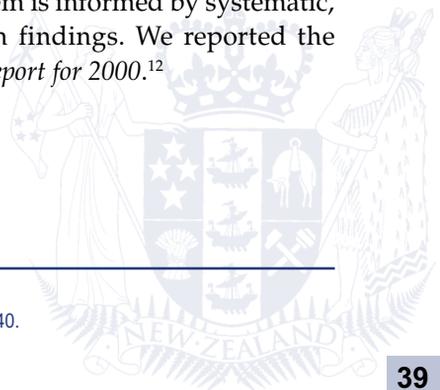
This was a joint study with the Parliamentary Commissioner for the Environment. It began as a study of environmental management in the unitary authority model of local government. As the investigation and analysis proceeded, it became clear that the key features that contribute to desired region-wide environmental outcomes are more significant than the institutional form or model of local government.

### Impact Evaluation – Its Purpose and Use

This study demonstrated the value of impact evaluation as a practical tool to enhance the quality of decision-making by the Government and Parliament. It continued discussion of the subject that we began in our *Third Report for 1999 – The Accountability of Executive Government to Parliament*.<sup>11</sup> The study was designed to create a greater awareness among decision-makers of the practical value of impact evaluation; and raise the expectations of decision-makers and legislators that policy advice provided to them is informed by systematic, reliable, and relevant evaluation findings. We reported the results of the study in our *First Report for 2000*.<sup>12</sup>

11 Parliamentary paper B.29[99c].

12 Parliamentary paper B.29[00a], pages 99-140.



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

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Fish in the waters around New Zealand are a valuable asset – socially, economically, and culturally. Given the importance of the fisheries resource – and the unique involvement of the Crown in rationing it – we felt that Parliament should be assured of the adequacy of the arrangements for sustaining the fisheries. We reported the results of this project in our *Fifth Report for 1999*.<sup>13</sup>

**We completed work on the following subjects indicated in our *Forecast Report* for this reporting year, 1999-2000:**

### *Contracting Out Regulatory Functions in Local Government*<sup>14</sup>

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Changes to local government legislation and public expectations, and other public sector reforms, have seen the introduction of an increasing number of private and public sector partnerships throughout New Zealand. This project established what we believe to be best practice for contracting out local authority regulatory functions, and reviewed how the Queenstown Lakes District Council contracted out its regulatory functions.

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

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Our report of the Student Loan Scheme, completed in June 2000, aimed to identify:

- those who have a stake in the scheme – either as borrowers or administrators – or those who otherwise expect some accountability for the scheme;
- what their information requirements are; and
- whether, in our view, those requirements are being met.

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

14 ISBN 0 477 02865 9, November 1999.

## Governance and Oversight of IT Projects

In May 2000 we published *Governance and Oversight of Large Information Technology Projects*.<sup>15</sup> This study examined governance and management roles, how IT projects operate, and reasons for project success and failure. It was designed to give members of select committees, Ministers, and chief executives guidance in their respective governance roles.

## Customs Crown Revenue

The New Zealand Customs Service collects some \$5,600 million of revenue on behalf of the Crown. In particular, our audit focused on how well the Customs Service was managing the collection of Customs and Excise duties. We included the results of this work in our *Fifth Report for 1999*.<sup>16</sup>

**We made good progress on the following subjects indicated in our 1999-2000 Forecast Report:**

### Long-term Financial Strategies in Local Government

We have undertaken a pilot project to audit the long-term financial strategy (LTFS) of the Opotiki District Council, and we expect to report on that shortly. During 2000 the audit methodology developed for the pilot project will be tried with the Western Bay of Plenty District Council to test its application in a local authority environment that is experiencing high growth.

### Police Clearance of Property Crime

Most of the field work on this project was completed by 30 June 2000, and we plan to report on it later in 2000. The subject matter is of significant public and political interest, and we are working through a range of findings.

15 ISBN 0 477 02862 4.

16 Parliamentary paper B.29[99e], pages 37-47.

### *Custodial Sentence Administration*

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The Department of Corrections is implementing an integrated offender management approach to its administration of custodial sentences, which it believes will achieve a reduction in re-offending rates. The process of implementation is taking longer than originally expected. We will need to re-assess the way in which we complete this project in the light of the extended time.

### *Governance, Risk Management and Legislative Issues in the New Zealand Fire Service*

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We have made substantial progress on this study and plan to report later in 2000. The study initially encompassed other subject areas, including long-term financial planning, treasury management, and fleet management in the Fire Service. We expect to cover these subjects in a subsequent report.

### *Governance and Risk Issues in Local Government*

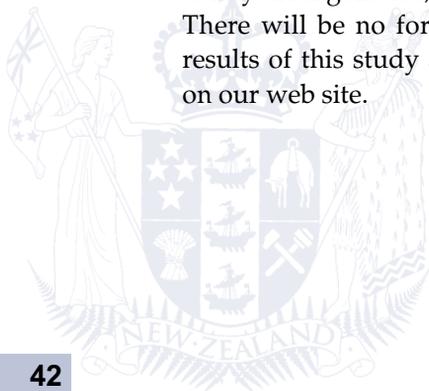
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Our major objective in looking at governance arrangements is to comment and report on the appropriateness of arrangements for the conduct of selected activities by stand-alone bodies throughout local government. We will use the findings from case studies to provide guidance for the future formation, governance and accountability of such stand-alone bodies.

### *Funding and Accountability Arrangements in the Education Sector*

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This is a research study on education funding and accountability arrangements, particularly in tertiary education bodies. There will be no formal report, but we intend to make the results of this study available by way of an occasional paper on our web site.



## *Development of Non-financial Performance Reporting in the Public Sector*

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Late in 1999 we began a follow-up study to *The Accountability of Executive Government to Parliament*<sup>17</sup>, looking at non-financial performance reporting in the public sector as a whole. This study will describe the current situation, and suggest future directions, for non-financial reporting to stakeholders. We intend to issue the report later in 2000, and expect to include practical advice for entities or individuals that are required to produce non-financial performance reports for the first time.

## *Management of Risk in the Conservation Estate*

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Initially, this project was to look at risk management in the Department of Conservation – with a particular focus on New Zealand’s compliance with the *Ramsar* agreement.<sup>18</sup> After some preliminary field work, the scope of the study was broadened to consider New Zealand’s compliance with a range of international multi-lateral environmental accords. We have made significant progress on the project and expect to issue our report later this year.

**We have made limited progress on the following subjects indicated in our 1999-2000 Forecast Report:**

## *Governance and Risk Issues in Crown Entities*

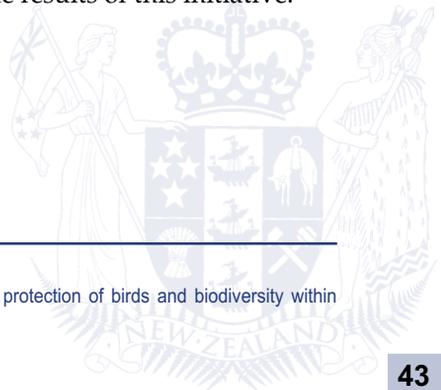
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This project has been deferred pending the development of legislation covering a range of issues in the Crown entity sector. Our decision to invest further time and effort in this potential study will depend on the results of this initiative.

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17 Parliamentary paper B.29[99c], June 1999.

18 This is an international agreement for the protection of birds and biodiversity within areas of wetlands.



### *Capability in the Public Sector*

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We raised capability as one of the significant issues in our *Third Report for 1999 – The Accountability of Executive Government to Parliament*.<sup>19</sup> However, we have deferred direct involvement in a public sector capability study pending the undertaking of developmental work on this subject by the State Services Commission. We participate in the SSC's developmental work by providing a member of the steering committee for the project.

### *Robustness of Forecasts for Demand-Driven Output Classes*

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We have not been able to make progress on this subject because of resource constraints. However, we still see it as a subject for future study, with progress being dependent on available resources and other competing priorities.

### *Contracting Arrangements in the Health Funding Authority*

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We conducted two studies of Health Funding Authority contracts – see page 45. We intended to conduct a study on fundholding arrangements for General Practitioners providing primary health care services, but have deferred it because of the major restructuring involving the Authority.

### *Monitoring of Effectiveness for Maori*

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During 1998-99, we reported to the House on our suggested audit model for testing the capability of departments for delivering effective outcomes for Maori. In 1999-2000, we began work on applying this model to the State Services Commission. We recently decided to defer this work because of the significant developments going on in the area.

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<sup>19</sup> Parliamentary paper B.29[99c], June 1999.

## *Licensing and Enforcement of the Commercial Transport Industry*

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We undertook some preliminary scoping work for a range of studies on the licensing and enforcement aspects of commercial transport. We are currently considering what direction this work will take, but it is likely to include more of a safety theme than compliance only.

**In addition to the programmed special audits and studies outlined in our 1999-2000 *Forecast Report*, we published a number of other reports in response to issues emerging during the year. These included:**

### *Studies in the Health Sector*

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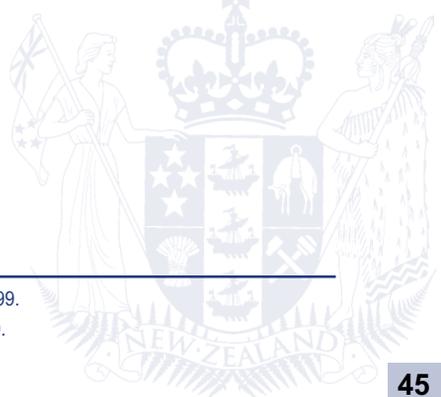
Our *Fourth Report for 1999*<sup>20</sup> and *First Report for 2000*<sup>21</sup> included a significant number of reports on the health sector, including:

- Capital Coast Health Limited: New Computerised Information System;
- Health Funding Authority: Contract for a Specialist Sexual Health Service;
- Health Funding Authority: Contract for Forensic Post-mortem Services;
- Health Benefits Limited: Payment of Claims for Pharmaceutical Service Subsidies;
- The Financial Condition of Hospital and Health Services;
- Capital Purchasing by Hospital and Health Services; and
- Electronic Claiming of Pharmaceutical Service Subsidies and Fees.

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20 Parliamentary paper B.29[99d], October 1999.

21 Parliamentary paper B.29[00a], March 2000.



### *Accountability and Audit of School Boards of Trustees*

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In our *First Report for 2000*<sup>22</sup>, we continued reporting to the House on a range of accountability and audit issues affecting school boards of trustees and the related issue of the timeliness of their reporting.

**We also responded to a range of requests from a number of stakeholders in the public sector, including Ministers of the Crown, a chief executive and Members of Parliament:**

### *Review of Expenditure by the New Zealand Qualifications Authority*

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In September 1999, we reported to the then Minister for Tertiary Education, who had raised a number of questions about the New Zealand Qualifications Authority, including:

- What limits did the Board set on the Chief Executive's expenditure?
- Did the Board have robust ways to ensure that the Chief Executive stayed within his approved limits for expenditure?
- Did the Chief Executive exceed those limits?

### *Inquiry into Events Surrounding the Chartering of Aircraft by the Department of Work and Income*<sup>23</sup>

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This report set out the results of our inquiry into the circumstances surrounding the chartering of aircraft by the Department of Work and Income to enable its service centre managers to attend a course at Wairakei Resort in June 1999. The Chief Executive of the Department asked us to undertake this inquiry and, given the significant media, public and parliamentary interest in this issue, we presented our report to the House in October 1999.

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22 Ibid., pages 79-98.

23 ISBN 0 477 02864 0.

### *Contracting Arrangements with the Waipareira Trust*

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The Hon Richard Prebble MP asked us to consider a range of issues in relation to the Health Funding Authority's contracting arrangements with the Waipareira Trust. The particular concerns raised were more appropriately addressed – and were subsequently reported on – by the Serious Fraud Office. However, a range of more general issues arose out of the preliminary work that we did in order to respond to Mr Prebble's request. In particular, we noted the need for the Government to develop consistent practice among departments in dealing with private sector organisations, especially the need to monitor performance when purchasing is by way of contractual arrangements. The article on Impact Evaluation in our *First Report for 2000*<sup>24</sup> is also relevant to contracting arrangements.

