

Part One

Organisation, Purpose, Outcomes and Outputs



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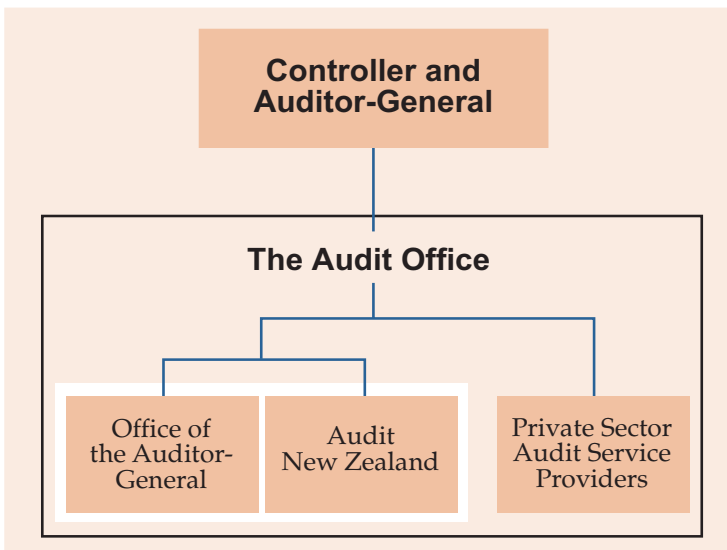
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Organisational Arrangements

The Controller and Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purposes of the Public Finance Act 1989.

To plan, conduct and report on the results of over 3,900 audits each year, the Controller and Auditor-General has three major sources of assistance: two internal business units (the Office of the Auditor-General and Audit New Zealand) and private sector auditing firms.

“The Audit Office” is the term used in this report to refer to the whole of these resources and activities. It includes the Controller and Auditor-General as a person, and all those authorised by the Controller and Auditor-General to carry out any particular function, duty or power.



The roles of the two internal business units are as follows:

The Office of the Auditor-General⁴ –

Is responsible for providing 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 –

Carries out audits that it has won the right to conduct on behalf of the Auditor-General in competition with private sector auditors, as well as those audits not awarded under the contestable audit arrangements, and offers additional assurance services to public entities.

⁴ Usually abbreviated to "OAG" in the rest of this report.

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:

- Public entities (as defined in section 5 of the Public Audit Act) 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.



Key Concerns

The key concerns of the Office, which are central to the way in which all our auditors undertake any work, are:

- *Authority*: Have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?
- *Performance*: Have the activities undertaken been in accordance with Parliament's intentions?
- *Waste*: Have resources been obtained and applied in an economical manner? That is, are taxpayers' dollars being wasted?
- *Probity*: Are entities meeting parliamentary and public expectations of an appropriate standard of behaviour in the public sector?
- *Accountability*: Have entities given full and accurate accounts of their activities, and of their compliance with Parliament's intentions, through the annual reporting cycle? Are governance and management arrangements suitable to address all of the concerns identified above?

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 opinions on the financial statements and results of the audit of over 3,900 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.

Further information on planned output performance is given on pages 31-37.

Full details of objectives for outputs are given on pages 53-72.

A list of entities subject to audit by the Audit Office is given on page 16.

Public Sector Entities Subject to Audit by The Audit Office

AT 31 MARCH 2001
Central Government

The Crown Financial Statements	1	
Government Departments	44	
Offices of Parliament	2	47

Crown Entities and Other Public Bodies
Education

Colleges of Education & subsidiaries	4	
Technical Institutes & subsidiaries	45	
Universities & subsidiaries	29	
Schools	2,641	
Rural Education Activity Programmes	2	
Miscellaneous Education Bodies	14	2,735

Health

Health Authorities & subsidiaries	2	
District Health Boards & subsidiaries	48	
Miscellaneous Health Bodies	19	69

Reserve Boards	49	
State-Owned Enterprises & subsidiaries	70	
Maori Trust Boards (<i>& subsidiaries – audits by arrangement</i>)	32	
Patriotic Councils and War Funds	14	
Primary Producer Boards & subsidiaries	12	
Crown Research Institutes & subsidiaries	31	
Fish and Game Councils	14	
Other Crown Entities and Public Bodies	133	355

Local Government

Regional Councils	12	
City Councils	15	
District Councils	59	86

Airport Authorities (to cease)	19	
Energy Companies & subsidiaries	69	
Licensing Trusts & related audits	40	
Local Authority Trading Enterprises	136	
Port Companies & subsidiaries	40	
Sinking Fund Commissioners	37	
Cemetery Trustees	106	
Miscellaneous	37	484

Pacific Island audits		11
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TOTAL AS AT 31 MARCH 2001		3,787
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Changes under the Public Audit Act 2001

Reserve Bank of New Zealand	1	
Energy Trusts	29	
Other entities (net additions)	130	160

EXPECTED TOTAL AS AT 1 JULY 2001		3,947
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Part Two

Operating Goals and Strategies



A New Strategic Business Plan for The Audit Office

The Audit Office presented a new Strategic Business Plan to the Officers of Parliament and Finance and Expenditure Committees in November 2000. The Plan covers the period to 30 June 2004, and emphasises:

- for the OAG, the use of more funding to meet increased demand and the requirements of the Public Audit Act; and
- for Audit New Zealand, consolidation of its sound performance over the last three years, by maintaining its capability.

This section of the *Forecast Report* consists mainly of excerpts from the Plan.



Factors Affecting Our Operating Goals and Strategies

Key factors that are likely to influence our performance over the next 3 years are:

- *Ongoing changes in the parliamentary environment, and in community expectations about public sector performance and accountability.*

The nature of select committee scrutiny is changing and developing in an MMP and coalition environment. There is also growing public and media interest in select committee inquiries, both the routine aspects (financial review and Estimates examinations) and special inquiries initiated by the committees. The Audit Office has traditionally acted as adviser on the routine work, and is now more often being invited to assist on inquiries as well.

Recently, the Finance and Expenditure Committee set up a subcommittee to consider the Auditor-General's reports. This will also change the way the Office works with Parliament.

- *Continuing change in ways of doing business in and with the public sector, as reform processes and information technology innovations continue.*

Government activities are in a state of continuous reform. Known reforms which will be significant for us during the life of the new Plan include:

- restructuring of the Health sector;
- passage and implementation of new legislation for Local Government;

- development of “E-Government”;
- greater emphasis on evaluation of impacts and outcomes; and
- progress on improving the capability of the core public sector.

As the public sector auditor, the Audit Office has to build and maintain its capacity to evaluate, and contribute to the financial management and accountability aspects of these reforms.

Information and communication changes are accelerating, as the internet and e-commerce develop in parallel. What E-Government is, and what it might be, will be significant developments over the life of this Plan. No one knows how revolutionary these changes will be, but some clear trends are:

- Internal and external transactions, workflows and data storage are increasingly being computerised.
- Public entities are looking to share information more frequently as they need to cooperate more closely on difficult social issues.
- More information which can be used for accountability purposes is becoming available on web sites.
- Innovation is a constant factor in development of systems.
- Internationalisation of accounting standards is being assisted by the development of “common” accounting frameworks such as XBRL.

The Audit Office needs to do more to keep up with these developments in the public sector, and also in the audit and assurance tools available to deal with them. We see information and communication technology as a key area, and have now developed a coherent strategic approach to it.

- *Managing the consequences of passage of the Public Audit Act 2001; in particular, the addition of new audited entities, and the extension of our full mandate to almost all public entities.*

The Public Audit Bill was enacted on 6 April 2001. It makes the Auditor-General an Officer of Parliament, and clarifies the scope of the Auditor-General's mandate. The key changes that affect our planning, resourcing and skill requirements are:

- *Changes to the audit portfolio:* The Reserve Bank of New Zealand, energy trusts, and miscellaneous other bodies are added to our audit portfolio.
- *Extension of the full mandate across the Crown sector:* The Auditor-General's ability to review issues of effectiveness and efficiency is extended beyond "core" central and local government to the whole public sector except the Reserve Bank. This increases the coverage of the full mandate by at least a third, and means that sectors such as Health, Education and Science are now subject to the full mandate.
- *Appointment of a new Auditor-General.*

The current Auditor-General's term ends in April 2002. In preparation for this, he has commissioned one Office-wide review, and is considering another.

