Central Government and Other Issues 2001-02

Report of the

Controller and Auditor-General

Tumuaki o te Mana Arotake

on

Central Government and Other Issues 2001-02

Presented to the House of Representatives pursuant to section 20 of the Public Audit Act 2001

Rt Hon Jonathan Hunt
Speaker
House of Representatives
WELLINGTON

Mr Speaker

I am pleased to forward this report to you for presentation to the House of Representatives pursuant to section 20 of the Public Audit Act 2001.

Yours sincerely

K B Brady
Controller and Auditor-General

Wellington
21 June 2002

Contents

Introduction

This report completes the matters that we wish to bring to Parliament's attention – principally relating to the central government portion of our auditing portfolio – arising from our activities during 2000-01.

Some matters also embrace wider-reaching topics, such as in Part One (pages 9-40) that deals with progress in the public sector contribution towards an 'e-society'.

Part Two (pages 41-48) raises the matter of strategic human resource management as a key aspect of the current emphasis on the organisational capability of government departments and other State sector agencies.

Part Three (pages 49-74) and Part Four (pages 75-91) draw attention to what we consider to be shortcomings in matters of financial management and accountability affecting (respectively) closed or merged schools and the New Zealand Fire Service Commission.

Part Five (pages 93-97) briefly describes the new version of our earlier publication *Good Practice for Purchasing by Government Departments*. The new version is expanded in its coverage of purchasing considerations (such as e-procurement and different arrangements for the provision of physical assets).

Part Six (on pages 99-126) provides a status report on what follow-up action has taken place, and (in our view) remains to take place, arising from some of our previous reports.

One

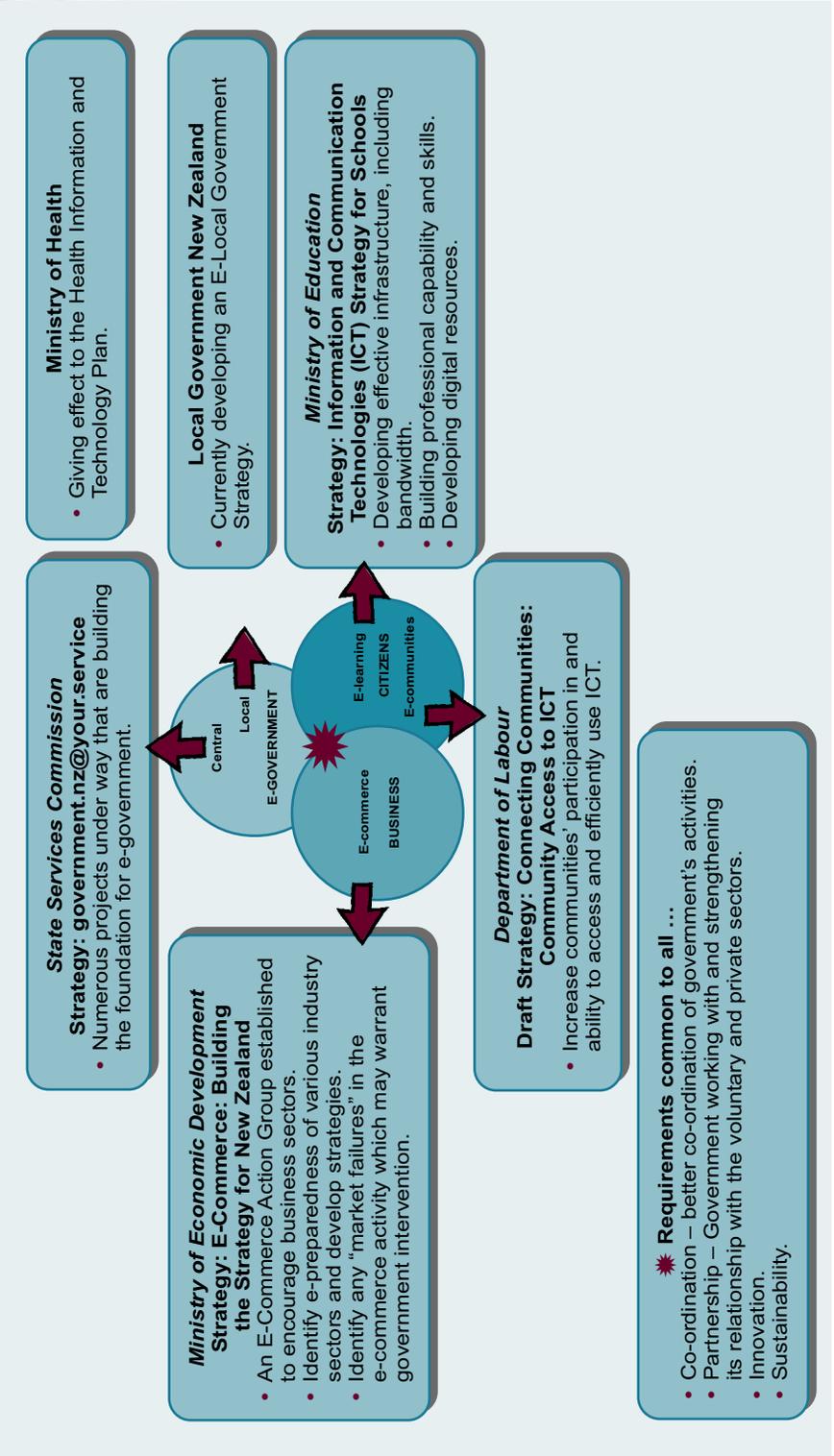# Public Sector Progress Towards an E-society