### *Airways Corporation Of New Zealand Limited: Review Of Certain Matters Concerning The National Air Traffic Services (UK) Consortium*

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This report deals with the proposed involvement of Airways Corporation of New Zealand Limited (“Airways”) in a consortium formed to bid for a portion of the United Kingdom National Air Traffic Services organisation. We agreed with the shareholding ministers to conduct an inquiry into the adequacy and appropriateness of the controls and procedures used by Airways when it negotiated and concluded a consortium agreement and a severance agreement with one of its staff members. We reported to the shareholding ministers at the end of June 2000.

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24 Parliamentary paper B.29[00a], pages 99-140.



*Expenditure by the Gisborne District Council  
on a London Media Launch*

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The Mayor of Gisborne and the Chief Executive of the Gisborne District Council invited us to inquire into public allegations that they had acted improperly in relation to the Council’s commitment of expenditure to an event to take place in London (United Kingdom). The event was the launch to the media of the “Gisborne 2000 First Light” brand and the Year 2000 celebrations programme for the Gisborne District. Both the Mayor and the Chief Executive attended the launch.

**A full list of our reports to Parliament and other publications issued during the year is contained in Appendix 2 on pages 131-132.**



# An Appropriate Legislative Mandate

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**Goal 5:** *That we have legislation that provides an appropriate mandate for the Office, and we are suitably prepared for its coming into force.*

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## Public Audit Bill 2000

Introduction of the Public Audit Bill to the House in March 2000 was a significant milestone for the Office. The Bill was largely drafted under authority from the previous Government, and was made ready for introduction soon after the incoming Government took office. Its introduction was welcomed by all parties represented in the House.

The Bill sets out to meet four major objectives. They are to:

- make the Controller and Auditor-General and the Deputy Controller and Auditor-General officers of Parliament;
- establish the Auditor-General as a corporation sole and an Office of Parliament for accountability purposes under the Public Finance Act 1989, and make additional provision for the Auditor-General's accountability to the House;
- modernise and clarify the nature and scope of the Auditor-General's functions and powers; and
- specify definitively and consistently the entities that are subject to audit by the Auditor-General.

The Bill is now before the Finance and Expenditure Committee, which is due to hear submissions on it in September 2000. We are hopeful that it will be reported back to the House and enacted before the end of 2000.

## ACHIEVEMENT OF GOALS

### *An Appropriate Legislative Mandate*

On introduction of the Bill, we began assessing its operational implications for the Office. We identified key actions required before its passage, and are working through those. A revised three-year business plan will be presented to the Officers of Parliament Committee when the Bill is passed.



## Leading by Example

**Goal 6:** *That we are a leading example of a public sector organisation in terms of performance, financial management and accountability.*

### Practising What We Preach

We take seriously the proposition that, to lead by example, we must practise what we preach.

One specific exercise beginning in 1998 was completed this year – applying to ourselves the criteria from our audit of departments’ effectiveness for Maori. We have developed an Office-wide strategy for improving our own effectiveness for Maori, based on this work.

We continually look for ways to improve our performance – both externally and internally – and to report on our activities in a comprehensive and open manner.

The information contained in this report presents a succinct picture of the performance targets we set ourselves for the year, and the extent to which we met those targets. We have exceeded some targets (such as the number of reports presented to the House, and reduction in audit arrears), and some we have not met (such as the timeliness of management reports, and promptness in clearing enquiries). Generally, however, we have met or exceeded most of our targets for the year.



## Measuring Achievement of our Goals and Desired Outcomes

We believe that a core part of our role is advocacy of improved measurement and reporting of results by public entities. In order to lead by example, in 1999-2000 we began to develop new measures of our achievements and our capability as an Office. We identified a possible series of measures and, in our *Forecast Report* for 2000-2001<sup>25</sup>, committed to reporting on them at the end of the 2000-2001 financial year.

Examples of the *outcome* measures being considered are:

- trends in stakeholder assurance;
- use of our recommendations in reports by select committees;
- implementation of our recommendations by public entities; and
- changes in entity financial practices and outcomes.

During the year, we also analysed the outcomes of audits in terms of the types of audit reports issued. The results of this analysis are summarised on page 101.

Examples of the *capability* measures being considered are:

- staff qualifications and experience;
- investment in training and development;
- level of back-up for critical roles; and
- likely changes needed in the Office's skill base.

## The Contestable Audit Policy

Another way in which we try to lead by example is through our policy of exposing a significant part of our audit portfolio to competitive tendering. Entities comprising approximately 89% (by audit hours) of the portfolio have now been invited to participate in the contestability arrangements.

25 Parliamentary paper B.28FR(00).

The contestable audit policy means that audits are carried out by Approved Auditors from either:

- **Audit New Zealand**, which is the auditing business unit of the Audit Office, and which operates under a combination of a purchase agreement for some audit services and individual contracts for specific audits; or
- **private sector auditing firms**, which are contracted by the Auditor-General to conduct specific audits on behalf of the Audit Office.

As at 30 June 2000, 150 individual Approved Auditors from 72 private sector firms and Audit New Zealand were conducting audits and signing audit reports on behalf of the Audit Office. Of these, 77 Approved Auditors and 53 firms audit only schools or other small organisations.

We gave a full description of the tendering and contracting process in our 1996-97 *Annual Report*.<sup>26</sup> Figure 4 on page 55 illustrates the process leading to appointment of an Approved Auditor, and Figure 5 on page 56 illustrates the post-appointment procedures attaching to an audit.

### *Continuing the Implementation of the Contestable Audit Engagement Policy*

We have recently written to 39 entities inviting them to participate in the contestable audit arrangements by December 2001. Their responses will enable us to plan tenders having regard to:

- the availability of suitably qualified Audit Service Providers;
- the ability of appropriate tenderers to meet the volume of requests for tenders; and
- the stability of individual entities.

We have held back invitations to some selected groups of entities, pending events such as the Government's policy initiatives for structural changes in the health sector.

<sup>26</sup> Parliamentary paper B.28, 1997, pages 41-45.

In addition, we do not intend to offer the opportunity of a contestable audit to:

- some small entities where the costs of tendering are so high in relation to the audit fee as to outweigh any benefit; and
- small groups of entities where we require very high-level security clearance of all staff, and where audit staff may be privy to information of major national economic or strategic significance.

We have discussed this with the affected entities.

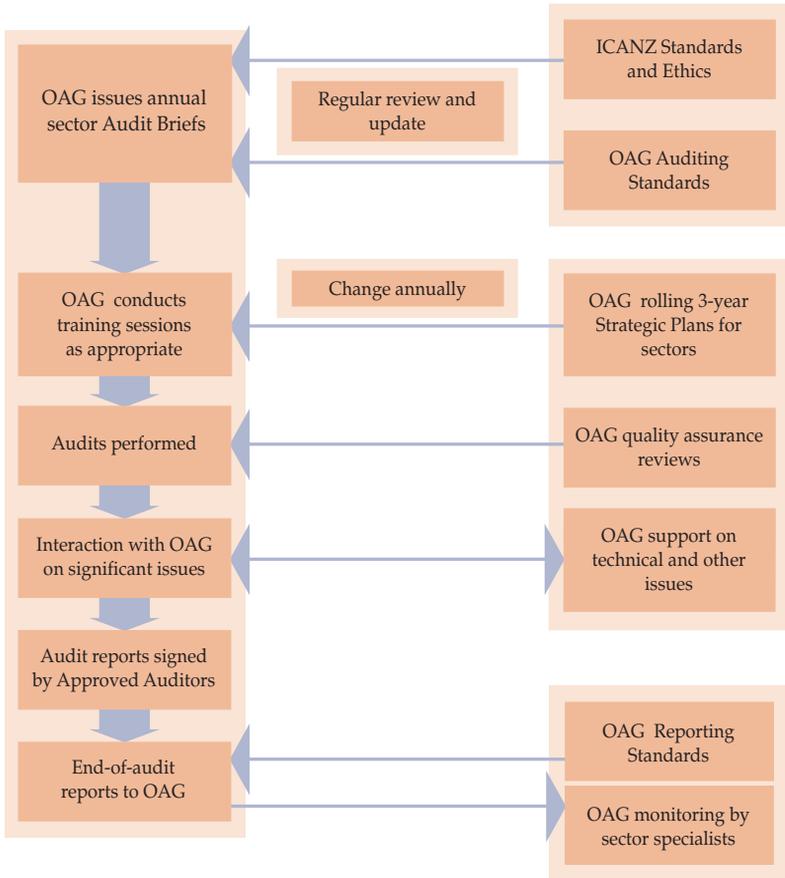
With the above exceptions, and subject to unforeseen matters requiring revision in individual cases, the contestable audit policy will be fully implemented by December 2001.



Figure 4  
The Audit Engagement Process



Figure 5  
The Conduct of Audits



## Tender Rounds Completed in 1999-2000

During 1999-2000 we undertook two major tendering tasks:

- managing the process to make new or renewed audit arrangements for 2,647 state and integrated schools (most schools manage the process themselves, based on our instructions, but 60 schools left us to negotiate arrangements with Audit Service Providers on their behalf); and
- making new or renewed audit arrangements for a wide range of entities within our mandate which have been subject to the contestable audit policy for some years, and had the option this year of again participating in a tender.

In addition, we conducted tenders for two entities that had not previously been invited to participate in a tender.

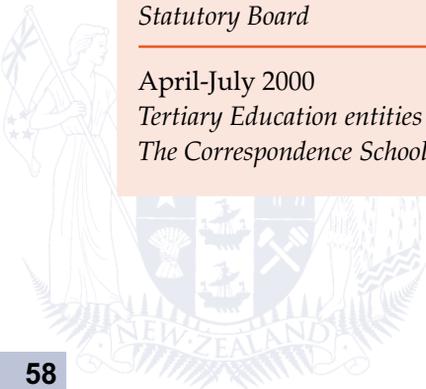
Apart from schools, 143 entities were invited to participate in tenders. Of those, 120 elected to negotiate terms for a three-year contract with their current Audit Service Provider, rather than subjecting their audit to a tender. In our view, that result continues to indicate a suitable level of satisfaction with the service provided by our Audit Service Providers, and with the competitiveness of fees proposed in negotiations for renewal of contracts.

The audits of 23 entities and their subsidiaries were therefore put out to tender in 1999-2000, together with 656 school audits. The audits were spread over five tender rounds, four of which had been completed by 30 June 2000. The results are set out in Figure 6 on the next page.



Figure 6  
Audit Tender Outcomes 1999-2000

Tender Round	Elected Re-negotiation	Tendered	Audit New Zealand	Private Sector Firms
June-September 1999 <i>Public Trust Office Licensing Trust group</i>	-	2	-	2
June-November 1999 <i>State and integrated schools</i>	1,931	656	172	484
September 1999-February 2000 <i>Government departments Crown entities Statutory bodies Local authorities Licensing trusts Health entities Port Companies Energy Companies State-owned Enterprises</i>	113	16	10	6
February-April 2000 <i>New State-owned Enterprise Fish and Game Council Statutory Board</i>	-	3	-	3
April-July 2000 <i>Tertiary Education entities The Correspondence School</i>	7	2	Tenders in progress	



## Report of the Independent Evaluator

Mr Anthony N Frankham FCA has continued to act as an independent evaluator to assist in ensuring that any tendering performed by the Audit Office is seen to be rigorous, objective, and unbiased. Mr Frankham's summary report on the integrity of the process for the four tender rounds completed during the year is reproduced below.

A N T H O N Y N F R A N K H A M



Chartered Accountant

Associate  
Brendan Lyne

6 July 2000

The Controller and Auditor-General  
PO Box 3928  
Wellington

### ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT TENDER PROCESSES

- 1 You have retained me as an independent evaluator of the processes for tendering audits by the Office of the Auditor-General ("OAG"). I confirm that I am independent of the OAG and Audit New Zealand and the other tendering audit firms. My terms of reference are to evaluate the audit tender processes established and implemented and report on their probity and objectivity. I have reported in the past on seven tender bid rounds and on specific processes relating to the tender of school audits.
- 2 Since my report dated 16 July 1999 I have undertaken further independent reviews of the policies and processes adopted during the period and followed by the OAG. I have reviewed four groups of audit tenders involving a range of local authorities, schools, hospitals and health service entities, central Government agencies and statutory bodies. I also reviewed the implementation of processes for the renegotiation of audit contracts tendered at an earlier date (rollovers). My review has involved the consideration of existing and emerging policies and their implementation. I have had discussions with you and your staff, with the independent panel chairs and with some of the tendering firms. I have reviewed the reports of the panels that have met and have made recommendations to you. I have not considered it necessary to participate in all panel meetings to observe the process in operation. No limitation has been placed on the manner in which I carry out my assignment.
- 3 In my opinion the policies for awarding audit assignments to the delegates of the Auditor-General and renewal of existing contracts over the period to the date of this report dealt with by the documentation I have examined and the process I have observed, were fair and appropriate having regard to;
  - The objectives of the contestability arrangements
  - The experience of previous tender rounds
  - The rights, interests and obligations of the parties involved.
- 4 I have reported separately to the OAG on specific matters which have arisen or been referred for my attention during the period. None of these matters relate to issues which cause me to alter the view I express in this report.
- 5 I have kept you informed of all matters coming to my attention where I consider there were elements of sensitivity or processes or behaviours that were challenged or may have given rise to challenge. There have been no changes in policy or process during the period coming to my attention from my review that I consider should have been subject to your further review.

