

## Introduction

- 2.001 This article reports on the results of the 1998-99 audits of 42 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.<sup>1</sup>
- 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 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.

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

2.005 For the year ended 31 March 1999, all of the 42 government departments audited received an unqualified audit opinion. See Figure 2.1.

*Figure 2.1  
Analysis of Audit Opinions 1994-1999*

Year Ended 30 June	1999	1998	1997	1996	1995	1994
Unqualified opinions	42	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	-	-	-
<b>Total audit opinions issued</b>	<b>42</b>	<b>44</b>	<b>46</b>	<b>46</b>	<b>44</b>	<b>44</b>

Notes:

1. The reduction from 44 to 42 departments between 1998 and 1999 is accounted for by the disestablishment of 3 departments (the Ministries of Agriculture and Forestry and Valuation New Zealand) and the establishment of 1 new department (the Department of Work and Income).
2. In 1995, one department received a qualification on two separate matters.

2.006 This is the second successive year of unqualified opinions for all departments – a pleasing situation for all concerned.

## **Financial and Service Performance Management**

2.007 In 1994, we began reporting our assessments of certain aspects of management to the chief executive and to the department's key stakeholders (such as the responsible minister and the select committee which conducts the financial review of the department).

2.008 While conducting the annual audit, our auditors examine aspects of financial management and service performance management. The purpose of this exercise is to identify specific areas of management where there are weaknesses, and to make recommendations to eliminate those weaknesses.

### Financial Management

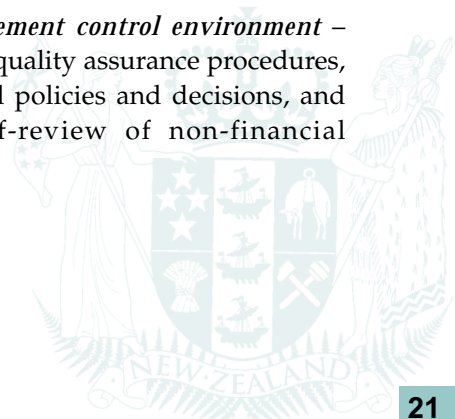
2.009 We assess the following aspects of financial management:

- *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.

### Service Performance Management

2.010 Aspects of the management of service performance that we assess and report 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*

2.011 The rating system we use is as follows:

<b>Assessment Term</b>	<b>Further Explanation</b>
<b>Excellent</b>	Works very well; no scope for cost-beneficial improvement identified.
<b>Good</b>	Works well; few or minor improvements only needed to rate as excellent. We would have recommended improvements only where benefits exceeded costs.
<b>Satisfactory</b>	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.
<b>Just Adequate</b>	Does work, but not at all well. We would have recommended improvements to be made as soon as possible.
<b>Not Adequate</b>	Does not work; needs complete review. We would have recommended major improvements to be made urgently.
<b>Not Applicable</b>	Not examined or assessed; comments should explain why.

*The Results*

2.012 We assessed management in each of the 42 departments. A summary of the assessments (210 in total – 5 for each department) is given in Figure 2.2 opposite.



Figure 2.2  
Summary of Assessments of Aspects of Financial Management and Managing Service Performance  
in Departments for 1998-99

Aspect Assessed	Excellent %	Good %	Satisfactory %	Just Adequate %	Not Adequate	Total
FCS	9	25	8	0	0	42
FMIS	11	26	5	0	0	42
FMCE	11	24	6	1	0	42
SPIS	7	22	13	0	0	42
SPMCE	14	18	10	0	0	42
<b>Totals 1999</b>	<b>52</b>	<b>115</b>	<b>42</b>	<b>1</b>	<b>0</b>	<b>210</b>
1998	46	101	70	3	0	220
1997	39	106	66	9	-	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

2.013 The highlights of the results are as follows:

- There were 52 assessments of “Excellent” (25%) and 115 assessments of “Good” (55%). The total of 167 assessments (76%) that were either “Excellent” or “Good” compared most favourably with 67% in 1998.
- “Satisfactory” assessments issued – 42 (20% of all assessments) – were down on the 32% of 1998, but only because of the greatly increased proportion of “Good” and “Excellent” assessments.
- Only one assessment of “Just Adequate” was issued – following three in 1998, nine in 1997 and 11 in 1996 and 1995. This assessment was for financial management control environment.
- No assessments of “Not Adequate” were issued – the same as in the previous four years.

2.014 We compared our assessments for 1998 and 1999 for each of the 41 departments where the comparison is possible. The overall results for those 41 departments are summarised in Figure 2.3 below.

*Figure 2.3  
Assessments for 1999 Compared to 1998*

	Higher	Same	Lower	Total
FCS	5	33	3	41
FMIS	11	29	1	41
FMCE	12	26	3	41
SPIS	7	32	2	41
SPMCE	5	34	2	41
<b>Totals</b>	<b>40</b>	<b>154</b>	<b>11</b>	<b>205</b>
%	20	75	5	100

See Figure 2.2 for key to abbreviations.

- 2.015 The noteworthy features of these results are:
- Three-quarters of the assessments did not change between 1998 and 1999.
  - Nearly 20% of the assessments were higher in 1999 than in 1998.
  - About 5% of the assessments were lower in 1999.
- 2.016 The magnitude of the shift to higher assessments indicated quite a marked improvement by departments in the 1999 year, compared with the more gradual improvement that had characterised the two previous years.
- 2.017 Departments have taken a keen interest in how their performance can be improved to achieve improved assessments. Our auditors continue to offer advice on improvements in their management letters.
- 2.018 We have now reported our assessments of management performance to Parliament for each of the past six years. Our assessments have often been of considerable interest to select committees when conducting their financial reviews of departments.
- 2.019 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 those 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.