- Senior staff from Australian Audit Offices undertook a peer review in February and March 2001. This review covered the whole range of Audit Office activities, and Parliament will be advised of its results before 30 June 2001.

- Depending on the results of this review, the Auditor-General may also commission a further review, of the costs and benefits of contestability of annual audits. The last such review was done in 1994, and was confined to identification of net costs. We are clear that the quality of audit work has increased, but have not formally evaluated the overall value of the process.

Risks and uncertainties to 2004:

There are a number of key risks and uncertainties which we need to manage over the period of the new Strategic Business Plan:

Performance risks:

- failing to adequately assess changes in our operating environment;
- failing to develop products and services which meet current professional standards and parliamentary and audited entity needs;
- not maintaining the quality of annual audits; and
- not maintaining the quality of major reports and other support and advisory activities.

Capability risks:

- not keeping pace with changes in information and communications technology;
- not maintaining critical mass in Audit New Zealand; and
- not developing and maintaining core skills and attributes in the OAG.

These risks and uncertainties are discussed in more detail in the Plan. The broad strategies adopted to cope with them are described on pages 24-25.

Key assumptions and broad performance strategies:

The Strategic Business Plan is predicated on four key assumptions about our scale of activity and product range.

- Our *portfolio of entities* will increase in size and scope as defined in the Public Audit Act, but will then remain substantially the same over the planning period.
- We will continue to deliver the *range of products* we currently provide, and we will also position ourselves to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of our *annual audits* will remain substantially the same, but the *assurance work* we undertake at the request of entities will continue to grow.
- The scale of our activity associated with *special study reports, advice to Parliament and others, and inquiries* will continue to increase because of increases in demand and the effects of the Public Audit Act. The quality of the work will remain at least as high as it currently is.

The Auditor-General will use a series of broad strategies to maintain Audit Office capability and manage the effectiveness and efficiency of its performance.

To ensure that all *audit reports and advice* are soundly based:

- The Auditor-General will continue to use a pool of expertise sourced from both the private sector and in-house, and carry out effective quality assurance reviews on this work.

To ensure a sound *public sector auditing capability* is retained:

- The Auditor-General will maintain an in-house, professionally competent, and financially viable, operational capability to conduct both financial audits and special studies.

To ensure the effectiveness and efficiency of *audit service delivery*:

- The Auditor-General will continue, wherever practicable, to use a contestable allocation process for annual audits.

To be properly responsive to the *needs of Parliament and other constituencies*:

- The Auditor-General will maintain and further develop a strong in-house research, planning, reporting and advisory capacity.

To maximise the *value added* to our system of government:

- The Auditor-General will continue to encourage audit service providers to perform additional assurance work which helps public entities improve their performance and accountability.

Strategies for the OAG and Audit New Zealand are set out in detail in the Strategic Business Plan.



Operating Goals and Strategies

Informed by all the factors above, our operating goals and strategies for 2001-2002 will continue to be primarily directed towards:

- ensuring that we continue to deliver excellent audit services;
- adjusting the emphasis of our audit work, our organisation, and our methods, to reflect our changing environment; and
- being a leading example of a public entity in terms of performance, financial management and accountability.

Goal 1:

To ensure that we continue to deliver excellent audit services.

Strategies:

We will continue to:

Plan and conduct all audits *professionally* and having regard to the *full mandate* of the Office.

Target our audits at critical areas of performance and accountability in the public sector.

We will place particular emphasis on:

Making effective arrangements for audits and public reporting on new entities in our portfolio, and the use of our broader powers to conduct performance audits under the *Public Audit Act*.

Completing all audits that we are required to perform.

Communicating effectively with those who have a key interest in the results of our work.

Goal 2:

To adjust the emphasis of our audit work, our organisation, and our methods, to reflect our changing environment.

Strategies:

We will:

Maintain sound *awareness* of developments and changes in the public sector.

Improve our *mechanisms for learning* as an organisation.

Undertake projects targeted at *increasing our understanding* of specific areas or issues in the public sector, and at *developing suitable audit products* for the changing needs of the sector.

Goal 3:

To be a leading example of a public entity in terms of performance, financial management and accountability.

Strategies:

We will:

Fulfil a *leadership role* where it is appropriate to do so, particularly in the development of accountability arrangements and performance reporting.

Continue to *practise what we preach* to others.

Operate under a philosophy of *continuous improvement*.

Maintain a *capability* which delivers excellent *administrative, corporate and technical support* to the Office.



OPERATING GOALS AND STRATEGIES

Place additional emphasis on *measuring and reporting achievement* of our goals and desired outcomes.

Successfully respond to the findings of an *external peer review* conducted late in the 2000-2001 year.

Successfully manage the transition process on appointment of a new Auditor-General.



Part Three

Planned Performance for 2001-2002



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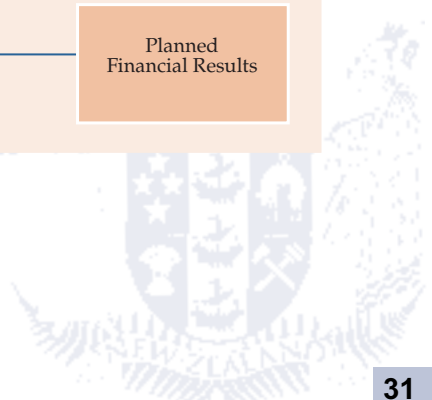
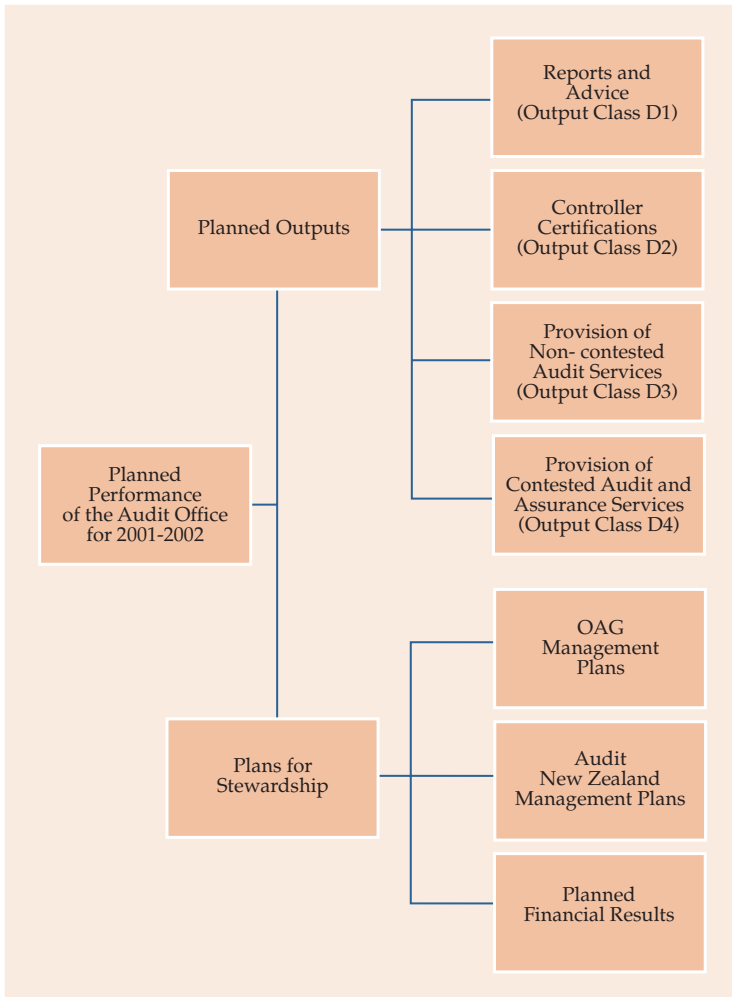
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Overview

Elements of the Planned Performance of the Audit Office for 2001-2002



Highlights of Planned Output Performance

The products and services the Office will deliver in 2001-2002 are reflected in four classes of outputs. Highlights of planned performance for each of these are outlined below.