Yours faithfully

(Anthony N Frankham)

LEVEL 7 TOWER 2 SHORTLAND CENTRE SHORTLAND ST AUCKLAND 1 NEW ZEALAND.  
P.O. BOX 701 AUCKLAND 1 DX CP20505 TELEPHONE 09 300 3800 FAX 09 300 5805

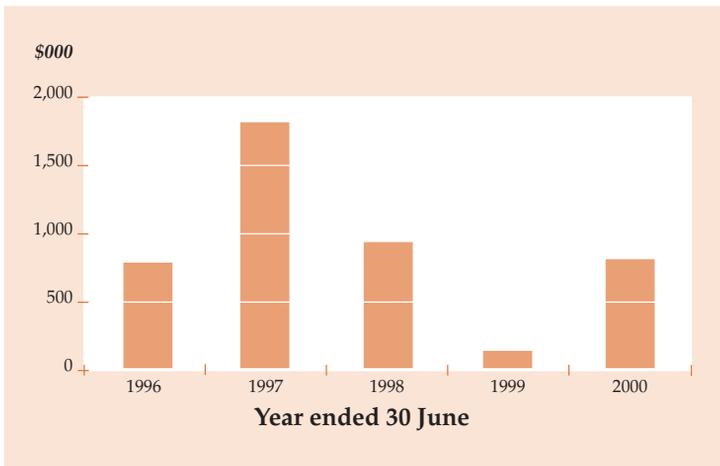


# Financial Performance

## Operating Surplus

An operating surplus of \$803,000 has been achieved for the year. The graph shows how this result compares with the operating results for previous years. The surplus this year continues the trend of good surpluses arising from containing expenses while increasing revenue. The surplus for 1999 was below the trend because of unexpected costs, as explained in last year's *Annual Report*.<sup>27</sup>

### Operating Surplus 1996-2000



## Working Capital

This year we have maintained our working capital level. While payables outstanding are less than last year, the increase is offset by the higher surplus repayment due to the Crown, and a decrease in work in progress and receivables.

27 Parliamentary paper B.28, 1999, page 51.

Working Capital 1996-2000



Expenditure

The expenditure out-turn on the Vote (see page 118) shows that total output expenditure at \$34.599 million is 91.9% of forecast expenditure, and compares with \$33.389 million in 1998-99. Expenditure for each of the four output classes was within the appropriation.

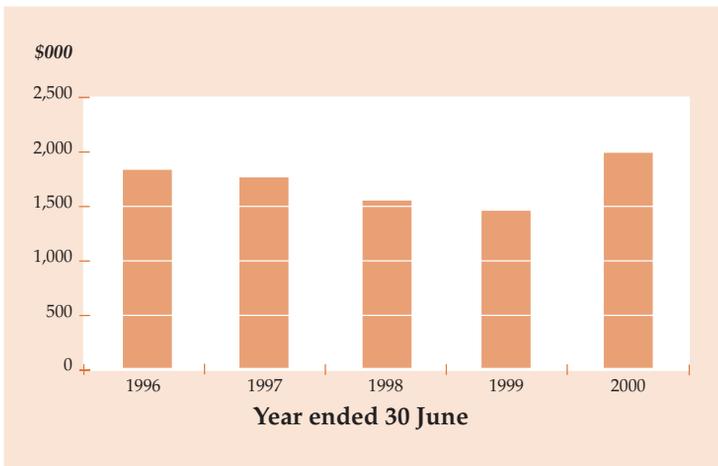
Operating Expenses 1996-2000



## Financial Position

The level of physical assets has increased by \$548,000, representing the net result of additions, depreciation expenses and disposals during the year. The major addition to the value of physical assets has been the fit-out expenditure associated with the Office of the Auditor-General's new lease in Wellington.

### *Physical Assets 1996-2000*



# Human Resources

## Good Employer Requirements

Section 56 of the State Sector Act 1988 requires the Auditor-General, as Chief Executive of the Audit Department, to operate policies that comply with the principle of being a “good employer”. Such policies must provide for the fair and proper treatment of employees in all aspects of their employment.

We are continuing to strive for ways to improve our human resources policies and practices. In the past year we have continued to focus on the consolidation of new policies introduced in previous years.

### *Developing and Implementing Sound Professional Development Policies and Practices*

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Our continuing focus on the professional development of staff included:

- Helping staff to meet the membership requirements of the Institute of Chartered Accountants of New Zealand by continuing Audit New Zealand’s professional development programme. This programme ensures that Audit New Zealand fulfils its obligations as an Approved Training Organisation.
- Running formal study programmes, providing training relevant to an individual’s needs, giving on-the-job coaching, and organising in-house courses to meet the business and professional requirements of the OAG and Audit New Zealand.

The OAG has reviewed its professional development programme to include project management, time management and negotiation skills as core corporate skill requirements; while Audit New Zealand has implemented a leadership development programme for its senior staff.

The OAG has also sponsored staff attending Maori language courses.

- Creating secondment opportunities for staff within the Office to enhance their knowledge and experience outside their normal job requirements. Secondment opportunities have also been created with other Audit Offices in Canada, the United Kingdom, and Australia.
- Sending one senior staff member to a senior management development course.

### *Continuing to Improve the Working Environment of our Employees*

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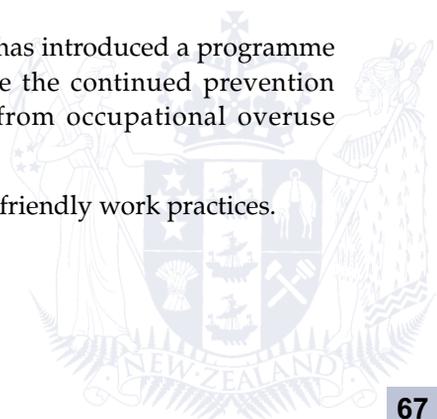
The Audit Office is required by the Health and Safety in Employment Act 1992 to safeguard the health and well-being of all staff and visitors to the Office. During the year we have continued to:

- develop programmes and equipment to help ensure the safety of employees should a civil defence emergency or bomb alert occur;
- identify any hazards within our premises;
- develop effective emergency plans;
- provide a confidential Employee Assistance Programme to all staff; and
- arrange for flu vaccinations of staff on request.

A major refit to the Office of the Auditor-General's premises enabled us to improve the safety and comfort of working conditions.

In addition, Audit New Zealand has introduced a programme of furniture purchases to ensure the continued prevention of workplace injury resulting from occupational overuse syndrome.

We also continue to apply family friendly work practices.



### *Continuing to Encourage Diversity Within Our Organisation*

We recognise that understanding and knowledge of different perspectives enhance the performance of our employees and hence of the organisation. We are endeavouring to achieve this through:

- incorporating equal employment opportunity principles into our business planning processes;
- ensuring that all employees have equal access to employment opportunities;
- operating a Maori scholarship programme, and awarding a scholarship for the first time this year; and
- introducing a Pacific Island scholarship programme, which was also awarded for the first time this year.

During the last 12 months, we have had difficulty attracting and recruiting Pacific Island and Maori candidates to auditing positions because of increased pressures from the private sector. The scholarship programmes and the review of Audit New Zealand's graduate recruitment programme (see page 70) are intended to improve our ability to attract suitable Pacific Island and Maori applicants.

The Office of the Auditor-General has reviewed its Maori responsiveness strategy and will be identifying key initiatives to be introduced during the next 12 months.



Figure 7  
Composition of Staff by Gender

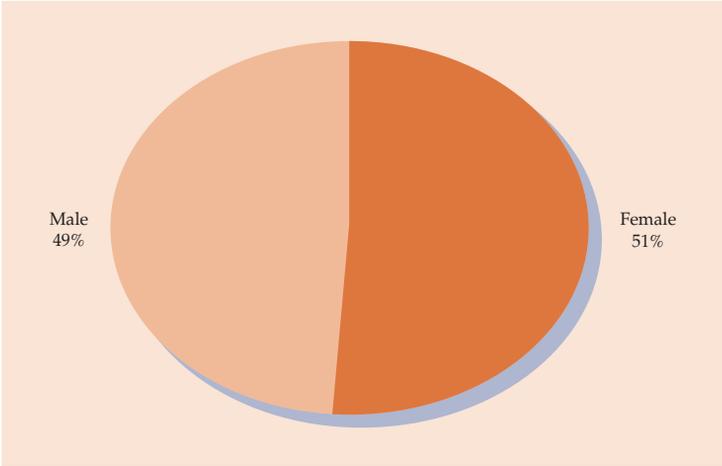
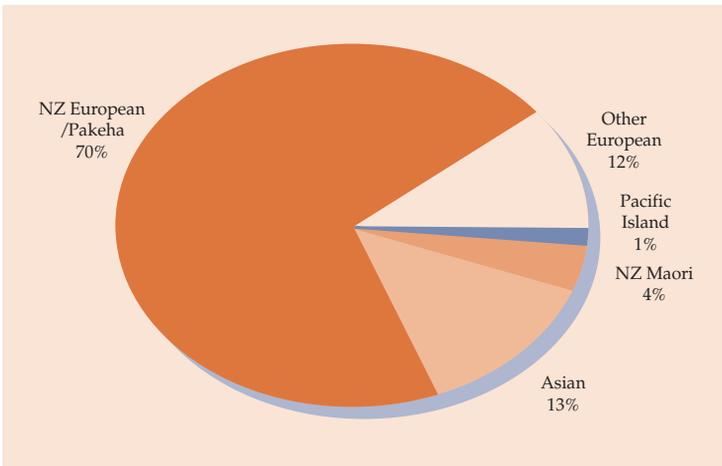


Figure 8  
Composition of Staff by Ethnicity



### *Ensuring Our Human Resource Policies Support the Achievement of Our Objectives*

We are continuing to improve our human resources policies and practices so that they support the achievement of our corporate objectives. In particular, this year we have:

- Continued to ensure that our performance management and remuneration policies and practices reflect accepted benchmark practices.
- Continued to review our recruitment, retention and reward systems so that we are able to attract and retain the skilled staff needed to meet our business needs. Audit New Zealand has reviewed its graduate recruitment programme to better align it with workforce planning and capability development programmes. An overseas recruitment programme was successful in attracting skilled and experienced audit staff (not competitively available in New Zealand) to key positions within Audit New Zealand.
- Appointed a new Human Resources Director to Audit New Zealand during April 2000.

### **Operational Capacity**

Total staff numbers of 279 full time equivalents (FTEs) at 30 June 2000 were 11.5 less than the 290.5 at 30 June 1999. Staff turnover within the OAG has decreased from 17.2% in 1998-99 to 12.4% in 1999-2000. Turnover in Audit New Zealand has increased from 18.9% in 1998-99 to 23.4%. This increase, and the reduction in staff numbers at 30 June 2000, reflect an increasingly competitive employment market for skilled and experienced audit staff.