Introduction

1.1 Information and communications technologies (ICT) are widely regarded as the means by which people and organisations will increasingly deal with each other in the future.

1.2 The Government is taking a leading part in the adoption of ICT in the form of its E-government Strategy[1] and associated projects being managed by the State Services Commission's (SSC) E-government Unit. In addition:

- the Ministry of Economic Development (MED) is implementing an e-commerce strategy for the business sector;

- the Ministry of Education is implementing an ICT strategy for schools;

- the Ministry of Health is implementing the Health Information and Technology Plan developed in consultation with District Health Boards and other participants in the health sector;

- the Department of Labour is working on a draft strategy for community access to ICT; and

- Local Government New Zealand is developing a strategy for adoption of ICT in local government.

1.3 The extent of this public sector activity in promoting wider adoption of ICT is illustrated in the diagram in Figure 1.1 on page 12. Collectively, these strategies and the means of implementing them are referred to as "e-initiatives".

What Is the Purpose of this Article?

1.4 This article is intended to inform Parliament about the current status of e-initiatives and identify key issues that need to be addressed. We intend to keep Parliament informed as the developments proceed.

1   *New Zealand E-government Strategy* – December 2001.

Figure 1.1
Public Sector Initiatives Towards an E-society

Ministry of Health
- Giving effect to the Health Information and Technology Plan.

Local Government New Zealand
- Currently developing an E-Local Government Strategy.

Ministry of Education
Strategy: Information and Communication Technologies (ICT) Strategy for Schools
- Developing effective infrastructure, including bandwidth.
- Building professional capability and skills.
- Developing digital resources.

State Services Commission
Strategy: government.nz@your.service
- Numerous projects under way that are building the foundation for e-government.

Ministry of Economic Development
Strategy: E-Commerce: Building the Strategy for New Zealand
- An E-Commerce Action Group established to encourage business sectors.
- Identify e-preparedness of various industry sectors and develop strategies.
- Identify any "market failures" in the e-commerce activity which may warrant government intervention.

Department of Labour
Draft Strategy: Connecting Communities: Community Access to ICT
- Increase communities' participation in and ability to access and efficiently use ICT.

E-learning
CITIZENS
E-communities

Local
Central
E-GOVERNMENT

E-commerce
BUSINESS

✸ Requirements common to all …
- Co-ordination – better co-ordination of government's activities.
- Partnership – Government working with and strengthening its relationship with the voluntary and private sectors.
- Innovation.
- Sustainability.