Output Class D1 –

Reports and Advice Arising from the Exercise of the Function of Legislative Auditor

- This output class is appropriated \$4.6 million, funded directly by the Crown.
- It incorporates a number of very important and visible activities of the Audit Office, of which the major ones are:
 - Undertaking and reporting on *special audits* of public entity activities. These audits examine questions such as entity performance, the quality of accountability to Parliament, and the probity of activities. Subjects for the audits are chosen by a thorough “strategic audit planning” process, which assesses what subjects might be most useful to pursue.

With the passage of the Public Audit Act, this activity now covers almost all of the public sector, and Parliament is being asked to provide additional funds to do more audits, particularly in Crown entities. This will enable us to issue 9-12 reports in 2001-2002, and 10-14 reports in future years. In 2001-2002, we are likely to be reporting on such issues as the deployment of New Zealand forces in East Timor and the systems used to minimise hospital-acquired infection.

A full list of subjects being considered is given on pages 54-60. This work is primarily undertaken by a Special Audits and Studies Group in the OAG, and costs up to \$2.9 million.

- Reporting to and *advising parliamentarians* – either in select committees, or as Ministers or individual MPs – on the results of audits and investigations. The bulk of this is done through financial reviews and Estimates examinations, mainly by Sector Managers in the OAG, and costs up to \$0.6 million.
- *Responding to enquiries* from taxpayers, ratepayers, or individual Members of Parliament on matters which the Auditor-General thinks it appropriate to investigate. Between 250 and 300 of these are received each year, and costs of the work are up to \$0.4 million.
- The quality of this work is ensured by rigorous internal procedures, including peer review and substantiation of major reports. Principles of natural justice are used in the clearance of public reports, so that public entities and affected individuals have an opportunity to check the factual accuracy of the findings and comment on the conclusions drawn.
- More detail on this output class is provided in the Forecast Financial Statements, on pages 53-65.



Output Class D2 –

Certification of Authority to Release Funds from the Crown Bank Account

- Output Class D2 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 Parliamentary appropriations and are for lawful purposes. A key part of this activity is checking that warrants issued by the Governor-General for the release of funds, and daily amounts released to Departments to fund their activities, are supported by appropriations.
- This output class is appropriated \$0.3 million, funded directly by the Crown. More detail on this output class is provided in the Forecast Financial Statements, on pages 66-67.



Output Class D3 –

Provision of Non-contested Audit Services

Output Class D4 –

Provision of Contested Audit and Assurance Services

- These two output classes relate to the conduct of audits of public entities. The Auditor-General has a statutory duty to conduct an audit of the financial statements of more than 3,900 public entities. These audits are undertaken either by private sector auditors or by Audit New Zealand.
- Annual audits result in:
 - *Audit Reports* – On whether the financial statements fairly reflect the financial and non-financial performance of these entities.
 - *Management Reports* – To the management and governing bodies of these entities, on issues arising from the audit.
- Audit service providers also provide *other assurance services* to public entities, at their request.
- Both output classes are mainly funded by fees paid by the public entities being audited. The difference in output classes relates to the method by which the audit service provider has been selected. Output Class D3 includes only those audits which have not been allocated to audit service providers by a contestable process, while Output Class D4 includes all audits or audit-related services awarded through a competitive tender process or under the threat of competition.

- The quality of audit and assurance work done in these two output classes is maintained by:
 - publication of auditing standards and detailed guidance on audit risks and issues;
 - training of audit service providers;
 - OAG involvement when there are difficulties in deciding whether to issue an unqualified or a qualified audit opinion; and
 - a post-audit quality control process which evaluates auditors' work at no more than three-yearly intervals.

This quality assurance work is led by the Accounting and Auditing Policy Group in the OAG.

- Output Class D3 comprises the audits of approximately 450 entities, for which \$5.0 million is appropriated.
- Output Class D4 covers the remaining 3,500 entities (of which 2,600 are schools), and the appropriation is \$28.6 million. This output class – because it is, effectively, a trading operation – is appropriated on a mode B net basis, which means that the output class may incur costs up to but not exceeding the amount of revenue generated, without further appropriation.
- More detail on these output classes is provided in the Forecast Financial Statements, on pages 68-72.

Highlights of Planned Stewardship Performance

The “stewardship” of the Office is concerned with how we plan to ensure that we are a progressive, viable and well-managed public entity. To achieve this, we prepare management and development plans for each of the two internal business units of the Office:

The Office of the Auditor-General –

Which is responsible for providing 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 which it has won the right to conduct on behalf of the Auditor-General in competition with private sector auditors, as well as those audits not awarded under the contestable audit arrangements.

We supplement these plans by identifying *key indicators of financial performance* which will demonstrate effective stewardship of our financial resources.

Plans for each of these areas of stewardship are presented on the following pages.



Objectives for the Management and Development of the Office of the Auditor-General

The OAG comprises approximately 50 people with an operating budget of \$7.3 million. It is located in Wellington.

To perform its functions, the OAG has:

A research and planning capability,

to ensure that the focus of around \$36 million of audit effort is well-targeted and meets the needs of Parliament and other constituencies.

A purchasing and quality assurance capability,

to give effect to the strategy for the supply of annual audit services and to ensure the quality of these services.

An operational capability,

to carry out special audits and studies, inquiries, and the controller function.

A reporting capability,

to ensure that the results of audits are reported to Parliament and other constituencies – including advice to select committees and others – in a way which maximises the value from the audit effort.

These capabilities are supported by:

Technical support services,

which provide technical accounting, auditing and legal support to the Audit Office.

Administrative and corporate services,

which underpin the business of the organisation and fulfil the accountability requirements of the Audit Office.

An organisation and management structure,

which facilitates cost-effective production of the Audit Office's products.

Key Objectives for 2001-2002

Key objectives in managing the OAG during 2001-2002 are to:

- Implement the Public Audit Act, paying particular attention to the need to:
 - ensure that proper arrangements are made with and for entities affected by the Act, either because they should or should not be audited by the Auditor-General, or because the application of the Auditor-General's mandate to them has changed;
 - prepare a public report on the Auditor-General's auditing standards;
 - make suitable arrangements for consulting with Parliament on the Audit Office's work programme; and
 - develop and apply suitable strategies for application of the Auditor-General's full mandate to a wider range of entities, particularly Crown entities.
- Continue to develop the Audit Office's overall strategic processes by:
 - evaluating likely future demands on the Office, and possible responses to them;
 - dedicating some resources to research and development on these responses, to ensure that audit products and processes stay relevant in a rapidly changing environment, and that the Office has suitable capability to actually respond; and
 - continuing to develop appropriate measurement and reporting on the Office's desired outcomes, capability, and risk management processes (see also pages 41-42).

- Work with the Finance and Expenditure sub-committee to develop a regular programme of briefings and reviews of the Auditor-General's reports presented to Parliament, and assist in any follow up action.
- Continue to reduce the backlog of audits, and ensure that it does not start to grow again.
- Successfully respond to the external peer review of the Audit Office conducted in February and March 2001.
- Continue to develop our internal capability by:
 - improving and making better use of our knowledge management systems; in particular, our Intranet, our Electronic Document Management System, and our electronic facilities for interacting with audit service providers; and
 - implementing a capability action plan developed during 2000-2001 – focusing in particular on acquisition of resources, performance management, and development of a learning and innovation-friendly environment.