Figure 9  
Staff Numbers (FTEs) 1996-2000

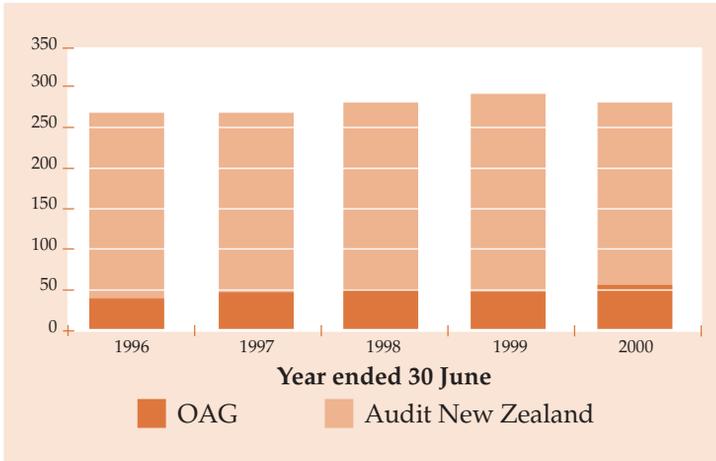
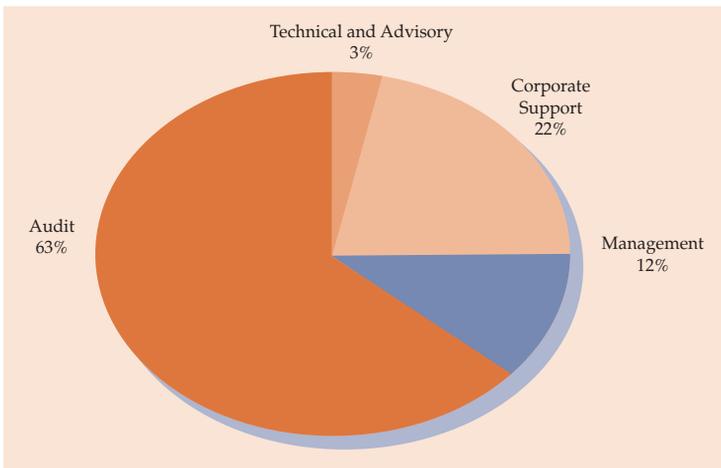


Figure 10  
Composition of Staff by Function



## Effectiveness for Maori – “Closing the Gaps”

The Audit Office does not have any expenditure targeted solely at improving outcomes for Maori or Pacific Island peoples or at-risk groups.

We have incorporated the new annual reporting requirements of departments on their effectiveness in “closing the gaps” into our audit briefs. We are also considering the best way in which our efforts may be directed to support these new reporting requirements.

During 1999-2000, we also:

- drafted an internal strategy for the Audit Office’s own effectiveness for Maori:
- drafted action plans which will be finalised by a working group set up to make progress in this area: and
- decided to establish an Advisory Forum comprising representatives from within the Office and tangata whenua.

Activities which might benefit Maori or Pacific Island peoples indirectly include our scholarship programmes (see page 68) and commitment of a limited but specific resource to Maori issues in the OAG.



# Office of the Auditor-General

While this was a year in which the OAG delivered a significant number of major reports, we were also able to develop our strategic and operational capacity as well. Our six key management and development objectives for 1999-2000 were set out in the *Forecast Report*<sup>28</sup>, and our actual achievements are described below:

---

## Objective 1:

*Continue to develop the Audit Office's overall strategic processes.*

---

Having revised our overall strategic processes during the previous year, we moved on to more detailed consideration of the Office's strategic priorities. In August 1999, we circulated a paper entitled "A Sharper Focus on the Future" to a number of interested parties, to help confirm our views about our broad role and direction.

We went on to consider how demands on the Office were changing, and whether we needed to rethink how we responded to these changes. More will be done on developing our products and services to meet changing demand during 2000-2001.

The Auditor-General attended a Global Working Group meeting in Washington which discussed the issues and challenges facing governments and the strategic planning processes being developed by Auditors-General to respond to those issues.

We also began an exercise to further develop the Office's measurement and reporting of its outcomes and capability, and will report on results at the end of the 2000-2001 financial year.

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28 Parliamentary paper B.28(FR)99, pages 44-45.

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**Objective 2:**

*Refine audit planning processes, and involve key stakeholders.*

---

Through our ongoing interactions with select committees and central agencies (the Treasury, the State Services Commission, and the Department of the Prime Minister and Cabinet) we monitor and gauge areas of parliamentary interest and emerging issues within the Executive. Sector plans cover all select committee subject areas. During the year, we sought the views of the (then) Government Statistician on broader demographic trends and associated fiscal issues and risks.

We also monitor taxpayer, ratepayer and local authority members' interests enquiries, to determine if there are common trends or themes.

In local government we make strenuous efforts to liaise with groups within the sector or which have an interest in the sector. Our Local Government Advisory Group provided input into and validated the local government strategic audit plan.

Our strategic audit planning processes give rise to a range of current and emerging issues suitable for special audits or studies, focusing on single agencies or sectors.

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**Objectives 3 and 4:**

*Reconsider our operational priorities and skill requirements, and assess the likely implications of the Public Audit Bill for the Audit Office.*

---

This work was to be done in conjunction with the passage of the Public Audit Bill. When the Bill was introduced in March 2000, we undertook some preparatory work. We:

- identified key policy and operational requirements if the Bill was passed as drafted;
- assessed necessary tasks and critical paths; and
- got ready to undertake a major exercise on developing our capability (including, but not confined to, skill requirements).

The Bill is scheduled to be considered by the Finance and Expenditure Committee in September 2000, and we have decided to delay completing the work until that time. We will then have more certainty about the likely form of the legislation, and its potential impact on the Office's priorities and skill requirements.

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## Objective 5:

*Develop our knowledge management systems.*

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During the year, we developed and implemented a Technical Advice Register, which is a web-based<sup>29</sup> database to record the advice – both oral and written – that we give to our Approved Auditors concerning accounting issues. The Register allows us to give consistent advice, and to monitor the source and types of queries we get. Using that information, we can tailor training and technical updates to address the knowledge gaps.

In the last quarter, we implemented an intranet, and also introduced an electronic document management system. These have already provided benefits in improving storage, access and sharing of internal information. During 2000-2001 we will improve the range of functions and convenience of use of these systems as both operational and management tools – such as by developing policies for more effective and efficient use, and instituting a readily accessible executive information system.

We also had preliminary discussions with Audit Service Providers about exchanging information electronically – in particular, their provision of end-of-audit information to the OAG. This will be piloted in 2000-2001.

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29 i.e. set up on a similar basis to an internet web site.

## Objective 6:

*Do everything feasible to eliminate the existing backlog of audits.*

The number of instances where entities had not prepared financial statements for audit, or where audits had not been completed, has been at an unacceptably high level over the last few years. As a result, we decided to place considerable emphasis on trying to reduce the number of audits in arrears.

We encouraged the auditors to put additional pressure on those responsible for preparing the financial statements and told them that, where we were unsuccessful in obtaining the financial statements, we would inform Parliament of the names of those entities. We also insisted that auditors ensure that they were up to date in completing audits.

As a result of these efforts, the number of audits in arrears reduced dramatically during the year – from 1,038 to 646 – and we expect to make further substantial progress in 2000-2001.

We will continue to put pressure on entities that have not acted responsibly, and expect to advise Parliament later this year of the names of those entities that have not performed.



# Audit New Zealand

Audit New Zealand continued to make significant progress on a range of fronts during the year. Its six key objectives for management and development in 1999-2000 were set out in the *Forecast Report*,<sup>30</sup> and its actual achievements are described below:

---

## Objective 1:

*Continue to develop and communicate our vision, values and direction to ensure that they are aligned for all staff.*

---

Audit New Zealand has developed a draft strategic plan for 2000-2003 to achieve its goal of being *the leading provider of audit and assurance services to the public sector*. This plan is based around the theme of *capability + leadership + brand = competitive edge*, and action plans have been developed for the coming year. This strategy was discussed with senior staff at a planning conference in March 2000 and is being actively communicated throughout the organisation.

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## Objective 2:

*Achieve our revenue targets through client retention and expansion of our wider assurance-based services.*

---

We continued to compete successfully in retaining audits that were subject to the contestable audit arrangements. Excluding the audits of schools, of the 89 entities that were being audited by Audit New Zealand and were offered the

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30 Parliamentary paper B.28FR(99), page 47.

opportunity to have their audit tendered, 73 chose to renegotiate with us for a further three years. We tendered for all of the 16 which chose to enter a tender, and of those we retained 8 and lost 8.

In addition, we continued to increase our assurance revenue across a wider range of value-added services which, coupled with the success achieved in tender rounds, ensured that Audit New Zealand achieved its target surplus of \$450,000.

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### Objective 3:

*Further increase the value we add to improving our clients' business through the development of new assurance-based products and services.*

---

The Specialist Assurance Services Group became fully established during the year, with additional skilled staff being hired in Wellington and Auckland. A range of assurance services were developed and marketed – including treasury management, sensitive expenditure, tendering, and contract management.

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### Objective 4:

*Continue to improve the efficiency and cost-effectiveness of our services to clients through the appropriate investment in and use of technology.*

---

In March 2000, the Audit Office was successful in its bid to Parliament for a capital injection of \$1.2 million to fund the introduction in Audit New Zealand of computer-based audit support tools. This project is now well under way, with selection of a suitable system and final approval from Parliament due by 31 August 2000.

In addition, we completed the upgrade of our telephone/voicemail systems – the last step of a strategy to make Audit New Zealand an easier organisation to do business with.

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### **Objective 5:**

*Further develop the leadership skills of our organisation through investment in current and future leaders in conjunction with appropriate performance management systems.*

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Our Auckland Region completed the leadership development programme in December 1999, and the National Management Team began the programme in February 2000. The programme has components on leadership, accountability and communication skills, and will be extended during the coming year. Coupled with this programme, we have begun a trial of the “balanced scorecard” approach to performance measurement which will be evaluated in July 2001.

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### **Objective 6:**

*Review our recruitment, retention and reward systems so that we are able to attract and retain the skilled staff we need to meet our clients’ business needs throughout the year.*

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We appointed a full-time Human Resources Director who started work in April 2000. We also reviewed our approach to graduate recruitment to align this with our workforce planning and development of capability programmes. In addition, we have established secondment programmes with the National Audit Office and the Audit Commission in the United Kingdom, and we continue to explore options with our Australian counterparts.



## Statement of Responsibility

As Chief Executive of the Audit Office, I am responsible for the accuracy of and judgements used in the preparation of the Statements of Account, and the establishment and maintenance of systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

Appropriate systems of internal control have been employed to ensure that:

- all transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.

In my opinion, the information set out in the statements and attached notes to those statements fairly reflects the service performance, financial activities and cash flows of the Audit Office for the year ended 30 June 2000 and its financial position as at that date.



**D J D Macdonald**  
Controller and Auditor-General  
17 August 2000



(Countersigned)  
**D E Atkin**  
Finance Manager  
17 August 2000

# Audit Report

## SPICER & OPPENHEIM

### TO THE READERS OF THE STATEMENTS OF ACCOUNT OF THE AUDIT OFFICE FOR THE YEAR ENDED 30 JUNE 2000

We have audited the statements of account of the Audit Office on pages 86 to 126. The statements of account provide information about the past financial and service performance of the Audit Office and its financial position as at 30 June 2000. This information is stated in accordance with the accounting policies set out on pages 108 to 112.

#### **Responsibilities of the Controller and Auditor-General**

Section 35 of the Public Finance Act 1989 requires the Controller and Auditor-General to prepare annual statements of account in accordance with generally accepted accounting practice and which fairly reflect the financial position of the Audit Office as at 30 June 2000 and the results of its operations, cash flows and service performance achievements for the year ended 30 June 2000.

#### **Auditor's Responsibilities**

Section 40 of the Public Finance Act 1989 requires the auditor appointed by the House of Representatives to audit the statements of account presented by the Controller and Auditor-General. It is the responsibility of the auditor to express an independent opinion on the statements of account and report its opinion to you.

#### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the statements of account. It also includes assessing:

- the significant estimates and judgements made by the Controller and Auditor-General in the preparation of the statements of account, and
- whether the accounting policies are appropriate to the Audit Office's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statements of account are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statements of account.

Other than in our capacity as auditor, we have no relationship with or interests in the Audit Office.

#### **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion the statements of account of the Audit Office on pages 86 to 126:

- comply with generally accepted accounting practice; and
- fairly reflect:
  - the financial position as at 30 June 2000; and
  - the results of its operations and cash flows for the year ended 30 June 2000; and
  - the service performance achievements as measured in relation to the performance targets and other measures set out in the forecast report for the year ended on that date.

Our audit was completed on 17 August 2000 and our unqualified opinion is expressed as at that date.



