

Introduction

2.001 This article reports on the results of the 1997-98 audits of 44 government departments. Its purpose is to inform Parliament of the assurance given by the audit in relation to:

- the quality of financial reports; and
- the financial and performance management of departments.

Audit Opinions Issued

2.002 The Public Finance Act 1989 (the Act) specifies departments' responsibilities in fulfilling the requirements for general purpose financial reporting. Sections 34A(3) and 35(3) of the Act require departments to prepare their financial statements in accordance with generally accepted accounting practice.¹

2.003 The Act also sets out the responsibility of the Audit Office to issue an audit opinion on the financial statements of each department (section 38).

2.004 To form an opinion on the financial statements of departments, our audits are conducted in accordance with generally accepted auditing standards together with our own additional standards appropriate to public sector audits. The audits are planned and performed so as to obtain all the information and explanations considered necessary in order to provide sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statements, whether caused by fraud or error. In forming our opinion, we also evaluate the overall adequacy of the presentation of information in the financial statements.

2.005 We are pleased to report that in 1998 for the first time in five years all of the 44 government departments audited received audit reports containing an unqualified audit opinion. See figure 2.1 on the next page.

¹ "Generally accepted accounting practice" is defined in section 2(1) of the Public Finance Act 1989.

*Figure 2.1
Analysis of Audit Opinions 1994-1998*

Year Ended 30 June	1998	1997	1996	1995	1994
Unqualified opinions	44	42	45	42	40
Qualifications regarding statements of service performance	-	1	1	1	4
Qualifications regarding cost allocation	-	-	-	2	-
Qualifications regarding other issues	-	3	-	-	-
Total audit opinions issued	44	46	46	44*	44

*One department received a qualification on two separate matters in 1995.

2.006 While no audit reports were issued with any form of qualification in 1998, notes were included in the reports for three departments as further explained in paragraph 2.009 (referring to certain matters affecting their financial statements).

Going Concern

2.007 The three qualifications regarding other issues in 1997 related to the basis of valuation underlying the financial statements for the Ministry of Agriculture, the Ministry of Forestry and Valuation New Zealand. The accounting issue involved related to whether these departments could properly be treated as going concerns, in view of their impending disestablishment within the period of 12 months following 30 June 1997.²

² *Third Report for 1997*, parliamentary paper B.29[97c], pages 23-24.

- 2.008 Now that the disestablishments have taken place, the financial effects (which could not previously be known with certainty) have been ascertained. Immediately following the respective disestablishment dates – 28 February 1998 in the case of the Ministries of Agriculture and Forestry, and 30 June 1998 in the case of Valuation New Zealand – all assets and liabilities were transferred at net book values. These transfers were to the new Ministry of Agriculture and Forestry in the case of the two defunct ministries, and to the Crown in the case of Valuation New Zealand.
- 2.009 Our 1998 audit report on each of the three disestablished departments noted that:
- because of the disestablishment, the financial statements had not been prepared using the going concern assumption; but
 - there had been no change to the measurement basis for assets and liabilities as they were all transferred to their successors at net book value.

Financial and Service Performance Management

Financial Management

- 2.010 Our auditors examine aspects of financial management while conducting the annual audit. In 1994, we began reporting our assessments of aspects of financial management to the chief executive and to stakeholders in the department (such as the responsible minister and the select committee which conducts the financial review of the department).
- 2.011 We assess the following aspects of financial management:
- *Financial control systems* – the systems for monitoring expenditure and the management of assets.
 - *Financial management information systems* – the systems for recording, reporting and protecting financial information.
 - *Financial management control environment* – management's attitude, policies and practices for overseeing and controlling financial performance.

2.012 The purpose of this exercise is to identify specific areas of management where there are weaknesses, and to make recommendations to eliminate those weaknesses.

Service Performance Management

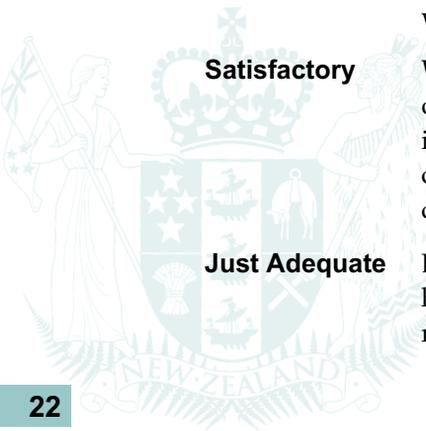
2.013 The aspects of managing service performance that we assess and report to chief executives fall into two broad areas:

- *Service performance information and information systems* – This covers the adequacy of monitoring and control systems for service performance information, the accuracy of the information produced by those systems, and whether the performance measures in the statement of service performance are being used as a management tool.
- *Service performance management control environment* – This covers the existence of quality assurance procedures, the adequacy of operational policies and decisions, and the extent to which self-review of non-financial performance is taking place.