Whom Did We Consult?

1.5   In preparing this article we spoke with:

- Staff from the SSC, the Department of Labour, the Department of the Prime Minister and Cabinet, the Ministry of Education, the MED, the Ministry of Health, the Ministry of Social Development, and Local Government New Zealand.

- Dr Russ Ballard (Chief Executive of Land Information New Zealand) who prepared a paper *Leadership, Governance and the Achievement of E-Government Objectives* after completing an overseas study tour in May-June 2001; Dame Margaret Bazley (former CEO of the Department of Social Welfare); and Kerry McDonald (Executive Director of Comalco New Zealand Limited and Chairman of the State Sector Standards Board). All are, or have been, members of the E-Government Advisory Board.

Our Overall Conclusions

1.6   Progress towards establishing the foundation and infrastructure for e-government is reasonably well advanced. Public sector organisations have embraced basic web site technology to make information available on the Internet. A number have also begun to add more advanced features so that the private business sector and the public can interact with them using the Internet. A few have developed features to enable transactions to be completed using the Internet.

There is a need for more effective strategic co-ordination across the various e-initiatives

1.7   Overseas studies suggest that countries which are successful in the delivery of mature on-line government services have a strategic framework that aligns the three components – Government and Citizens, Government and Business, and Government and Employees – and underpins their government action plan.

1.8   In New Zealand, the structure designed to give effect to the development and implementation of e-initiatives places the responsibility for addressing the issues with the three different lead departments as described below. While we saw evidence of co-ordination between different e-initiatives, an overall strategic framework is lacking.

1.9   The three lead departments are:

- The SSC, which is running 15 projects (described in Annex 1 on pages 37-39) that are collectively designed to provide a capability and operating framework for e-government. Most of these projects are technical in nature and, broadly, good progress is being made.

- The MED, which is focusing on ways to advance private sector business use of the Internet. For this to happen, the public and businesses need sufficiently high-speed access to the Internet. In this country, making consistently available in all parts of the country the technological infrastructure (known as bandwidth[2]) is not straightforward. In some areas the necessary infrastructure is not yet in place.

- The Department of Labour, which has been given the role of addressing the "digital divide" – the term used to describe the gap between those who have optimal access to ICT and the skills to make best use of them, and those who do not.

1.10   In addition, the Ministry of Education is proceeding with initiatives to use ICT to:

- improve learning outcomes for students;

- improve the administrative efficiency and effectiveness of educational administration; and

- develop partnerships with communities to enhance access to learning through ICT.

---

2   Bandwidth is the term that is used to describe the data-transfer capacity of a particular communications technology – data can travel by wire (requiring copper or fibre cables) or wireless (requiring dedicated radio frequencies from land-based radio towers or satellites).

ONE

1.11   Schools have an important role in increasing awareness and use of the Internet. They are being asked to invest in the required technology and capability (e.g. teacher training). As a discrete and relatively receptive sector, schools are making overall good progress in meeting the educational objectives of the e-government programme.

1.12   The Ministry of Health also is proceeding with a comprehensive plan for the application of ICT in the health sector to data collection, storage, and access. The plan aims to:

- develop electronic health records;

- reduce general practitioner compliance costs;

- increase efficiencies in administrative processes; and

- improve outcomes for patients through better effectiveness in health care and disability service delivery.

Crown entities need to make no less a commitment to e-initiatives than the core public sector

1.13   Crown entities deliver a range of important services to citizens, such as education and health care. Some have close relationships with the business community. The commitment of Crown entities to the Government's objectives is vital to the credibility of the government portal[3] and implementation of e-initiatives generally.

1.14   However, most Crown entities are governed by their own legislation and have varied (and, in some cases, distant) relationships with the Government. Departments with responsibility for monitoring their performance have varying levels of control over Crown entity strategy. The central agencies also have limited powers in this respect. The Government needs assurance that Crown entities are adopting its electronic infrastructure and standards and are fully committed to its vision for the development and use of ICT.