SPICER & OPPENHEIM  
CHARTERED ACCOUNTANTS  
WELLINGTON

# Statement of Objectives and Service Performance For the Year Ended 30 June 2000

## *Departmental Output Classes*

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The Audit Office has four output classes. The extent to which we have met our objectives for each output class (as set out in our *Forecast Report 1999-2000*<sup>31</sup>) is reported below.

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### **Output Class D1** – *Reports and Advice arising from the Exercise of the Function of Legislative Auditor.*

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This class of outputs has five elements relating to the Audit Office undertaking its constitutional function in assisting Parliament in its role of ensuring accountability for public resources.

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. special studies).

### *Desired Outcomes*

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- 1 Maintenance of the integrity of:
  - public sector accounting and reporting systems; and
  - reports on financial and non-financial performance by public bodies.
- 2 Better use of public resources.

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31 Parliamentary paper B.28FR(99), pages 27-42.

**I Reports to Parliament and other constituencies on matters arising from annual audits, programmed special audits and studies, and unprogrammed special investigations.**

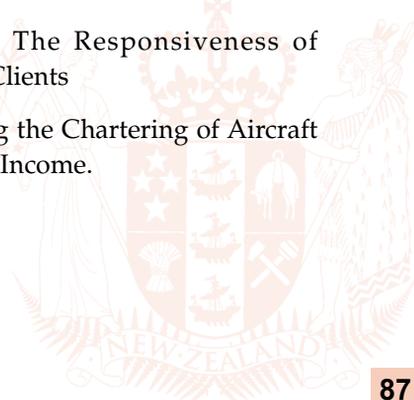
**Performance Results**

1998-99 Actual		1999-2000 Actual	1999-2000 Forecast
	<i>Quantity</i>		
9	• Reports to Parliament	7	At least 3
1	• Other major publications	6	-
	<i>Quality</i>		
All	• All reports will be prepared with due professional care and be subject to: <ul style="list-style-type: none"> <li>• internal peer review;</li> <li>• substantiation; and</li> <li>• entity confirmation of factual accuracy.</li> </ul>	All	All
	<i>Timeliness</i>		
Substantially achieved	• Reports will be completed in a manner which ensures that the subjects being reported are timely and relevant.	Substantially achieved	
\$000		\$000	\$000
2,558	Value of resources applied	2,342	2,667

**Commentary on Performance**

We presented four omnibus reports and the following three single-issue reports to Parliament during the year:

- Local Government Environmental Management: A Study of Models and Outcomes (produced jointly with the Parliamentary Commissioner for the Environment)
- Towards Service Excellence: The Responsiveness of Government Agencies to Their Clients
- Inquiry into Events Surrounding the Chartering of Aircraft by the Department of Work and Income.



We also issued the following major reports and distributed them to relevant audiences:

- Suggested Guidelines for Advertising and Publicity by Local Authorities
- Contracting Out Local Authority Regulatory Functions
- Governance and Oversight of Large Information Technology Projects
- Expenditure of the Chief Executive, and Expenditure Control Systems in the New Zealand Qualifications Authority
- Student Loan Scheme: Publicly Available Accountability Information
- Airways Corporation Of New Zealand Limited: Review Of Certain Matters Concerning The National Air Traffic Services (UK) Consortium.

The number and coverage of reports issued increased again this year, and we expect to maintain the high level of production in the immediate future.

See pages 37-48 for more detail and commentary on reports issued.



II Reports and advice to select committees and Ministers.

Performance Results

1998-99 Actual		1999-2000 Actual	1999-2000 Forecast
	<i>Quantity</i>		
	• Reports and advice to select committees:		
108	• financial reviews	96	110
54	• estimates examinations	29	40
19	• other reports.	26	20
	• Reports to portfolio Ministers on the results of annual audits.		
124		113	90
	<i>Quality</i>		
-	• All select committees will be surveyed as to their satisfaction with the quality of our reports and advice.	7	All
All	• All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to:	All	All
	• internal peer review;		
	• substantiation; and		
	• entity confirmation of factual accuracy.		
	<i>Timeliness</i>		
All	• Reports delivered to portfolio ministers before committee scrutiny of entity performance; and to committees at least two days before committee examination, unless otherwise agreed with the committee.	All	All
\$000		\$000	\$000
604	Value of resources applied	572	506

Commentary on Performance

*Quantity*

The overall number of reports is down on the previous year, mainly because *Estimates* examinations for 2000-2001 did not begin until late-June 2000.

*Quality*

Seven select committee chairpersons were interviewed in October 1999 and were asked to comment on their satisfaction with the OAG's performance in relation to estimates advice,

financial reviews and any other interactions between committees and the OAG. A consistently high level of satisfaction was expressed in relation to the content and quality of OAG reports and advice to committees.



III Responding to enquiries from taxpayers, ratepayers and Members of Parliament.

Performance Results

1998-99 Actual		1999-2000 Actual	1999-2000 Forecast
	<i>Quantity</i>		
	• Enquiries received from:		
53	• taxpayers	45	60
182	• ratepayers	172	150
39	• Members of Parliament.	66	40
	<i>Quality</i>		
All	• All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to:	All	All
	• internal peer review;		
	• substantiation; and		
	• entity confirmation of factual accuracy.		
	<i>Timeliness</i>		
72%	• Initial response within seven days.	80%	100%
78%	• Cleared within six weeks, unless otherwise advised.	79%	100%
<b>\$000</b>		<b>\$000</b>	<b>\$000</b>
310	<i>Value of resources applied</i>	403	316

Commentary on Performance

This is a demand-driven activity, the quantity of enquiries received being beyond our control.

Although many of these enquiries can be responded to relatively promptly, others identify more significant issues and can lead to major or ongoing investigations. Enquiries that lead to major studies have an impact upon response times. Examples include:

- Capital Coast Health computer system; and
- Contract for Sexual Health Services, Wellington.

We are, however, still looking to improve our timeliness so that it is closer to the target of 100%.

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

Performance Results

1998-99 Actual		1999-2000 Actual	1999-2000 Forecast
	<i>Quantity</i>		
*	<ul style="list-style-type: none"> <li>• Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including:                             <ul style="list-style-type: none"> <li>• central agencies;</li> <li>• government departments, local authorities and other public entities;</li> <li>• professional bodies such as the Institute of Chartered Accountants of New Zealand;</li> <li>• sector organisations such as Local Government New Zealand and the Society of Local Government Managers;</li> <li>• foreign delegations; and</li> <li>• other audit institutions and related organisations, such as INTOSAI.</li> </ul> </li> </ul>	*	*
	<i>Quality</i>		
All	<ul style="list-style-type: none"> <li>• All reports and advice 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; and</li> <li>• entity confirmation of factual accuracy.</li> </ul> </li> </ul>	All	All
	<i>Timeliness</i>		
	<ul style="list-style-type: none"> <li>• As requested.</li> </ul>		
\$000		\$000	\$000
535	<i>Value of resources applied</i>	595	481

\* This is a demand-driven activity for which there are no wholly satisfactory quantity measures.

### Commentary on Performance

We continue to provide a wide range of high-quality advice on financial management and accountability issues. Most advice is directed to governmental or sector organisations, but our involvement with professional bodies in New Zealand, and receiving international audit agencies and other international delegations, also consumes considerable time.

The advice given to professional bodies relates mainly to:

- submissions made to the Institute of Chartered Accountants of New Zealand on the Auditing Standards and Guidance Statements and Financial Reporting Standards; and
- our participation in the activities of the Public Sector Committee of the International Federation of Accountants.

Our ongoing involvement with international audit agencies relates to:

- Continuing participation in three international working groups of the International Organisation of Supreme Audit Organisations (INTOSAI) – on auditing privatisations; auditing activities with an environmental perspective; and accounting standards.
- Participation in the Auditors-General Global Working Group, which was initiated by the Comptroller General of the United States to promote informal dialogue among the Auditors-General of a small number of countries facing similar issues and challenges.
- Regular contact with our Australian colleagues through a forum known as the Australasian Council of Auditors-General (ACAG).
- Our role as Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI).

The Office continues to receive many delegations from other countries, not all of which are confined to audit-related matters. The international reputation of New Zealand's public sector reforms undoubtedly contributes significantly to this sustained high level of international interest.

V *Administering the provisions of the Local Authorities (Members' Interests) Act 1968.*

Performance Results

1998-99 Actual		1999-2000 Actual	1999-2000 Forecast
105	<p><i>Quantity</i></p> <ul style="list-style-type: none"> <li>Responding to specific requests in relation to the Audit Office's powers to:                             <ul style="list-style-type: none"> <li>approve increased limits for contract payments;</li> <li>grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest; and</li> <li>consider alleged breaches of the Act.</li> </ul> </li> </ul>	81	90
All	<p><i>Quality</i></p> <ul style="list-style-type: none"> <li>All reports and advice 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; and</li> <li>entity confirmation of factual accuracy.</li> </ul> </li> </ul>	All	All
95%	<p><i>Timeliness</i></p> <ul style="list-style-type: none"> <li>Initial response within seven days.</li> </ul>	89%	100%
99%	<ul style="list-style-type: none"> <li>Cleared within six weeks, unless otherwise advised.</li> </ul>	83%	100%
\$000		\$000	\$000
44	<i>Value of resources applied</i>	60	76

Commentary on Performance

The number of enquiries has reduced somewhat this year, but a higher proportion of enquiries were more complex and required longer to clear. This is reflected in the timeliness statistics.

One decision under section 8 of the Act has subsequently been the subject of a petition to the House of Representatives. The results of select committee consideration of the petition will be reported in our next annual report.

*Financial Performance of Output Class D1*

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
3,990	Revenue – Crown	4,042	4,032
11	– Other	8	6
(4,051)	Expenditure	(3,972)	(4,046)
<b>(50)</b>	<b>Surplus/(Deficit)</b>	<b>78</b>	<b>(8)</b>

*Commentary on Financial Out-turn of Output Class D1*

The small surplus this year reflects ongoing attention by the Office to cost efficiencies in producing the outputs in this output class.



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

This class of outputs 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.

*Desired Outcome*

Legal disbursement of public funds.

*Performance Results*

1998-99 <i>Actual</i>		1999-2000 <i>Actual</i>	1999-2000 <i>Forecast</i>
	<i>Quantity</i>		
16	• Warrants certified	13	15
246	• Controller statements certified	247	240
	<i>Quality</i>		
All	• Certificates will only be given once correct documentation is received.	All	All
All	• Issues from the Crown Bank Account will only be certified if supported by appropriations or other lawful authorities granted by Parliament.	All	All
No payments made without authority	• All payments not within a warrant from the Governor-General will be refused.	No payments made without authority	No payments made without authority
	<i>Timeliness</i>		
99%	• Controller statements certified before 12 noon on day of submission.	99%	100%
\$000 224	<i>Value of resources applied</i>	\$000 220	\$000 229

### Commentary on Performance

The volume of controller statements issued by the Treasury is similar to that of previous years. As a result of fluctuation in the quality of statements presented for certification during the previous year, we referred some concerns to the Treasury for its attention. It is pleasing to note that these concerns were addressed and that the average quality of statements presented was significantly improved this year.

### Financial Performance of Output Class D2

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
224	Revenue – Crown	220	229
(224)	Expenditure	(220)	(229)
Nil	Surplus/(Deficit)	Nil	Nil

### Commentary on Financial Out-turn of Output Class D2

This small but important constitutional function has been effectively carried out within the funding provided by the Crown.



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

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The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,800 public entities. The Office of the Auditor-General establishes the standards by which the audits will be carried out.

This class of outputs relates to the provision of those 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. The work is carried out by Audit New Zealand.

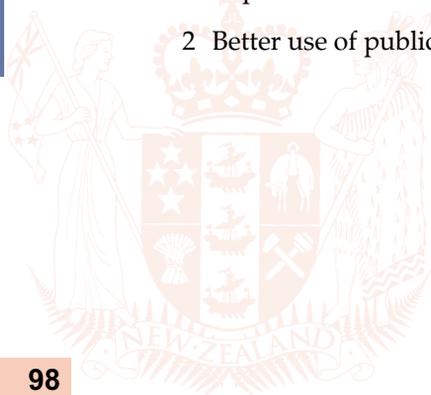
The two significant outputs in this class are:

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

---

#### *Desired Outcome*

- 1 Maintenance of the integrity of:
  - public sector accounting and reporting systems; and
  - reports on financial and non-financial performance by public entities.
- 2 Better use of public resources.