Improving Measurement of Our Outcomes, Capability, and Risk

One of our management objectives is to develop our measurement and management of outcomes, capability, and risk. The Auditor-General's *Third Report for 1999 – The Accountability of Executive Government to Parliament* – identified these as key areas for development in performance reporting in the public sector generally, and the Audit Office is endeavouring to practise what it preaches.

During 1999-2000 and 2000-01, the OAG has undertaken considerable development work on the measurement of outcomes and capability, and some work on risk.

Outcomes

We will continue to work and report on the following possibilities for better outcome measurement for the Audit Office:

- measuring trends in some or all of: Office credibility, and stakeholder understanding, assurance and confidence;
- use of Office briefing material and recommendations by stakeholders; in particular, select committee examinations and reports;
- recording implementation of audit recommendations by public entities; and
- recording changes in financial systems and practices, and in public entity outcomes, which were the result of (or influenced by) Audit Office recommendations.

Capability

We have adopted as a definition of capability:

Having (access to) a combination of resources and systems which are fit for the purposes of:

- *delivering outputs and results to current specification and customer satisfaction; and*
- *maintaining capacity to cope with likely future demands.*

We will continue to work and report on a number of areas or possibilities for better capability measurement for the Office. The core measures which have emerged are:

- levels of relevant formal qualification in key roles;
- length of time in the job, or in directly relevant jobs;
- level of investment in training and development;
- level of backup for critical functions and roles;
- levels of delivery over time, for both products and support functions;
- level of understanding and commitment to Office vision and role; and
- current and required changes in the Office's skill base.

Risk

The audit role is fundamentally based on the concept of risk, and auditors automatically think in terms of risk. We are, however, more used to applying these concepts to audited entities than to ourselves. During 2000-2001, we formally considered how we use risk concepts in managing and measuring our own activities, and will build this consideration into our future management and reporting practices.

Objectives for the Management and Development of Audit New Zealand

Description

Audit New Zealand comprises approximately 230 staff operating from 10 locations. It has an operating budget of \$20.2 million.

To perform its function as an effective and efficient provider of audit and assurance services, Audit New Zealand has:

An operational capability,
to carry out audit and assurance services on behalf of the Auditor-General.

A technical capability,
to support field auditors with advice on technical accounting and auditing matters.

A sectoral capability,
to develop consistent and co-ordinated plans, audit and assurance approaches, and decisions in sectors where Audit New Zealand is a major supplier.

A managerial capability,
to provide leadership, planning, financial and technological support to field operations.

A human resource capability,
to provide systems and processes to ensure that people reach their full potential.

A professional development capability,
to provide training to ensure that professional standards are met and personal development is achieved.

A quality assurance capability,
to ensure adherence to the Auditor-General's and professional standards.

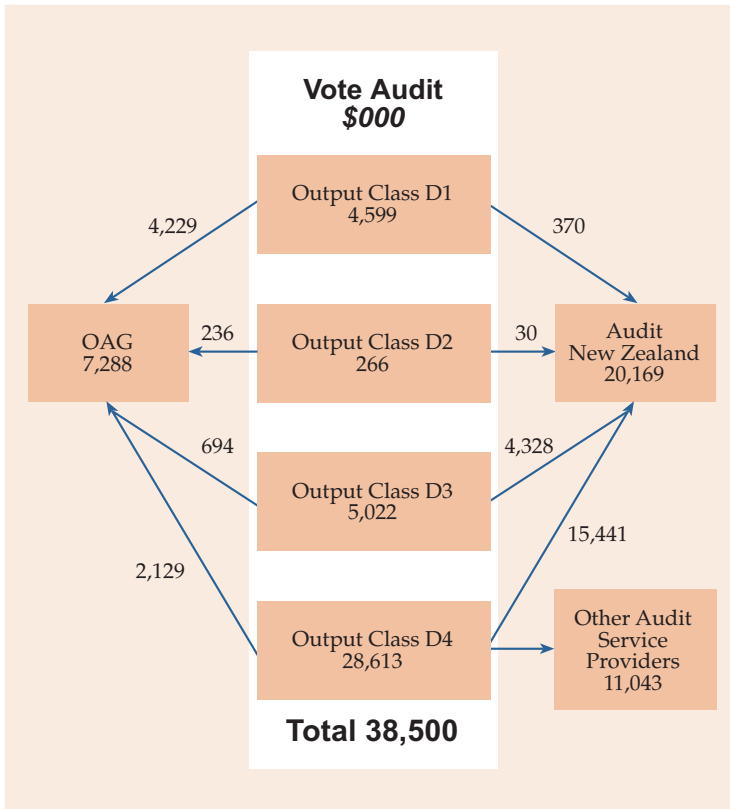
Key Objectives for 2001-2002

Key objectives in managing Audit New Zealand during 2001-2002 are to:

- Refocus our audit approach, by continuing to improve our risk-based audit methodologies and their application.
- Reshape our business to reflect our strategic direction.
- Improve our business processes to ensure that they are efficient and aligned to our strategic direction.
- Achieve our revenue targets through audit retention, and extending assurance-based services which add value to the entities we audit.
- Continue to improve the capability of the organisation through:
 - targeting recruitment, retention and staff development systems;
 - improving internal accountability; and
 - improving management of audit knowledge through the introduction of technology and strengthening our expert sector groups.

Overview of Appropriations

Costs of Production of the Audit Office's Output Classes



Funding of the Audit Office

In 2001-2002 the Audit Office expects to fund the costs of producing its outputs by receiving \$38.764 million, comprising:

\$4.954 million in revenue from the Crown, and \$0.015 million from other sources, which will be used to fund the costs incurred in the production and delivery of Output Classes D1 and D2.

\$33.795 million in revenue from audited entities, which will be used to fund the costs incurred in the production and delivery of Output Classes D3 and D4.



Key Forecast Financial Indicators

For the year ending 30 June 2002

	2000-2001		2001-2002 Forecast \$000
	Budgeted (after Supplementary Estimates) \$000	Estimated Actual \$000	
Operating Results			
Total revenue	37,312	37,312	38,764
Comprising:			
Crown revenue	4,411	4,411	4,954
Other revenue	23,318	23,318	22,767
Contract audit fees	9,583	9,583	11,043
Total expenses	37,075	37,075	38,500
Comprising:			
Personnel	19,001	19,001	18,133
Other	8,491	8,491	9,324
Contract auditors	9,583	9,583	11,043
Working Capital			
Net current assets ⁵	1,011	1,011	1,172
Current ratio ⁶	131%	131%	137%
Average receivables and work in progress	62 days	62 days	62 days
Average payables outstanding	52 days	52 days	47 days
Cash Flows			
Closing cash balance	27	27	107
Surplus on operating activities	856	856	1,497
Net increase/(decrease) in cash held	(918)	(918)	80

5 Current assets minus current liabilities.

6 Current assets as a proportion of current liabilities.

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Part Four

Forecast Financial Statements for 2001-2002

Statement of Accounting Policies

Reporting Entity

These are the forecast financial statements of the Controller and Auditor-General prepared pursuant to section 34A of the Public Finance Act 1989.

The Controller and Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purposes of the Public Finance Act 1989.

The Controller and Auditor-General's activities include the work undertaken by private sector auditors appointed by the Controller and Auditor-General.

In this report, the activities of the Controller and Auditor-General are referred to as those of "the Audit Office", consistent with the meaning of that term in section 52 of the Public Audit Act 2001.

Measurement Base

Generally accepted accounting practice is used to measure and report the activities and financial position of the Audit Office on a 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 other assurance work undertaken by Audit New Zealand at the request of audited entities.

Expenses

The salaries of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, 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. Operating lease costs are expensed in the period in which they are incurred.

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 Prospective Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Prospective Financial Performance.

Goods and Services Tax (GST)

Amounts in these forecast financial statements are reported exclusive of GST, except for Payables and Receivables in the Statement of Prospective Financial Position, which are GST-inclusive.