---

3   The government portal is a single web site giving structured access to the web sites of government agencies.

1.15   The difficulties of achieving cohesion and consistency in the wider state sector are well illustrated in the health sector, where the main impetus for progress currently resides largely with the 21 separate District Health Boards.

*Some local authorities have undertaken
promising initiatives, but overall progress in local
government has been patchy and fragmented*

1.16   The local government sector consists of 86 regional, city, and district councils serving differing communities with a variety of priorities and expectations. Because of these differences, the sector needs a vigorous sponsor with a clear mandate to promote best practice across the sector.

1.17   The establishment of New Zealand Local Government Online[4] has been a positive step to encourage local authorities to develop web sites and a local authority portal. Individual local authorities are under no obligation to comply with standards developed for government departments or recommended by New Zealand Local Government Online. In these circumstances, some uneven development of e-initiatives is inevitable.

1.18   Local Government New Zealand has recently assumed a broader role in the promotion, encouragement, and education of e-local government, and a team[5] has been established to develop an ICT strategy for the local government sector.

*Bandwidth and the digital divide are difficult
issues to resolve.*

1.19   Bandwidth and digital divide both restrict access to and use of the Internet. Both are potential obstacles to the Government's vision of enabling people and businesses to gain access to government information and services

---

4   New Zealand Local Government Online was established in September 1998 as a joint initiative of the Society of Local Government Managers and the Association of Local Government Information Management.

5   The team comprises participants from Local Government New Zealand in conjunction with New Zealand Local Government Online, the Society of Local Government Managers, the Association of Local Government Information Management, the SSC's E-government Unit and the MED.

ONE

electronically. Web guidelines produced by the SSC's E-government Unit are one means of dealing with this problem.

1.20   Though critically interdependent – progress on the digital divide depends on progress on bandwidth access – they are the responsibility of not one but two departments: respectively, the Department of Labour and the MED. Resolution of the two issues will need effective collaboration between departments.

1.21   The May 2002 Budget included funding through the Education and Economic Development Ministries to provide high-speed Internet access to provincial and rural communities including schools. The country will be split into 10 to 20 regions and contracts will be awarded to suppliers on the basis of a tender by November 2002. A project director and project team have been appointed.

The Greatest Challenges Lie Ahead

1.22   The development of technological infrastructure and standards is the most straightforward phase. The full benefits of e-initiatives will not be achieved until the delivery of government services is transformed. This phase may require organisational and cultural changes that will be much harder to achieve than the technology changes that have already been made.

A greater appreciation is required of the need to co-operate to make timely progress

1.23   The following aspects of New Zealand's current approach to e-initiatives need to be reviewed, reflecting overseas experience.

- Responsibility for managing the development and implementation of e-initiatives – should this be more strongly focused in a single agency?

- Enforcement of key requirements for successful e-government, such as common data standards and consistent infrastructure investment – do these need to be made mandatory?

- Resourcing of the development and implementation of e-government – is there a need for a clearer and more transparent resourcing strategy? (Otherwise, any reluctant key players may cite lack of resources as an excuse for not making progress.)

- Priority assigned to e-government in different public sector organisations – does the entire public sector need stronger incentives to translate the Government's objectives into action?

- Limited government control over critical parts of the programme (such as bandwidth) may prove to be an enduring obstacle to making progress – will further interventions and/or additional incentives be needed to overcome these obstacles?

- Use of current technology – do the Government and government agencies need to do more to ensure that the greatest value is being achieved from the current infrastructure and from opportunities for integrated and shared services?

- Healthcare is a key service for which there are significant unresolved issues in relation to health information and technology. These issues pose similar challenges in other countries' health jurisdictions. Do the Ministry of Health and District Health Boards need to give these issues higher priority?

1.24   Once further progress is made, there may be significant implications for the way that government in New Zealand is organised to accommodate the changes that e-initiatives may bring about. A Change Implementation Advisory Group and Implementation Steering Group have been established to implement a package of initiatives to address the issues raised in the *Report of the Advisory Group on the Review of the Centre*.[6] The initiatives are looking at ways of improving the public management system – improving the interface of Government with citizens, particularly in relation to issues that cut across multiple agencies, and better co-ordinating or integrating service delivery to reduce costs and clarify accountabilities.