Statement of Performance for Output Class D3 – Non-contested Audit Services  
Performance Quantity and Timeliness<sup>1</sup>

Sector	Quantity			Timeliness			
	Audit Status			Timely Issue of Audit Reports		Timely Issue of Management Reports	
	Total Entities in Group	Carried Out	Audit Arrears at Year End	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
Government Departments and Offices of Parliament	20	20	-	100%	100%	100%	90%
	1998-99	22	-	100%	100%	100%	85%
Major Statutory Bodies <sup>4</sup>	69	64	14	100%	82%	100%	85%
	1998-99	77	78	9 <sup>1</sup>	100%	88%	79%
Regional, City and District Councils	-	-	-	-	-	-	-
Other Local Authorities <sup>5</sup>	1	1	-	100%	100%	100%	100%
	1998-99	71	101	26	100%	65%	55%
Miscellaneous Public Bodies <sup>6</sup>	97	92	60	100%	42%	100%	67%
	1998-99	179	181	78	75%	59%	88%
Audits Without Fees <sup>7</sup>	199	189	79 <sup>1</sup>	75%	59%	100%	74%
	1998-99	172	361	269	75%	14%	95%
<b>TOTALS</b>	180	173	458 <sup>1</sup>	75%	15%	100%	98%
	<b>511</b>	<b>727</b>	<b>387</b>	<b>50%</b>	<b>50%</b>	<b>86%</b>	<b>86%</b>
	1998-99	576	555	606 <sup>1</sup>	48%		78%

1 Figures may not balance exactly, or may vary from those presented in the Forecast Report and last year's Annual Report, because of in-year changes and corrections to the audit portfolio.

2 Audits will be completed and audited financial statements will be available within statutory deadline or within 5 months of balance date.

3 Management reports and letters will be issued within 6 weeks of the date of the audit report.

4 Comprising State-owned Enterprises, Tertiary Education Institutions, Producer Boards, Hospitals and Health Services, Crown Research Institutes, and major Crown Entities.

5 Comprising Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

6 Comprising mainly Maori Trust Boards, smaller Crown Entities, and subsidiaries of major statutory bodies.

7 Comprising Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees, and Patriotic Funds.

### Performance Quality

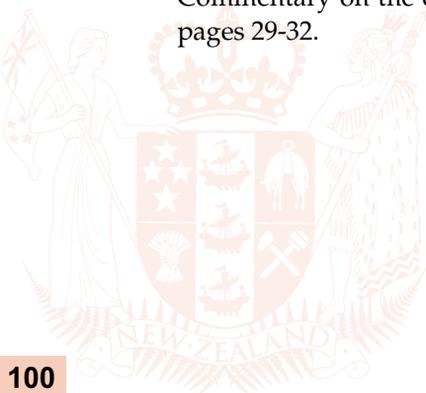
<i>Standard</i>	<i>Achievement</i>
1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.	Done
2 A quality assurance programme will be carried out on audit arrangements and work undertaken.	Programme undertaken, the results of which are reported on pages 31-32.

### Commentary on Performance

A key goal set in 1999-2000 was to reduce audit arrears substantially. We set a target of 10% for the whole portfolio and 11% for this output class. As a result of a sustained effort, arrears were actually reduced by 36% in this output class. We expect to continue this effort next year.

Timeliness of audit reports for current year audits improved only slightly, and we have set in train measures, such as more active follow-up, to further improve our timeliness as well as quantity performance.

Commentary on the quality of audits performed is set out on pages 29-32.



### *Commentary on Performance: Audit Outcomes*

The following table gives an analysis of all non-standard audit reports<sup>32</sup> issued in the 1998-99 and 1999-2000 years.

	1998-99			1999-2000		
	Schools	Other	Total	Schools	Other	Total
Unqualified, with explanatory paragraph on breach of law	70	74	144	88	44	132
Full Disclaimer	1	1	2	5	13	18
Partial Disclaimer	1	1	2	4	-	4
Adverse	7	7	14	2	7	9
Except for	67	35	102	43	73	116
<b>Total non-standard audit reports</b>	<b>146</b>	<b>118</b>	<b>264</b>	<b>142</b>	<b>137</b>	<b>279</b>
<b>Total all audit reports</b>	<b>2,750</b>	<b>1,210</b>	<b>3,960</b>	<b>2,959</b>	<b>1,481</b>	<b>4,440</b>

There has been a slight decline in non-standard audit reports as a proportion of all audit reports issued during the year – from 6.7% in 1998-99 to 6.3% in 1999-2000.

The significant reduction in audit arrears for Audits Without Fees in 1999-2000 (see page 99) has, however, resulted in a number of non-standard audit reports this year. This is largely reflected in the issue of “except for” opinions shown in the Other column for 1999-2000 in the table above.

The main reasons for these opinions were that the entities concerned (mostly cemetery trustees and reserve boards) had not maintained adequate accounting records, or had inadequate controls over revenue prior to it being recorded (41 such opinions in 1999-2000, compared with 2 in 1998-99).

Whenever a non-standard audit report is issued because of a limitation in scope, disagreement with the entity or a breach of law, we encourage entities to take appropriate action to resolve the issue.

32 Non-standard audit reports are those where the auditor has:

- qualified the audit opinion due to a disagreement or a limitation on scope;
- drawn attention to a breach of law; or
- drawn attention to a fundamental uncertainty.

*Financial Performance of Output Class D3*

1998-99		1999-2000	1999-2000
<i>Actual</i>		<i>Actual</i>	<i>Forecast</i>
\$000		\$000	\$000
5,620	Revenue – Other	5,430	5,359
(5,335)	Expenditure	(5,006)	(5,074)
<b>285</b>	<b>Surplus</b>	<b>424</b>	<b>285</b>

*Commentary on Financial Out-turn of Output Class D3*

The financial out-turn for this output class for the year is within estimate. With revenue being above forecast, and lower hours spent auditing the output class entities, resulting in less costs allocated to the output class, the surplus for the year was better than that forecast.



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### **Output Class D4 – *Provision of Contested Audit Services.***

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The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,800 public entities. The Office of the Auditor-General establishes the standards by which audits will be carried out.

This class of outputs relates to the provision of audits or audit-related services awarded through a competitive tender process or under the threat of competition. This class of output is appropriated on a Mode B net basis, and the work is carried out by Audit New Zealand and private sector auditing firms on contract to the Auditor-General.

The two significant outputs in this class are:

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

---

### *Desired Outcome*

- 1 Maintenance of the integrity of:
  - public sector accounting and reporting systems; and
  - reports on financial and non-financial performance by public entities.
- 2 Better use of public resources.



Statement of Performance for Output Class D4 – Contested Audit Services  
Performance Quantity and Timeliness<sup>1</sup>

Sector	Quantity			Timeliness			
	Audit Status			Timely Issue of Audit Reports		Timely Issue of Management Reports	
	Total Entities in Group	Carried Out	Audit Arrears at Year End	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
Government Departments and Offices of Parliament	28	28	-	100%	96%	100%	92%
1998-99	29	29	-	100%	97%	100%	86%
Major Statutory Bodies <sup>4</sup>	69	73	1	100%	96%	100%	69%
1998-99	70	72	6	100%	81%	100%	65%
Regional, City and District Councils	86	86	-	100%	94%	100%	82%
1998-99	85	85	-	100%	100%	100%	73%
Other Local Authorities <sup>5</sup>	337	375	66	100%	69%	100%	74%
1998-99	346	325	104	100%	67%	100%	67%
Schools	2,653	2,797	112	50%	29%	100%	91%
1998-99	2,670	2,750	255	50%	32% <sup>1</sup>	100%	91%
Miscellaneous Public Bodies <sup>6</sup>	196	186	80	75%	49%	100%	75%
1998-99	150	144	67	75%	45%	100%	72%
<b>TOTALS</b>	<b>3,369</b>	<b>3,545</b>	<b>259</b>	<b>38%</b>	<b>38%</b>	<b>88%</b>	<b>87%</b>
1998-99	3,350	3,405	432	40% <sup>1</sup>			

1 Figures may not balance exactly, or may vary from those presented in the *Forecast Report* and last year's *Annual Report*, because of in-year changes and corrections to the audit portfolio.  
 2 Audits will be completed and audited financial statements will be available within statutory deadline or within 5 months of balance date.  
 3 Management reports and letters will be issued within 6 weeks of the date of the audit report.  
 4 Comprising State-owned Enterprises, Tertiary Education Institutions, Producer Boards, Hospitals and Health Services, Crown Research Institutes, and major Crown Entities.  
 5 Comprising Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies, and Sinking Fund Commissioners.  
 6 Comprising mainly Maori Trust Boards, smaller Crown Entities, and subsidiaries of major statutory bodies.

## Performance Quality

<i>Standard</i>	<i>Achievement</i>
1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.	Done
2 A quality assurance programme will be carried out on audit arrangements and work undertaken.	Programme undertaken, the results of which are reported on pages 31-32.

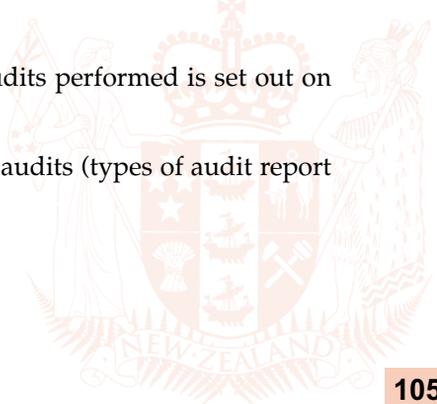
## Commentary on Performance

A key goal set in 1999-2000 was to reduce audit arrears substantially. We set a target of 10% for the whole portfolio and 6% for this output class. As a result of a sustained effort, arrears were actually reduced by 40% in this output class. We expect to continue this effort next year.

Timeliness of audit reports for current year audits deteriorated slightly in this output class. This was mainly because school reports were later – but, by 30 June 2000, the situation with outstanding school reports was the best it has ever been. We have set in train measures, such as more active follow-up, to improve our timeliness as well as quantity performance.

Commentary on the quality of audits performed is set out on pages 29-32.

Commentary on the outcomes of audits (types of audit report issued) is set out on page 101.



*Financial Performance of Output Class D4*

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
24,137	Revenue – Other	25,703	28,603
(23,779)	Expenditure	(25,401)	(28,311)
<b>358</b>	<b>Surplus</b>	<b>302</b>	<b>292</b>

*Commentary on Financial Out-turn of Output Class D4*

The financial out-turn for this output class for the year is within estimate and the result is a surplus. While revenue did not increase as much as forecast, the costs relating to the conduct of audits were managed effectively.



## Financial Performance Indicators For the Year Ended 30 June 2000

Details of the actual performance of the Audit Office against performance measures established in the *Forecast Report* are summarised below.

1998-99 Actual		1999-2000 Actual	1999-2000 Final Estimates	1999-2000 Forecast Report
\$000		\$000	\$000	\$000
	<b>Operating Results</b>			
6,574	Revenue: departments	6,398	6,947	6,947
23,194	Revenue: other	24,743	27,021	24,977
-	Revenue: interest	-	-	50
33,389	Output expenses	34,599	37,660	35,639
441	Surplus before capital charge	1,042	808	862
127	Operating surplus	803	569	600
	<b>Working Capital Management</b>			
1,816	Net current assets	1,474	887	995
142%	<i>Current ratio</i>	136%	124%	127%
	<i>Average receivables and work in progress</i>			
56 days		51 days	41 days	44 days
51 days	<i>Average payables outstanding</i>	35 days	33 days	35 days
	<b>Resource Utilisation</b>			
	<i>Physical assets:</i>			
1,437	Total physical assets at year end	1,985	1,969	1,857
57%	<i>Additions as % of physical assets</i>	63%	70%	75%
	<i>Taxpayers' funds:</i>			
2,386	Level at year end	2,386	2,386	2,382
	<b>Net Cash Flows</b>			
1,643	Surplus on operating activities	1,510	1,084	1,460
(575)	(Deficit) on investing activities	(1,129)	(1,169)	(1,169)
(918)	(Deficit) on financing activities	(629)	(629)	(722)
150	Net increase/(decrease) in cash held	(248)	(714)	(431)
1,193	<b>Closing cash balance</b>	945	479	568

# Statement of Accounting Policies For the Year Ended 30 June 2000

## Reporting Entity

These are the financial statements of the Audit Office prepared pursuant to section 35 of the Public Finance Act 1989.

