

## DAVID GASCOIGNE

Apartment A  
11 Cable Street  
Wellington  
New Zealand

Tel: +64 4 385 2553  
Fax: +64 4 385 2340  
Mobile: +64 274 405 405  
e-mail: david.gascoigne@extra.co.nz

18 August 2005

Mr K B Brady  
The Controller and Auditor-General  
PO Box 3928  
WELLINGTON

Dear Mr Brady

### ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT TENDERING AND ALLOCATION PROCESSES

1. You have retained me as an independent evaluator of the means by which auditors are appointed to act on your behalf. This is the third year in which I have been retained for that purpose.
2. This is my report on those processes for the financial year ended 30 June 2005. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms. No limitation has been placed upon the manner in which I carry out my assignment.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented.
4. There are three distinct types of process:
  - (a) an appointment of an auditor following a contestable tender;
  - (b) an allocation made by you of an auditor for a given entity, in accordance with "the audit allocation model";
  - (c) a renewal, for a further term, of an approved auditor's contract to audit a particular entity.
5. Appointments following a contestable tender:
  - (a) The tender process is overseen by a panel appointed by you. Each panel comprises an independent chair appointed by you, a representative of the OAG, and a representative appointed by the entity concerned. That panel evaluates the tenders received and makes a recommendation to you as to which should be accepted – and why. The decision is then yours.
  - (b) This process is now reserved largely for organisations with a strong commercial focus. There were three such tenders in the year under review: Television New Zealand Limited, Lyttleton Port Company Limited, and Transpower New Zealand Limited.
  - (c) In the first two cases I received and read all the papers. I then attended the meetings of the panels as an observer, to monitor the process. Occasionally, I asked questions to clarify issues. In the third case, I played no part in the process at all, as I am the Chairman of the Board of the company concerned.

- (d) In each of the three cases, you accepted the recommendation made by the panel.
6. Allocation of an auditor in accordance with the "audit allocation model":
- (a) In the preceding financial year, 2003/2004, extensive use was made of this process. The nature of the model has been well publicised. It does not entail a tender, but is instead an appointment by you in the interests of allocative efficiency.
- (b) In the financial year under review, this process was not used, except where two entities were combined or a new entity was created.
7. Renewal of an existing auditor's contract for a further, defined term:
- (a) In the 2004/2005 financial year, you re-appointed existing auditors to conduct the audits of 110 public entities.
- (b) The process involved, and issues which arose from it, are described in the preceding section of this Annual Report. I regard that description as being fair and accurate.
8. In the instances described in paragraph 6 above (allocations) and in paragraph 7 above (renewals), I spoke to no external parties. But I did seek access to a selection of relevant files and sought explanations from the OAG about points that I thought merited examination.
9. In particular, I reviewed all the files where questions had been raised by entities about the level of audit fees proposed by the auditor for the period following a renewal. There were 14 such cases. In each case, the Director, Auditor Appointments at the OAG provided a detailed analysis of the fee proposed and sought to set it in context with comparable fees. In every case, agreement was reached between the entity and the auditor as to an appropriate fee.
10. I now state my overall conclusions. On the basis of the meetings I have observed, discussions I have had, the papers I have considered and the explanations that I have been given, I consider that the processes adopted by you and the OAG in relation to the tendering, allocation and renewal of audits falling within your mandate during the financial year to 30 June 2005 are appropriate for their purpose, and have been applied in a way which is consistently fair and appropriate, having regard to the rights, interests and obligations of the parties concerned.
11. I indicated above that there were instances where questions were raised by some entities about the level of fees that were proposed following a renewal. Those questions were responded to carefully and professionally. In all cases the points at issue have been resolved. I have seen no basis for being critical of any of the processes which were followed or actions which were taken. My view is that the OAG has acted carefully and professionally throughout.
12. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated in the financial year to 30 June 2005 have been implemented with all due probity and objectivity.

Yours faithfully



David Gascoigne CBE LLM

Business Tel: +64 4 498 5120  
Business Email: david.gascoigne@minterellison.co.nz