---

6   This report was prepared by a Ministerial Advisory Group convened by the State Services Commissioner and was presented to the Ministers of State Services and Finance in November 2001.

1.25 The remainder of this article:

- briefly outlines the arrangements for strategic management and co-ordination of the Government contribution to e-initiatives; and

- describes in more detail what the public sector has done to promote wider adoption of ICT, as illustrated in the diagram in Figure 1.1 on page 12.

Strategic Management

At Cabinet Level…

1.26 As some issues (e.g. the digital divide and bandwidth) cross boundaries, an informal Ministerial e-team was established in an attempt to co-ordinate the work being done by different government departments. The team comprises the five Ministers who have a direct interest in e-initiatives through the involvement of the SSC, the MED, and the Department of Labour.[7] The team meets as needed.

1.27 In addition, by the nature of the topic, the Minister of Research Science and Technology also has an interest in e-initiatives.

At Agency Level…

1.28 The following three groups have been established to discuss e-government initiatives and help promote support for these initiatives more widely across government:

- The E-Government Advisory Board – which is made up of representatives from central government, local government, and the private sector. The members act as advocates of e-initiatives among government

7 The SSC reports to the Minister of State Services who is also the Minister of Education. On e-business matters, the MED reports to the Minister of Commerce who is also Minister of Communication and Minister of Information Technology; and to the Minister for Economic Development who is also the Minister for Industry and Regional Development. The Labour Market Policy Group of the Department of Labour reports to the Minister of Social Services and Employment.

ONE

organisations and are responsible for advising the State Services Commissioner on key aspects of the SSC's e-government programme.

- The Agency Leaders Group – which is used to promote communication between government agencies[8] and the SSC's E-government Unit. Its members are second-tier staff involved in the core business of their agency with the authority to engage their Chief Executives in e-government proposals, and have access and authority within their agency to ensure that appropriate staff are engaged in consultation.

- The Chief Information Officers Forum – which allows IT staff an opportunity to have input into the e-government programme. This forum is focused on implementing technologies to enable business transformation, encourage inter-operability between agencies, and encourage sharing or building on technical infra-structure across government.

1.29   The Department of the Prime Minister and Cabinet (DPMC) has a role of co-ordinating issues that affect the whole of government. It reviews e-initiative papers and convenes an officials' group to discuss e-initiatives. The group meets informally as required and its members differ according to the issue being discussed. The core representatives are the MED, Industry New Zealand (as applicable), the Ministry of Education, the Treasury, and the SSC.

1.30   In the following paragraphs we address each of the five areas of e-initiatives illustrated in Figure 1.1 on page 12.