The Audit Office comprises the Auditor-General, the Deputy Auditor-General, and those resources provided by the Audit Department.

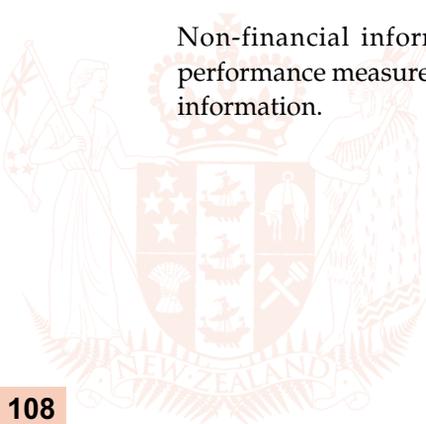
The Audit Department is a department of state established by section 15 of the Public Finance Act 1977 to provide resources to the Audit Office to enable it to perform its functions and duties. The Auditor-General is the Chief Executive of the Audit Department. Departmental activities include the work undertaken by private sector auditing firms on contract to the Auditor-General.

The activities of the Audit Office and the Audit Department are reported here as one entity, referred to as “the Audit Office”, consistent with the definition of that term in section 2 of the Public Finance Act 1989.

## Measurement Base

Generally accepted accounting practice is used to measure and report the activities and financial position of the Audit Office on an 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 interest on any bank deposits with the New Zealand Debt Management Office of the Treasury.

### Expenses

The salaries of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of sections 18 and 21 of the Public Finance Act 1977, 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 contract audit service providers 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.

### 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 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 reported 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)

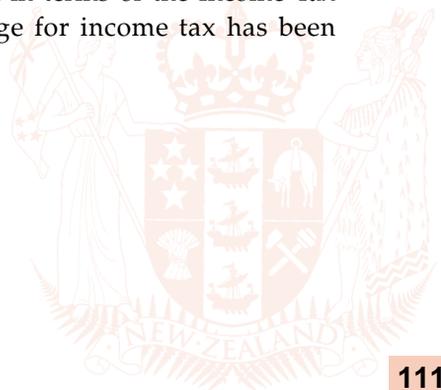
Amounts in the financial statements are reported exclusive of GST, except for:

- 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

The Audit Office, as an institution of the Crown, is exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.



### *Commitments*

Future payments are disclosed as commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts are not disclosed unless they had vested at balance date, in which case they are reflected in the “Provision for employee entitlements” in the Statement of Financial Position.

### *Contingent Liabilities*

Contingent liabilities are disclosed at the point at which the contingency is evident.

### *Changes in Accounting Policies*

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the last audited Statements of Account.



## Statement of Financial Performance For the Year Ended 30 June 2000

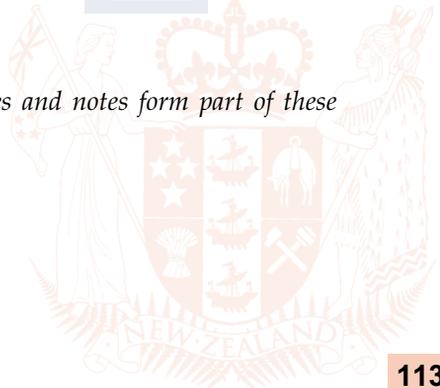
### Description of Statement

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. Supporting statements showing the revenue and expenditure of each output class are on pages 95, 97, 102 and 106.

1998-99 Actual \$000		Notes	1999-2000 Actual \$000	1999-2000 Forecast <sup>1</sup> \$000
<b>CONTINUING ACTIVITIES</b>				
<b>Revenue</b>				
4,214	Crown	2	4,261	4,261
29,768	Other	3	31,141	33,968
<u>33,982</u>	<b>Total Revenue</b>		<u>35,402</u>	<u>38,229</u>
<b>Expenses</b>				
16,992	Personnel costs		18,188	16,992
15,514	Operating costs	5	15,553	19,792
569	Depreciation		619	637
314	Capital charge	6	239	239
<u>33,389</u>	<b>Total Expenses</b>		<u>34,599</u>	<u>37,660</u>
593	<b>Operating Surplus before other expenses</b>		803	569
(466)	Other expenses	7	-	-
<u>127</u>	<b>Operating Surplus</b>		<u>803</u>	<u>569</u>

<sup>1</sup> See Note 1 on page 120.

The accompanying accounting policies and notes form part of these statements.



## Statement of Movements in Taxpayers' Funds (Equity) For the Year Ended 30 June 2000

### Description of Statement

The Statement of Movements in Taxpayers' Funds combines information about the operating 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 Financial Position, provides information for assessing the return on investment in the Audit Office.

1998-99 Actual \$000	Notes	1999-2000 Actual \$000	1999-2000 Forecast \$000
2,852		2,386	2,386
<b>Taxpayers' Funds brought forward at 1 July</b>			
<b>Movements during the year</b>			
593		803	569
(466)	7	-	-
<i>Operating surplus before other expenses</i>			
<i>Other expenses</i>			
127		803	569
<i>Total Recognised Revenues and Expenses for the Year</i>			
<b>Flows to and from the Crown</b>			
(593)	11	(803)	(569)
<i>Provision for payment to the Crown</i>			
<u>2,386</u>		<u>2,386</u>	<u>2,386</u>
<b>Taxpayers' Funds at 30 June</b>			

The accompanying accounting policies and notes form part of these statements.

## Statement of Financial Position As at 30 June 2000

### Description of Statement

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

30/6/99 Actual \$000	Notes	30/6/2000 Actual \$000	30/6/2000 Forecast \$000
<b>Taxpayers' Funds</b>			
2,386		2,386	2,386
<b>2,386</b>		<b>2,386</b>	<b>2,386</b>
Represented by:			
<b>Current Assets</b>			
1,193		945	479
338		265	312
1,990		1,153	1,163
2,605	8	3,175	2,647
6,126		5,538	4,601
<b>Non-current Assets</b>			
1,437	9	1,985	1,969
1,437		1,985	1,969
7,563		7,523	6,570
<b>Current Liabilities</b>			
2,150	10	1,505	1,807
593	11	803	569
1,567	12	1,756	1,338
4,310		4,064	3,714
<b>Term Liabilities</b>			
867	12	891	470
-	13	182	-
867		1,073	470
5,177		5,137	4,184
<b>2,386</b>		<b>2,386</b>	<b>2,386</b>

The accompanying accounting policies and notes form part of these statements.

## Statement of Cash Flows For the Year Ended 30 June 2000

### Description of Statement

The Statement of 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 Financial Performance.

1998-99 Actual \$000	Notes	1999-2000 Actual \$000	1999-2000 Forecast \$000
<b>Operating Activities</b>			
Cash received from:			
4,244	The Crown	4,261	4,261
29,545	Others	31,408	25,691
Cash disbursed on:			
(29,551)	Production of outputs	(31,582)	(26,654)
(2,281)	Net GST paid	(2,338)	(1,975)
(314)	Capital charge	(239)	(239)
<u>1,643</u>	<b>Net Cash Flow from Operating Activities</b>	<u>1,510</u>	<u>1,084</u>
	14		
<b>Investing Activities</b>			
Cash received from:			
251	Sale of physical assets	130	217
Cash disbursed on:			
(826)	Purchase of physical assets	(1,259)	(1,386)
<u>(575)</u>	<b>Net Cash Flow from Investing Activities</b>	<u>(1,129)</u>	<u>(1,169)</u>
<b>Financing Activities</b>			
Cash disbursed on:			
(918)	Payment to the Crown	(629)	(629)
<u>(918)</u>	<b>Net Cash Flow from Financing Activities</b>	<u>(629)</u>	<u>(629)</u>
150	<b>Total net increase/(decrease) in cash held</b>	(248)	(714)
1,043	Add Opening cash balance at 1 July	1,193	1,193
<u>1,193</u>	<b>Closing cash balance at 30 June</b>	<u>945</u>	<u>479</u>

The accompanying accounting policies and notes form part of these statements.

## Supplementary Information For the Year Ended 30 June 2000

### Statement of Commitments

This statement records those expenditures to which the Audit Office was contractually committed at 30 June 2000 and which will become liabilities if and when the terms of the contracts are met.

The Audit Office had no capital commitments as at 30 June 2000 (1999 – nil).

The Audit Office has long-term leases of its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 6-yearly.

Equipment lease commitments include leases of computer equipment, telephone exchange systems, facsimile machines and photocopiers.

30/6/99 Actual \$000		30/6/2000 Actual \$000
	<b>Operating Lease Commitments</b>	
	Property Lease Commitments	
1,148	Less than one year	1,440
1,103	One to two years	1,431
3,309	Two to five years	3,720
2,272	More than five years	1,589
7,832	<i>Total Property Lease Commitments</i>	8,180
	Equipment Lease Commitments	
596	Less than one year	598
588	One to two years	537
346	Two to five years	231
1,530	<i>Total Equipment Lease Commitments</i>	1,366
9,362	<b>Total Operating Lease Commitments</b>	9,546

*The accompanying accounting policies and notes form part of these statements.*

## Statement of Contingent Liabilities

This statement discloses situations which exist at 30 June 2000, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the Statements of Account.

The Audit Office did not have any contingent liabilities as at 30 June 2000 (1999 – nil), nor did it have any contingent assets at the same dates.

## Statement of Appropriations<sup>1</sup>

	1999-2000	
	<i>Output Expenses</i> \$000	<i>Appropriations</i> \$000
<b>Annual Appropriations</b>		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament	4,024	4,097
D2 Controller function	248	258
D3 Non-contested audit services	5,685	5,744
<b>Total Annual Appropriations</b>	9,957	10,099
<i>Less GST</i>	1,163	1,154
<b>Total Annual Appropriations GST-exclusive</b>	8,794	8,945
<b>Other Appropriations</b>		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament <sup>2</sup>	404	404
<i>Mode B Net</i>		
D4 Contested audit services <sup>3</sup>	28,614	31,886
<i>Less GST</i>	3,213	3,575
<b>Total Mode B Net Annual Appropriations GST-exclusive</b>	25,401	28,311
<b>Total Other Appropriations GST-exclusive</b>	25,805	28,715
<b>Total Output Expenses as reported in the Statement of Financial Performance</b>	34,599	37,660

<sup>1</sup> Amounts in the Statement of Appropriations are GST-inclusive, except for Other Appropriations (Mode B Gross) which are exempt from GST.

<sup>2</sup> Costs incurred pursuant to sections 18 and 21 of the Public Finance Act 1977.

<sup>3</sup> Costs incurred pursuant to section 10 of the Public Finance Act 1989.

*The accompanying accounting policies and notes form part of these statements.*

## Statement of Unappropriated Expenditure

The Audit Office incurred no unappropriated expenditure during the year ended 30 June 2000 (1999 – nil).

## Statement of Trust Money

On 1 November 1996 the Audit Office was appointed Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI). SPASAI exists to encourage, promote and advance co-operation among its members in the field of public audit.

A trust account records the financial transactions undertaken by the Audit Office on behalf of SPASAI. All trust money transactions are recorded on a cash basis.

<i>1998-99</i> <i>Actual</i> <i>\$000</i>		<i>1999-2000</i> <i>Actual</i> <i>\$000</i>
2	Opening balance at 1 July	251
800	Receipts	359
802		610
551	Payments	521
<b>251</b>	<b>Closing balance at 30 June</b>	<b>89</b>

*The accompanying accounting policies and notes form part of these statements.*



## Notes to the Financial Statements For the Year Ended 30 June 2000

### Note 1: Budget Estimates

The table below shows the main estimates for 1999-2000 as reflected in the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the final estimates.

	<i>Main Estimates</i> \$000	<i>Supplementary Estimates Changes</i> \$000	<i>Final Estimates</i> \$000
<b>Revenue</b>			
Crown	4,265	(4)	4,261
Other	31,924	2,044	33,968
Interest	50	(50)	-
<b>Total Revenue</b>	<u>36,239</u>	<u>1,990</u>	<u>38,229</u>
<b>Expenses</b>			
Personnel costs	16,279	713	16,992
Operating costs	18,303	1,489	19,792
Depreciation	795	(158)	637
Capital charge	262	(23)	239
<b>Total Output Expenses</b>	<u>35,639</u>	<u>2,021</u>	<u>37,660</u>
<b>Operating Surplus</b>	<u>600</u>	<u>(31)</u>	<u>569</u>

### Note 2: Crown Revenue

Revenue is provided by the Crown to meet the costs of the Audit Office in assisting Parliament in its role of ensuring accountability for public resources. The services provided to Parliament include reports to Parliament and other constituencies, reports and advice to select committees, responding to taxpayer and ratepayer enquiries, advice to government bodies and other agencies, and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

### Note 3: Other Revenue

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
6,574	Audit fees – departments	6,398	6,947
23,183	Audit fees – other	24,735	27,006
11	Miscellaneous	8	15
<b>29,768</b>	<b>Total Other Revenue</b>	<b>31,141</b>	<b>33,968</b>

### Note 4: Interest Revenue

The Audit Office can earn interest at variable rates on deposits with the New Zealand Debt Management Office of the Treasury. No deposits were made during the financial year.

