

## Introduction

2.001 This article reports on the results of the 1999-2000 audits of 43 government departments. Its purpose is to inform Parliament of the assurance given by the audits 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.

2.005 All of the 43 government departments audited received audit reports containing an unqualified audit opinion (see Figure 2.1 on the next page).

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

*Figure 2.1  
Analysis of Audit Opinions 1996-2000*

<b>Year Ended 30 June</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Unqualified opinions	43	42	44	42	45
Qualifications regarding statements of service performance	-	-	-	1	1
Qualifications regarding other issues	-	-	-	3	-
<b>Total audit opinions issued</b>	<b>43</b>	<b>42</b>	<b>44</b>	<b>46</b>	<b>46</b>

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

## **Financial Management and Service Performance Management**

2.007 In 1994, we began reporting our assessments of certain aspects of management to the chief executive and to stakeholders in each department (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*

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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*

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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 43 departments. A summary of the assessments (215 in total – 5 for each department) is given in Figure 2.2 on the next page.



Figure 2.2  
Summary of Assessments of Aspects of Financial Management and Service Performance Management  
in Departments for 1999-2000

Aspects Assessed	Excellent No.	Excellent %	Good No.	Good %	Satisfactory No.	Satisfactory %	Just Adequate No.	Just Adequate %	Not Adequate No.	Total No.
FCS	16	37	22	51	5	12	0	0	0	43
FMIS	15	35	25	58	3	7	0	0	0	43
FMCE	16	37	22	51	5	12	0	0	0	43
SPIS	10	23	20	47	13	30	0	0	0	43
SPMCE	17	39	18	42	8	19	0	0	0	43
<b>Totals</b>	<b>74</b>	<b>34</b>	<b>107</b>	<b>50</b>	<b>34</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>215</b>
1999	52	25	115	55	42	20	1	0	0	210
1998	46	21	101	46	70	32	3	1	0	220

**Key**

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

2.013 The highlights of the results are as follows:

- There were 74 assessments of “Excellent” (34%) and 107 assessments of “Good” (50%). The total of 181 assessments (84%) that were either “Excellent” or “Good” indicates continued improvement compared with 79% in 1999 and 67% in 1998.
- “Satisfactory” assessments issued – 34 (16% of all assessments) – were down on the 20% of 1999 and 32% of 1998, but only because of the continually increasing proportion of “Good” and “Excellent” assessments.
- No assessments of “Not Adequate” or “Just Adequate” were issued. There have been no “Not Adequate” assessments in all of the seven years we have now been issuing these assessments, while “Just Adequate” assessments have steadily reduced from a peak of 11 in 1995 and 1996 to none in 2000.

2.014 We compared our assessments for 1999 and 2000 for each of the 42 departments where the comparison is possible. The overall results for those 42 departments are summarised in Figure 2.3 below.

*Figure 2.3  
Management Assessments for 2000 Compared to 1999*

Aspects Assessed <sup>1</sup>	Higher	Same	Lower	Total
FCS	11	31	0	42
FMIS	7	34	1	42
FMCE	9	32	1	42
SPIS	4	37	1	42
SPMCE	5	37	0	42
<b>Totals</b>	<b>36</b>	<b>171</b>	<b>3</b>	<b>210</b>
%	17	82	1	100

1 See Figure 2.2 for key to abbreviations.

- 2.015 The noteworthy features of these results are:
- 82% of the assessments did not change between 1999 and 2000.
  - 17% of the assessments were higher in 2000 than in 1999.
  - Only 3 of the assessments (1%) were lower than in 1999.
- 2.016 The extent of the shift to higher assessments – while being a little less, proportionately, than the previous year (17% in 2000 compared with 19% in 1999) – is highly commendable, given that previous improvements restrict the scope for further improvements of the same magnitude.
- 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 through management letters.
- 2.018 We have now reported our assessments of management performance to Parliament and its select committees for each of the past seven 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.