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 is exempt from the payment of income tax in terms of section 43 of the Public Audit Act. Accordingly, no charge for income tax has been provided for.

Changes In Accounting Policies

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the annual financial statements of the Audit Office for the year ended 30 June 2000 as laid before the House of Representatives under section 39 of the Public Finance Act 1989.

Statement of Prospective Financial Performance²⁷

For the Year Ending 30 June 2002

Description of Statement

The Statement of Prospective Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. A statement showing the revenue and expenses of each output class appears on page 84.

	2000-2001		2001-2002
	Budgeted ²⁸	Estimated Actual ²⁹	Forecast
	\$000	\$000	\$000
Continuing Activities			
Revenue			
Crown	4,411	4,411	4,954
Departments	6,952	6,952	6,952
Other	25,949	25,949	26,858
Total Revenue	37,312	37,312	38,764
Expenses			
Personnel costs	19,001	19,001	18,133
Operating costs	16,926	16,926	18,783
Depreciation	849	849	1,261
Capital charge	299	299	323
Total Expenses	37,075	37,075	38,500
Surplus	237	237	264

27 Prepared in accordance with section 34A(3) of the Public Finance Act 1989.

28 Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 2000-2001.

29 The amounts in this column reflect actual results to 28 February 2001 and the forecast results for the remaining four months to 30 June 2001.

Statement of Prospective Movements in Taxpayers' Funds (Equity)

For the Year Ending 30 June 2002

Description of Statement

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

	2000-2001		2001-2002
	<i>Budgeted</i>	<i>Estimated Actual</i>	<i>Forecast</i>
	\$000	\$000	\$000
Taxpayers' Funds brought forward at 1 July	<u>2,386</u>	<u>2,386</u>	<u>3,586</u>
Movements during the year			
Surplus	<u>237</u>	<u>237</u>	<u>264</u>
<i>Total Recognised Revenues and Expenses for the Year</i>	<u>237</u>	<u>237</u>	<u>264</u>
Flows to and from the Crown			
Capital contribution	1,200	1,200	-
Provision for payment to the Crown	<u>(237)</u>	<u>(237)</u>	<u>(264)</u>
<i>Net Flows to and from the Crown</i>	<u>963</u>	<u>963</u>	<u>(264)</u>
Taxpayers' Funds at 30 June	<u><u>3,586</u></u>	<u><u>3,586</u></u>	<u><u>3,586</u></u>

Statement of Prospective Financial Position

As at 30 June 2002

Description of Statement

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

	<i>Budgeted Financial Position as at 30/6/2001 \$000</i>	<i>Estimated Actual Financial Position as at 30/6/2001 \$000</i>	<i>Forecast Financial Position as at 30/6/2002 \$000</i>
Taxpayers' Funds			
General funds	3,586	3,586	3,586
Total Taxpayers' Funds	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Represented by:			
Current Assets			
Cash and bank balances	27	27	107
Prepayments	290	290	290
Work in progress	1,171	1,171	1,171
Receivables	<u>2,806</u>	<u>2,806</u>	<u>2,766</u>
<i>Total Current Assets</i>	<u>4,294</u>	<u>4,294</u>	<u>4,334</u>
Non-current Assets			
Physical assets	<u>3,307</u>	<u>3,307</u>	<u>3,226</u>
<i>Total Non-current Assets</i>	<u>3,307</u>	<u>3,307</u>	<u>3,226</u>
Total Assets	<u>7,601</u>	<u>7,601</u>	<u>7,560</u>
Current Liabilities			
Payables and provisions	2,066	2,066	1,968
Provision for payment to the Crown	237	237	264
Provision for employee entitlements	<u>980</u>	<u>980</u>	<u>930</u>
<i>Total Current Liabilities</i>	<u>3,283</u>	<u>3,283</u>	<u>3,162</u>
Term Liabilities			
Provision for employee entitlements	470	470	470
Property lease liabilities	<u>262</u>	<u>262</u>	<u>342</u>
<i>Total Term Liabilities</i>	<u>732</u>	<u>732</u>	<u>812</u>
Total Liabilities	<u>4,015</u>	<u>4,015</u>	<u>3,974</u>
Net Assets	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>

Statement of Prospective Cash Flows

For the Year Ending 30 June 2002

Description of Statement

The Statement of Prospective 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 Prospective Financial Performance.

	2000-2001		2001-2002
	Budgeted	Estimated	Forecast
	\$000	Actual	\$000
		\$000	
Operating Activities			
Cash received from:			
The Crown	4,411	4,411	4,954
Departments	6,952	6,952	6,952
Others	16,717	16,717	15,855
Cash disbursed on:			
Production of outputs	(26,925)	(26,925)	(25,941)
Capital charge	(299)	(299)	(323)
Net Cash Flow from Operating Activities	856	856	1,497
Investing Activities			
Cash received from:			
Sale of physical assets	73	73	180
Cash disbursed on:			
Purchase of physical assets	(2,244)	(2,244)	(1,360)
Net Cash Flow from Investing Activities	(2,171)	(2,171)	(1,180)
Financing Activities			
Cash received from:			
Capital contributions	1,200	1,200	-
Cash disbursed on:			
Payment to the Crown	(803)	(803)	(237)
Net Cash Flow from Financing Activities	397	397	(237)
Total net increase/(decrease) in cash held	(918)	(918)	80
Add Opening cash balance at 1 July	945	945	27
Closing cash balance at 30 June	27	27	107

Reconciliation of Surplus in the Statement of Prospective Financial Performance to the Prospective Net Cash Flow from Operating Activities

For the Year Ending 30 June 2002

Description of Statement

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Prospective Financial Performance on page 77 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 80.

	2000-2001		2001-2002
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Surplus	<u>237</u>	<u>237</u>	<u>264</u>
Non-cash Items			
Depreciation	<u>849</u>	<u>849</u>	<u>1,261</u>
Total Non-cash Items	<u>849</u>	<u>849</u>	<u>1,261</u>
Working Capital Movements			
(Increase)/Decrease in prepayments	(25)	(25)	-
(Increase)/Decrease in receivables	370	370	40
(Increase)/Decrease in work in progress	(19)	(19)	-
Increase/(Decrease) in payables	561	561	(98)
Increase/(Decrease) in current employee entitlements	<u>(776)</u>	<u>(776)</u>	<u>(50)</u>
Total Net Working Capital Movements	<u>111</u>	<u>111</u>	<u>(108)</u>
Other Items			
Increase/(Decrease) in term employment entitlements	(421)	(421)	-
Increase in property lease liabilities	<u>80</u>	<u>80</u>	<u>80</u>
Total Other Items	<u>(341)</u>	<u>(341)</u>	<u>80</u>
Net Cash Flow from Operating Activities	<u><u>856</u></u>	<u><u>856</u></u>	<u><u>1,497</u></u>

Forecast Details of Physical Assets by Category

As at 30 June 2002

	<i>As at 30 June 2001</i>		<i>Forecast Position as at 30 June 2002</i>		
	<i>Budgeted Net Book Value \$000</i>	<i>Estimated Actual Net Book Value \$000</i>	<i>Cost \$000</i>	<i>Accumulated Depreciation \$000</i>	<i>Net Book Value \$000</i>
Furniture and fittings	1,574	1,574	4,403	2,331	2,072
Office equipment	1,133	1,133	4,244	3,490	754
Motor vehicles	600	600	556	156	400
Totals	<u>3,307</u>	<u>3,307</u>	<u>9,203</u>	<u>5,977</u>	<u>3,226</u>