The Rating System

2.014 The rating system we use is as follows:

<i>Assessment Term</i>	<i>Further Explanation</i>
Excellent	Works very well; no scope for cost-beneficial improvement identified.
Good	Works well; few or minor improvements only needed to rate as excellent. We would have recommended improvements only where benefits exceeded costs.
Satisfactory	Works well enough, but improvements desirable. We would have recommended improvements (while having regard for costs and benefits) to be made during the coming year.
Just Adequate	Does work but not at all well. We would have recommended improvements to be made as soon as possible.



- Not Adequate** Does not work; needs complete review. We would have recommended major improvements to be made urgently.
- Not Applicable** Not examined or assessed; comments should explain why.

The Results

- 2.015 We assessed management performance in each of the 44 departments. A summary of the assessments (220 in total – 5 for each department) is given in Figure 2.2 on page 24.
- 2.016 The highlights of the results are as follows:
- No assessments of “Not Adequate” were issued – the same as in the previous three years.
 - Only three assessments of “Just Adequate” were issued – markedly reduced from nine in 1997³ and 11 in 1995 and 1996. Two of the “Just Adequate” assessments were for service performance information systems, and the other was for financial control systems.
 - Seventy assessments of “Satisfactory” were issued. This is 32% of all assessments, slightly higher than in 1997. The assessments of “Satisfactory” were fairly evenly distributed across four of the five management aspects, but were 39% of the assessments for service performance information systems. This is a reflection of the fact that there were fewer ratings of “Excellent” or “Good” for that aspect.
 - One hundred and forty-seven assessments (67%) were either “Excellent” or “Good”, representing a continuation of the gradual improvement noted last year. Twenty-one percent of the ratings were “Excellent” in 1998, compared with 18% in 1997.



Figure 2.2
*Summary of Assessments of Aspects of Financial Management and Managing Service Performance in
Departments for 1997-98*

Aspect Assessed	Excellent		Good		Satisfactory		Just Adequate		Not Adequate	Total
		%		%		%		%		
FCS	12	27.3	18	40.9	13	29.5	1	2.3	0	44
FMIS	8	18.2	23	52.3	13	29.5	0	0.0	0	44
FMCE	8	18.2	22	50.0	14	31.8	0	0.0	0	44
SPIS	7	15.9	18	40.9	17	38.6	2	4.5	0	44
SPMCE	11	25.0	20	45.5	13	29.5	0	0.0	0	44
Totals 1998	46	20.9	101	45.9	70	31.8	3	1.4	0	220
1997	39	17.7	106	48.2	66	30.0	9	4.1	-	220

Key:

- FCS - Financial Control Systems
- FMIS - Financial Management Information Systems
- FMCE - Financial Management Control Environment
- SPIS - Service Performance Information Systems
- SPMCE - Service Performance Management Control Environment

2.017 We compared our assessments for 1997 and 1998 for each of the 43 departments where the comparison is possible. The overall results for those 43 departments are summarised in Figure 2.3 below.

*Figure 2.3
Assessments for 1998 Compared to 1997*

	Higher	Same	Lower	Total
FCS	3	37	3	43
FMIS	3	36	4	43
FMCE	4	35	4	43
SPIS	8	32	3	43
SPMCE	11	28	4	43
Totals	29	168	18	215
%	13.5	78.1	8.4	100.0

See Figure 2.2 for key to abbreviations.

2.018 The noteworthy features of these results are:

- Over three-quarters of the assessments did not change between 1997 and 1998.
- About 13% of the assessments were higher in 1998 than in 1997.
- About 8% of the assessments were lower in 1998.

2.019 The fact that more assessments were higher in 1998 than lower is an indication of improvement, which has continued at about the same rate as in 1997.

2.020 To explore these changes a little more, we further examined results for departments which had been assessed as “Satisfactory” or worse in 1997 and for which assessments were also made in 1998.

2.021 Seventy assessments of either “Satisfactory” or “Just Adequate” had been given in 1997. The 1998 assessments were better in 18 cases, and worse in only one case. The corresponding figures last year were 79 assessments of

3 The contrast with 1997 is affected by the fact that a department which was disestablished in 1998 accounted for five of the nine “Just adequate” assessments in 1997.

“Satisfactory” or worse in 1996, of which 22 were higher in 1997 and two lower.

2.022 We have now reported our assessments of management performance to Parliament and its select committees for each of the last five years. Our assessments have often been of considerable interest to select committees when conducting their financial reviews of departments.

2.023 Departments vary greatly in terms of size and organisational structure. When we first reported results of the assessments to select committees, we took care to alert committees to these differences and urged them not to make comparisons between departments without being mindful of considerations, such as size and structure, which could explain reported differences in performance. Caution should continue to be exercised in using these assessments.