### Note 5: Operating Costs

Operating costs include:

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
50	Asset write-offs	25	-
35	Loss/(gain) on sale of physical assets	(63)	-
22	Increase/(decrease) in provision for doubtful receivables	(68)	-
55	Fees to auditor for audits of the Statements of Account	55	51
7	Fees to auditor for other services provided	7	7
354	Equipment lease costs	408	404
1,870	Property lease costs	1,271	2,178
8,044	Fees paid to contracted auditors	8,912	10,920

### Note 6: Capital Charge

The Audit Office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2000 was 10 percent (1999 – 11 percent).

## Note 7: Other Expenses

The comparative figure for other expenses consists of the increase in the recognition of employee entitlements (see Note 12) arising from a technical change in the measurement of the liabilities for long service, retiring and resigning leave in 1998-99. The liabilities are now measured on an actuarial rather than a nominal basis, and any change is charged against personnel expenses from 1999-2000.

## Note 8: Receivables

30/6/99 Actual \$000		30/6/2000 Actual \$000
2,863	Trade receivables	3,286
(265)	Provision for doubtful receivables	(197)
<u>2,598</u>	<i>Net Trade Receivables</i>	<u>3,089</u>
7	Other receivables	86
<u>2,605</u>	<b>Total Receivables</b>	<u>3,175</u>

## Note 9: Physical Assets

30/6/99 Actual \$000		30/6/2000 Actual \$000
	<b>Furniture and Fittings</b>	
3,258	At cost	2,536
(2,936)	Accumulated depreciation	(1,806)
<u>322</u>	<i>Furniture and Fittings at Net Carrying Value</i>	<u>730</u>
	<b>Office Equipment</b>	
2,778	At cost	2,690
(2,281)	Accumulated depreciation	(1,962)
<u>497</u>	<i>Office Equipment at Net Carrying Value</i>	<u>728</u>
	<b>Motor Vehicles</b>	
739	At cost	699
(121)	Accumulated depreciation	(172)
<u>618</u>	<i>Motor Vehicles at Net Carrying Value</i>	<u>527</u>
<u>1,437</u>	<b>Total Physical Assets at Net Carrying Value</b>	<u>1,985</u>

## Note 10: Payables and Provisions

30/6/99 Actual \$000		30/6/2000 Actual \$000
1,713	Trade payables	1,393
437	Provisions	112
<u>2,150</u>	<b>Total Payables and Provisions</b>	<u>1,505</u>

## Note 11: Provision for Payment to the Crown

Departments are not permitted to retain operating surpluses. Thus, the operating surplus for this year of \$803,000 is fully repayable to the Crown.

In 1998-99, because of a technical change in the measurement of employee entitlements, the operating surplus before other expenses (see page 113) was repayable to the Crown.

If there is an operating deficit, any interest received and any profit made on the sale of a physical asset are both returned to the Crown.

30/6/99 Actual \$000		30/6/2000 Actual \$000
593	Operating surplus	803
<u>593</u>	<b>Total Provision for Payment to the Crown</b>	<u>803</u>

## Note 12: Provision for Employee Entitlements

30/6/99 Actual \$000		30/6/2000 Actual \$000
	<b>Current Liabilities</b>	
925	Annual leave	1,058
44	Long service leave	9
90	Time off in lieu of overtime worked	109
508	Salary and other accruals	580
<u>1,567</u>	<b>Total Current Liabilities</b>	<u>1,756</u>
	<b>Term Liabilities</b>	
111	Long service leave	96
756	Retiring/resigning leave	795
<u>867</u>	<b>Total Term Liabilities</b>	<u>891</u>
<u>2,434</u>	<b>Total Provision for Employee Entitlements</b>	<u>2,647</u>

### Note 13: Property Lease Liabilities

Property lease liabilities consist of the unamortised value of lease inducements received.

30/6/99 Actual \$000		30/6/2000 Actual \$000
-	Term liabilities	182
-		182
<u>          </u>		<u>          </u>

### Note 14: Reconciliation of Operating Surplus to Net Cash Flow from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the Operating Surplus reported in the Statement of Financial Performance on page 113 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Cash Flows on page 116.

1998-99 Actual \$000		1999-2000 Actual \$000	1999-2000 Forecast \$000
127	<b>Operating Surplus</b>	803	569
	<b>Non-cash Items</b>		
569	Depreciation	619	637
569	<b>Total Non-cash Items</b>	619	637
	<b>Working Capital Movements</b>		
(113)	(Increase)/Decrease in prepayments	73	26
634	(Increase)/Decrease in receivables	(570)	(42)
(827)	(Increase)/Decrease in work in progress	837	827
599	(Decrease)/Increase in payables	(645)	(343)
108	(Decrease)/Increase in employee entitlements	189	(229)
401	<b>Total Net Working Capital Movements</b>	(116)	239
	<b>Investing Activity Items</b>		
85	Loss on sale of physical assets	(38)	-
85	<b>Total Investing Activity Items</b>	(38)	-
	<b>Other Items</b>		
461	Increase/(Decrease) in term employee entitlements	24	(397)
-	Increase in property lease liabilities	182	-
-	Other items	36	36
461	<b>Total Other Items</b>	242	(361)
<u>1,643</u>	<b>Net Cash Flow from Operating Activities</b>	<u>1,510</u>	<u>1,084</u>

## Note 15: Financial Instruments

The Audit Office is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, receivables and payables.

### *Credit Risk*

In the normal course of its business, the Audit Office incurs credit risk from receivables and from transactions with financial institutions and the New Zealand Debt Management Office of the Treasury.

The Audit Office has no significant concentrations of credit risk. No collateral or security is held or given to support financial instruments.

### *Interest Rate Risk*

The Audit Office has no interest rate risk, as all cash funds that earn interest are managed as part of the Crown's banking arrangements.

### *Currency Risk*

The Audit Office has no exposure to currency risk, as all financial instruments are in New Zealand dollars.

### *Fair Values*

The estimated fair values of all financial assets and liabilities are equivalent to the carrying amounts disclosed in the Statement of Financial Position.

## Note 16: Related Party Information

The net assets of the Audit Office are owned by the Crown. Although the net assets belong to the Crown, the Audit Office is protected through its legislation from undue influence and significant control by the Government.

Some 12% of the Office’s revenue is provided by the Crown directly (see Note 2) and a further 18% indirectly through fees for the audit of Government departments (see Note 3). These transactions are not considered to be related-party transactions, as all transactions are on an arm’s-length basis with the interests of each party being completely independent.

### Note 17: Office Accommodation Statistics

The following statistics for the year ended 30 June 2000 are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

30/6/99 Actual		30/6/2000 Actual
7,000m <sup>2</sup>	Area	6,435m <sup>2</sup>
290	Number of staff	279
24m <sup>2</sup>	Space allocation per person	23m <sup>2</sup>
\$1,869,959	Total costs of leased office accommodation	\$1,270,534
\$5,327	Rent costs per person	\$3,991
\$274	Utility costs per person	\$283
180m <sup>2</sup>	Vacant accommodation	-



# Appendices



# Appendix 1

## Directory of Offices

### Office of the Auditor-General

Level 7, Hitachi Data Systems House  
48 Mulgrave Street  
Private Box 3928  
Wellington  
Phone (04) 917-1500  
Fax (04) 917-1545  
Internet address: <http://www.oag.govt.nz>

### Audit New Zealand

#### National Office

Level 8, St Paul's Square, 45 Pipitea Street  
Private Box 99, Wellington  
Phone (04) 496-3099                      Fax (04) 496-3095

#### Whangarei

Level 2, State Insurance Building, 96 Bank Street  
Private Box 395, Whangarei  
Phone (09) 430-3083                      Fax (09) 430-3084

#### Auckland

Level 10, Dynasty Pacific Building, 155 Queen Street  
Private Box 1165, Auckland  
Phone (09) 373-5457                      Fax (09) 366-0215

#### Hamilton

Level 5, KPMG Centre, 85 Alexandra Street  
Private Box 256, Hamilton  
Phone (07) 839-3349                      Fax (07) 838-0508



### *Tauranga*

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Ford Electrical Building, 34 Chapel Street  
Private Box 621, Tauranga  
Phone (07) 578-8400 Fax (07) 577-9321

### *Napier*

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Unit 3, Munroe Court, 62 Munroe Street  
Private Box 224, Napier  
Phone (06) 835-0663 Fax (06) 835-0348

### *Palmerston North*

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Audit Office House, 292 Featherston Street  
Private Box 149, Palmerston North  
Phone (06) 354-9702 Fax (06) 356-7794

### *Wellington*

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Level 8, St Paul's Square, 45 Pipitea Street  
Private Box 99, Wellington  
Phone (04) 496-3099 Fax (04) 496-3195

### *Nelson*

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Level 1, WINZ Building, 22 Bridge Street  
Private Box 13, Nelson  
Phone (03) 546-8054 Fax (03) 546-8053

### *Christchurch*

---

Level 2, Charles Luney House, 250 Oxford Terrace  
Private Box 2, Christchurch  
Phone (03) 379-8774 Fax (03) 377-0167

### *Dunedin*

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Level 5, Forsyth Barr House, 165 Stuart Street  
Private Box 232, Dunedin  
Phone (03) 477-0657 Fax (03) 479-0447

## Appendix 2 Reports Issued During the Year Ended 30 June 1999

### Reports to Parliament

#### *General Reports of the Controller and Auditor-General*

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Fourth Report for 1999	B.29[99d]	5/10/99
Fifth Report for 1999	B.29[99e]	21/12/99
First Report for 2000	B.29[00a]	21/3/00
Second Report for 2000	B.29[00b]	29/6/00

#### *Special Reports*

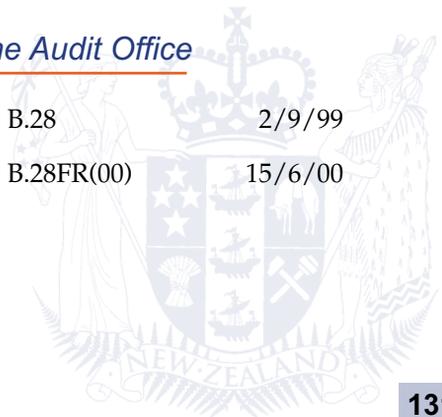
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Local Government Environmental Management: A Study of Models and Outcomes (produced jointly with the Parliamentary Commissioner for the Environment)		30/8/99
Towards Service Excellence: The Responsiveness of Government Agencies to Their Clients		15/9/99
Inquiry into Events Surrounding the Chartering of Aircraft by the Department of Work and Income		15/10/99

#### *Accountability Reports of the Audit Office*

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Annual Report 1998-99	B.28	2/9/99
Forecast Report 2000-2001	B.28FR(00)	15/6/00



## Other Reports And Publications

Hastings District Council: Control and Management of Council Assets	22/7/99
Suggested Guidelines for Advertising and Publicity by Local Authorities	5/8/99
Expenditure of the Chief Executive, and Expenditure Control Systems in the New Zealand Qualifications Authority	14/9/99
Inquiry into Mayoral Expenses at the Hauraki District Council	23/9/99
Contracting Out Local Authority Regulatory Functions	30/11/99
Role and Functions of the Audit Office (revision)	25/1/00
Inquiry into Gisborne District Council and the London Media Launch of <i>Gisborne 2000 First Light</i>	14/4/00
Governance and Oversight of Large Information Technology Projects	5/5/00
Student Loan Scheme: Publicly Available Accountability Information	23/5/00
Airways Corporation Of New Zealand Limited: Review Of Certain Matters Concerning The National Air Traffic Services (UK) Consortium	30/6/00

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