Prospective GST Status of Departmental Output Classes

For the Year Ending 30 June 2002³⁰

<i>Departmental Output Classes</i>	<i>GST- Exclusive (Forecast Report) \$000</i>	<i>GST \$000</i>	<i>GST- Inclusive (Vote) \$000</i>
Mode B Gross			
D1 Reports and advice arising from the exercise of the function of legislative auditor:			
• Annual appropriation	4,195	524	4,719
• Other appropriation	404	-	404
	<u>4,599</u>	<u>524</u>	<u>5,123</u>
D2 Certification of authority to release funds from the Crown Bank Account	266	33	299
D3 Provision of non-contested audit services	<u>5,022</u>	<u>632</u>	<u>5,654</u>
Total Mode B Gross Output Classes	<u>9,887</u>	<u>1,189</u>	<u>11,076</u>
Mode B Net			
D4 Provision of contested audit and assurance services	<u>28,613</u>	<u>3,605</u>	<u>32,218</u>
Total Mode B Net Output Classes	<u>28,613</u>	<u>3,605</u>	<u>32,218</u>
Total Departmental Output Classes	<u>38,500</u>	<u>4,794</u>	<u>43,294</u>

30 The forecast financial statements in this report present expenses (and revenue) exclusive of GST, in accordance with generally accepted accounting practice. When appropriated by Parliament, these expenses are inclusive of GST, in accordance with legislation. Thus:

- The GST-exclusive amounts for each departmental output class correspond to "Total Expenses" for 2001-2002 appearing in the Forecast Output Class Operating Statements on page 84, while the aggregate amount for all four output classes corresponds to "Total Expenses" for 2001-2002 in the Statement of Prospective Financial Performance on page 77 of this report.
- The GST-inclusive amounts for each departmental output class correspond to the bolded annual appropriations for 2001-2002 appearing in Part B1 of Vote Audit of the 2001-2002 Main Estimates (parliamentary paper B.5 Vol. I).

Forecast Output Class Operating Statements³¹

For the Year Ending 30 June 2002

Departmental Output Class

Description

Mode B Gross

D1 Reports and advice arising from the exercise of the function of legislative auditor.

Reports to Parliament and other constituencies on matters arising from annual audits, special audits and studies, special investigations, advice to select committees, taxpayer, ratepayer, and Members of Parliament enquiries, administration of the Local Authorities (Members' Interests) Act 1968, and advice to government bodies on auditing, accountability and financial management.

D2 Certification of authority to release funds from the Crown Bank Account.

Certificate that all funds released from the Crown Bank Account are for lawful purposes and are supported by an appropriation.

D3 Provision of non-contested audit services.

Conduct of and reporting on audits not subject to allocation to audit service providers by the contestable process.

Total Mode B Gross Output Classes

Mode B Net

D4 Provision of contested audit and assurance services.

Conduct of and reporting on audits and assurance services awarded to audit service providers as a result of a competitive tender process or under the threat of competition.

Total Mode B Net Output Classes

Totals

	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Surplus \$000
D1	4,588	-	15	4,603	4,599	4
D2	266	-	-	266	266	-
D3	100	1,667	3,292	5,059	5,022	37
Total Mode B Gross Output Classes	4,954	1,667	3,307	9,928	9,887	41
D4	-	5,285	23,551	28,836	28,613	223
Total Mode B Net Output Classes	-	5,285	23,551	28,836	28,613	223
Totals	4,954	6,952	26,858	38,764	38,500	264

³¹ Details of the forecast performance for each class of outputs are set out on pages 53-72 of this report.

Forecast Financial Indicators

For the Year Ending 30 June 2002

	2000-2001		2001-2002 Forecast \$000
	Budgeted (after Supplementary Estimates) \$000	Estimated Actual \$000	
Operating Results			
Revenue: other than Crown	32,901	32,901	33,810
Output expenses	37,075	37,075	38,500
Surplus before capital charge	536	536	587
Surplus	237	237	264
Working Capital			
Net current assets ³²	1,011	1,011	1,172
Current ratio ³³	131%	131%	137%
<i>Average receivables and work in progress</i>			
	62 days	62 days	62 days
<i>Average payables outstanding</i>			
	52 days	52 days	47 days
Resource Utilisation			
Physical assets:			
Total physical assets at year-end	3,307	3,307	3,226
Additions as % of physical assets	68%	68%	42%
Taxpayers' funds			
Level at year-end	3,586	3,586	3,586
Forecast Net Cash Flows			
Surplus on operating activities	856	856	1,497
Surplus/(deficit) on investing activities	(2,171)	(2,171)	(1,180)
Surplus/(deficit) on financing activities	397	397	(237)
Net increase/(decrease) in cash held	(918)	(918)	80

32 Current assets minus current liabilities.

33 Current assets as a proportion of current liabilities.

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Introduction

The Audit Office's forecast financial statements have been prepared in accordance with section 34A of the Public Finance Act 1989 and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate parliamentary consideration of the appropriations for, and planned performance of, the Audit Office. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here and that the variations may be material.

These forecast financial statements have been prepared on the basis of assumptions as to future events that the Auditor-General reasonably expects to occur associated with the actions he reasonably expects to take as at the date this information was prepared.

These statements have been prepared also in the context of the budgetary process.

It is not intended that this published information will be updated.

Forecasts should be contrasted with projections. Projections are based on one or more hypothetical assumptions.



Statement of Significant Underlying Assumptions

The forecast financial statements on pages 53-85 have been compiled on the basis of existing Government policies and after consultation by the Audit Office with the Speaker and the Officers of Parliament Committee. The main assumptions are:

- That the Audit Office's *portfolio of entities* will increase in size and scope as defined in the Public Audit Act 2001, but will then remain substantially the same over the planning period.
- That the Audit Office will continue to deliver the *range of products* currently provided and will also position itself to deliver new products, or existing products in new ways, to cope with changing demands.
- That the scale of *annual audits* will remain substantially the same, but the *assurance work* undertaken at the request of public entities will continue to grow.
- That the scale of activity associated with *reports on special audits and studies, advice to Parliament and others, and enquiries* will continue to increase because of increases in demand and the effects of the Public Audit Act.
- That the Auditor-General will continue to utilise audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 23 April 2001.

Statement of Objectives for Output Class D1

Reports and Advice Arising from the Exercise of the Function of Legislative Auditor

Description

Output Class D1 includes the following products and services of the Audit Office:

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

Reports and advice to select committees – to assist in their reviews of performance, estimates examinations, or other inquiries for which our assistance is sought.

Reports to portfolio ministers on the results of annual audits.

Responses to enquiries from taxpayers, ratepayers and Members of Parliament.

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

Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.

For 2000-2001 and 2001-2002 only, it also includes work undertaken to manage the transition of 170 new entities into, and a small number of existing entities out of, the portfolio of the Audit Office.

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 audits and studies). Given the discretionary element in this class of outputs, we have provided additional detail about our planned activities (starting below and finishing on page 65).

Planned Activities and Costs

Reports to Parliament and Other Constituencies

Results of annual audits:

- Audit results for central government, local government, and selected other sectors
- Specific issues arising from particular audits or in relation to sectors generally

Results of programmed special audits and studies:

- Major audits and studies in progress at 1 April 2001 in the areas of –
 - *Preparedness for the Deployment in East Timor – Implications for the New Zealand Defence Force (NZDF)*
This study is in two parts. Part A is reviewing the planning and operational performance of the NZDF during the first phase of deployment (June 1999 to March/April 2000), and lessons learned by the NZDF in the course of that phase. Part B will examine the planning for, and deployment and operations of, two selected force elements – helicopters and the Forward Surgical Unit.

It will consider sustainability issues in relation to these two force elements, and NZDF's responses to those issues.

- ***The Ministry of Defence's acquisition project for Light Armoured Vehicles, taking into account the later purchase of the Light Operational Vehicles***
This study is reviewing the process for acquisition by the Ministry of Defence of Light Armoured Vehicles, and Light Operational Vehicles, for the New Zealand Defence Force.
- ***Policing Burglaries***
This is a preliminary study of the ways in which the Police deal with reported burglaries from dwellings, with particular emphasis on recent operational initiatives. The study is also reviewing the information currently being collected about Police performance in this area.
- ***Speed Camera Programme***
This is a study of how the Police manage and operate the speed camera programme. The study is looking at camera placement, asset management, and enforcement; and benchmarks the New Zealand programme against best practice from overseas programmes.

- ***Biosecurity Risk Management***
 This is a study of the biosecurity risk management arrangements in place in New Zealand and will complement other reviews recently undertaken on this subject. It will take a broader look at biosecurity as it affects MAF and will also cover the involvement of other agencies. It will also examine some specific cases and risks; e.g. it is likely to cover the salt marsh mosquito, and foot and mouth disease.
- ***School Property***
 The study is covering the Ministry of Education's management of school property (land, buildings and utilities), including maintenance, new schools and amenities, managing surplus property and planning for the future.
- ***Franchising of Water and Wastewater Services in Papakura***
 This is a follow-up study to our 1998 review to ascertain how well the Papakura District Council is managing and monitoring the franchise agreement for its water and wastewater services.
- ***Relationship between Local Authority Chief Executives and their Councils***
 This is a study of the critical elements that have an impact on the relationship between Chief Executives and their councils, along with guidance to councils on how best to manage issues surrounding the employment processes.

- ***Sustainability of Local Authority Essential Services***

This is a study of how local authorities are reflecting in their long-term financial strategies factors (such as practicability and affordability) that affect the future scale and cost of essential services.

- ***Local Authority Regulatory Procedures***

We are working with each council to encourage them to operate appropriate review procedures to ensure that issues of probity in relation to resource consents are addressed.

- Major audits and studies, based on our pre-existing mandate, under consideration for 2001-2002 in the areas of –

- ***The State Services Commission's Effectiveness for Maori***

This review involves the application to the State Services Commission of our model for assessing the capability of departments to deliver effective outcomes for Maori. Although the review was initiated in 1999-2000, it was postponed until mid-2001. We plan to complete and report on the review in 2001-2002.

- ***Primary Health Care Contracting and Monitoring***

This study will assess how well the Ministry of Health contracts for the provision of primary health care services from General Practitioners; the extent to which the contracting and monitoring arrangements are directed towards improving the health status of the population; and whether cost-effective services are being provided.

- **Accuracy of Benefit Payments**
 This study will examine the accuracy with which the Department of Work and Income processes claims for social security benefits. It will also review the methods that the Department uses to measure and report processing accuracy.
- **Coordination in the Justice Sector**
 This study will examine the effectiveness and efficiency of the institutional arrangements that have been put in place to facilitate co-ordination within the Justice sector, including the information systems that support both coordination between and the operations of individual agencies.
- **Service Delivery**
 In 1999 we published a report *Towards Service Excellence: The Responsiveness of Government Agencies to Their Clients*. We intend to take this study further by examining the operation of call centres in selected agencies.
- **Control of Gaming Machines**
 This study will follow on from our 1998 review of the Department of Internal Affairs' controls over gaming machines. In particular, it will consider whether the policy review initiated by the Department in February 2001 addresses the concerns we identified regarding the effectiveness of the legislative framework and controls surrounding gaming machines.

- ***Local Economic Development***
This will be a study of the processes adopted by local authorities to ensure that appropriate management and risk procedures are put in place when deciding to get involved in local economic development initiatives.
- Major audits and studies, based on extension of our mandate under the Public Audit Act 2001, under consideration for 2001-2002 in the areas of –
 - ***Infection Control in Publicly Owned Hospitals***
This study will report on the systems in use to minimise hospital-acquired infection. It will audit against infection control standards in use, and take account of the changing regulatory environment in relation to infection control.
 - ***Housing New Zealand Limited***
This study will examine the way in which Housing New Zealand manages applications for rental accommodation. It will focus in particular on the dissemination of information about eligibility and the application of the social allocation model in determining allocation priorities.
 - ***Injury Prevention by ACC and OSH***
This will be a study of the effectiveness of ACC's and OSH's injury prevention programmes, including how the two organisations work together to reduce injury rates and measure the effectiveness of their injury prevention programmes.

\$000

- Case Management by ACC**
 This study will review the efficiency and effectiveness of ACC's case management processes and procedures. The study will look at ACC's rehabilitation policy and practice, claims streaming, claims payment accuracy, and dispute resolution.
- Fee Setting in Tertiary Education Institutions (TEIs)**
 TEIs are large, complex organisations that derive a significant portion of their revenue from student tuition fees. This study will examine the fee-setting methods and policies in selected TEIs.

Matters arising from special investigations⁷ initiated in response to particular concerns brought to the attention of the Audit Office during 2001-2002

2,824

⁷ Spare capacity is not held for such work. The extent of the resource usage on unprogrammed work will directly affect the resource availability for other planned activities.

Reports and Advice to Select Committees⁸

\$000

Advice to select committees to assist their financial reviews of:

- Government departments and Offices of Parliament
- State-owned enterprises and Crown entities

Advice to select committees to assist their examination of the *Estimates*

Advice or assistance (as requested) for other inquiries conducted by select committees

600

Reports to Ministers

\$000

Reporting the results of audits to portfolio ministers

40

Responses to Enquiries from Taxpayers, Ratepayers and Members of Parliament

\$000

Acknowledgement, investigation⁹ and reporting the results of enquiries directed to the Audit Office by:

- Taxpayers
- Ratepayers
- Members of Parliament

400

8 The extent and cost of these activities is largely determined by the demands made by select committees.

9 Not all enquiries will result in an investigation. Enquiries assessed as warranting investigation may be considered either at the time of the next annual audit or by way of an immediate, specific inquiry.

Advice to Government Bodies and Other Agencies

\$000

Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including:¹⁰

- Central agencies
- Government departments, local authorities and other public entities
- Professional bodies, such as the Institute of Chartered Accountants of New Zealand
- Sector organisations, such as Local Government New Zealand and the Society of Local Government Managers
- Foreign delegations
- Other audit institutions and related organisations, such as INTOSAI

600

Administration of the Provisions of the Local Authorities (Members' Interests) Act 1968

\$000

Responding to specific requests in relation to the Audit Office's powers to:¹¹

- Approve increased limits for contract payments
- Grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest
- Consider alleged breaches of the Act

60

¹⁰ The cost associated with each area of advice is difficult to predict with any reliability, as it is largely demand-driven. Accordingly, the cost of these activities has been estimated based on past experience.

¹¹ This activity is demand-driven. The nature and extent of the activity is determined by the number and complexity of the requests made to the Audit Office.

Costs of Transition to the Public Audit Act 2001

\$000

- Financial analysis and other work on researching and recording entity information
- Quality assurance work on the existing auditors of new entities
- Work on audits which will leave the Audit Office portfolio, and on putting new auditors in place

75



Performance Measures and Standards

Output	Quantity ¹²	Cost \$'000	Timeliness	Quality
1. Reports to Parliament and other constituencies, comprising: <ul style="list-style-type: none"> • results of annual audits • results of programmed special audits and studies • results of unprogrammed special investigations. 	At least 2 reports At least 8 reports	2,824	Reports to Parliament will be completed in a manner which ensures that the subjects being reported are timely and relevant.	All reports will be prepared with due professional care and be subject to: <ul style="list-style-type: none"> • internal peer review • substantiation • entity confirmation of factual accuracy.
2. Reports and advice to select committees, comprising: <ul style="list-style-type: none"> • financial reviews • estimates examinations • other reports. 	110 reports 40 reports 20 reports	600	Reports presented at least 2 days before an examination, unless otherwise agreed with the committee.	All select committees will be surveyed as to their satisfaction with the quality of our reports and advice.
3. Reports to Ministers on the results of annual audits.	110 reports	40	Reports to portfolio ministers before select committee scrutiny of departmental and Crown entity performance.	All reports and advice will be prepared with due professional care and, where the circumstances require it, be subject to:

... continued on next page.

FORECAST FINANCIAL STATEMENTS FOR 2001-2002

Objectives for Output Class D1

B.28FR(01)

Output	Quantity ¹²	Cost \$000	Timeliness	Quality
4. Responses to enquiries from: <ul style="list-style-type: none"> • taxpayers • ratepayers • Members of Parliament. 	60 enquiries 180 enquiries 60 enquiries	400	An initial response within 5 working days. 80% cleared within 30 working days.	<ul style="list-style-type: none"> • internal peer review • substantiation • entity confirmation of factual accuracy.
5. Advice to government bodies and other agencies.	On demand	600	As requested.	
6. Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.	80 enquiries	60	An initial response within 5 working days. 80% cleared within 30 working days.	
7. Costs of transition to the Public Audit Act 2001.		75	As requested.	
TOTAL		4,599		

¹² The quantity of reports and enquiries handled, and their consequent cost, are largely demand-driven. Accordingly, these figures have been estimated based on past experience.

Statement of Objectives for Output Class D2

Certification of Authority to Release Funds from the Crown Bank Account

Description

Output Class D2 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.

Performance Measures and Targets

Quality

The Controller and Auditor-General will ensure that:

- Warrants and controller statements will only be certified once correct documentation is provided by the Treasury to support the certification of a warrant or the release of funds from the Crown Bank Account.
- Issues from the Crown Bank Account will only be certified if the issue is supported by appropriation by Parliament or other lawful authorities granted by Parliament.
- All payments not within a warrant from the Governor-General will be refused.

Quantity

Number of warrants and controller statements expected to be certified:

- 15 warrants
- 240 controller statements.

Timeliness

- All valid certifications will be provided promptly; i.e. before 12 noon on the day presented by the Treasury for certification.

Cost

The cost will not exceed \$266,000.



Statement of Objectives for Output Classes D3 and D4

Provision of Audit Services

Description

These two output classes relate to the conduct of audits of public entities. The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,900 public entities.

Annual audits result in:

Audit Reports – On whether the financial statements fairly reflect the financial and non-financial performance of these entities.

Management Reports – To the management and governing bodies of these entities, on issues arising from the audit.

The difference between the output classes relates to the method by which the audit service provider has been selected:

Output Class D3 – Non-contested Audit Services

This includes only 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.

Output Class D4 – Contested Audit and Assurance Services

This includes those audits or audit-related services awarded to private sector auditors or Audit New Zealand through a competitive tender process or under the threat of competition. This output class is appropriated on a mode B net basis.

FORECAST FINANCIAL STATEMENTS FOR 2001-2002

Objectives for Output Classes D3 and D4

B.28FR(01)

Performance Measures and Standards

Output Class D3 – Non-contested Audit Services

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/2001	Planned Audit Completions in 2001-2002	Expected Number of Audits in Arrears as at 30/6/2002	Timely Issue of Audit Reports ¹³	Timely Issue of Management Reports ¹⁴
Government Departments and Offices of Parliament	19	–	19	–	100%	100%
Major Statutory Bodies ¹⁵	61	10	61	10	100%	100%
Other Local Authorities ¹⁶	42	15	42	15	100%	100%
Miscellaneous Public Bodies ¹⁷	155	15	155	15	75%	100%
Audits for which fees will not be charged ¹⁸	167	220	227	160	75%	100%
Totals	444	260¹⁹	504	200		

Goal: To reduce the level of arrears for audits for which fees are not directly charged by 30% by 30 June 2002, and maintain other arrears at the current level.

¹³ Audits will be completed and audited financial statements available within statutory deadline or within 5 months of balance date.

¹⁴ Management reports and letters will be issued within 6 weeks of the date of the audit report.

¹⁵ State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes and major Crown entities.

¹⁶ Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

¹⁷ Mainly other smaller Crown Entities.

¹⁸ Those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities are Hall and Reserve Boards, Cemetery Trustees and Provincial Patriotic Societies. From 2001-2002, the Crown is funding up to \$100,000 of the cost of these audits.

¹⁹ An estimated 130 bodies have audits in arrears, some for a number of years, and the 220 audits in the final category represent only 80 bodies. Most have not prepared financial statements for the periods involved.

FORECAST FINANCIAL STATEMENTS FOR 2001-2002

Objectives for Output Classes D3 and D4

Performance Measures and Standards (continued)

Output Class D4 – Contested Audit and Assurance Services

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/2001	Planned Audit Completions in 2001-2002	Expected Number of Audits in Arrears as at 30/6/2002	Timely Issue of Audit Reports ²⁰	Timely Issue of Management Reports ²¹
Government Departments and Offices of Parliament	28	–	28	–	100%	100%
Major Statutory Bodies ²²	73	–	73	–	100%	100%
Regional, City and District Councils	86	–	86	–	100%	100%
Other Local Authorities ²³	378	15	378	15	100%	100%
School Boards of Trustees	2,641	140	2,641	140	50%	100%
Miscellaneous Public Bodies ²⁴	297	5	297	5	75%	100%
Totals	3,503	160²⁵	3,503	160		

Goal: To maintain the level of audit arrears at the current level.

²⁰ Audits will be completed and audited financial statements available within statutory deadline or within 5 months of balance date.

²¹ Management reports and letters will be issued within 6 weeks of the date of the audit report.

²² State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes and major Crown entities.

²³ Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

²⁴ Mainly other smaller Crown Entities and Maori Trust Boards.

²⁵ An estimated 150 bodies have audits in arrears, some for more than one year. Most of the arrears are schools whose audits for the 31 December 2000 year will not have been completed at 30 June 2001.

Performance Measures and Standards (continued)

Outstanding Audits

The number of audits to be completed during the year will fluctuate according to the readiness of each entity to present its financial statements for audit. The number of audits actually finished during the year will relate mainly to financial statements due in the year and some statements not presented for audit in earlier years. Where entities have not presented their financial statements for audit in previous years, the term “audit arrears” is used to describe the outstanding audits. Most arrears are from small bodies such as school boards of trustees, cemetery trustees, or minor subsidiaries of a parent body. Because an entity might have arrears for a number of years, the number of entities with audit arrears is lower than the arrears numbers shown.

The Office measures and reports the number of entities with one or more audits in arrears as at each balance date, as well as the total number of audits in arrears.

Performance Measures of Quality

The Auditor-General will ensure that audits are conducted with due professional care – ensuring that standards of appropriateness, quality, efficiency and independence are adhered to as set out in the auditing standards issued by the Institute of Chartered Accountants of New Zealand and (where additional standards are required) other standards approved by the Auditor-General for application to public sector audits. These other standards recognise the particular requirements of the public sector and are designed to cover the audit of service performance information, legislative compliance, waste, and probity matters.

Compliance with these standards is tested by a programme of quality assurance reviews conducted by the Office of the Auditor-General. The programme seeks to review every approved auditor at least once during their 3-year contract period. The OAG intends to review the work of 45 auditors during the year, the results of which will be reported in our Annual Report for the year ending 30 June 2002.

Performance Measures of Timeliness

Completion of audits is influenced largely by the quality of records and financial statements subject to audit. The Auditor-General expects, however, that the majority of audited entities will meet the statutory deadlines for completing their annual financial statements, so as to allow completion of the audits within deadline also.

The Office therefore measures:

- The number (and percentage) of audit reports issued within statutory deadlines during the reporting period, or within 5 months of balance date if there is no statutory deadline. It should be noted that not all sectors perform uniformly well. Consequently, the performance standards for each group of entities are:
 - 100% for government departments, Offices of Parliament, major statutory bodies, regional, city and district councils, and other local authorities.
 - 75% for miscellaneous public bodies, and audits for which fees will not be charged.
 - 50% for school boards of trustees.
- The number (and percentage) of audit management reports issued within 6 weeks of issuing the audit report. The performance standard for this measure is 100%.

Performance Measures of Effectiveness

The Office will report on the trend in types of non-standard audit reports issued up to and including the current year.²⁶

Cost

	\$000
• Cost of services for Output Class D3 – Non-contested Audit Services	5,022
• Cost of services for Output Class D4 – Contested Audit and Assurance Services	28,613

²⁶ 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.