---

8   The group also includes leaders from District Health Boards, Crown Research Institutes and the Tertiary Institutions Agency. Although they currently are not directly involved, their inclusion enables them to become familiar with the programme. It also enables them to pick up the standards and policies that have been developed for the whole of government, so that they will be able to more easily align with e-government objectives in the future.
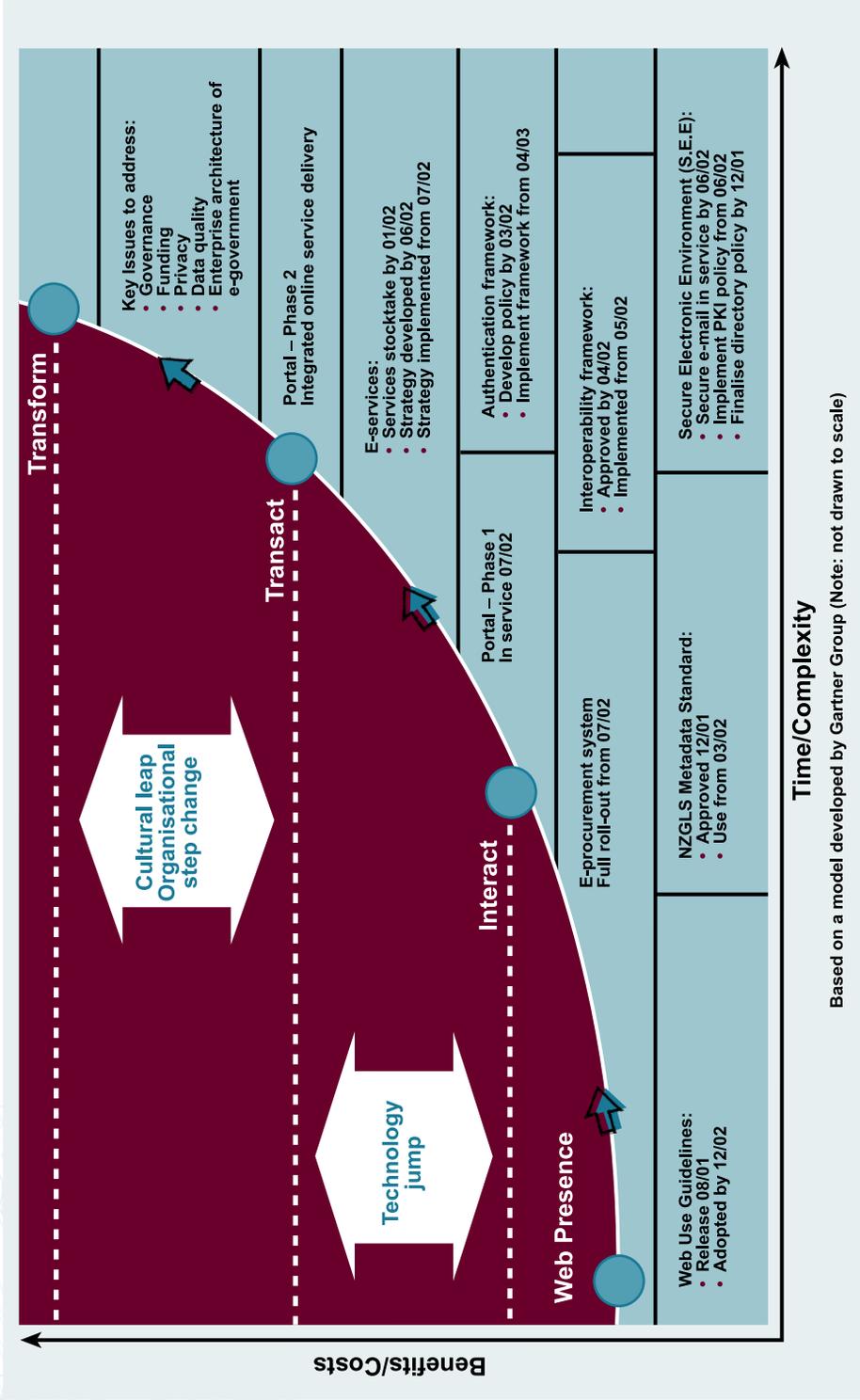
ONE

E-government

What Is E-government?

1.31   World-wide, governments are reassessing how they are able to use ICT to:

- provide people with more convenient access to government information and services;

- improve the quality of the services; and

- provide greater opportunities to participate in democratic institutions and processes.

1.32   The use of ICT for communication and the conduct of dealings between the government and the public is commonly referred to as "e-government".

1.33   The Government's *E-government Strategy* notes that e-government will improve the quality of government, and people's participation in it, in the following four ways:

- it will be easier for people to have their say in government;

- people will get better services from government organisations;

- people will receive more integrated services because different government organisations will be able to communicate more effectively with each other; and

- people will be better informed because they can get up-to-date and comprehensive information about government laws, regulations, policies and services.

The Size of the Task

1.34   Transformation to e-government is a long-term process. Many countries, including New Zealand, are planning on the basis of a four-phase model – as illustrated in Figure 1.2 on page 22 (a diagram extracted from the *New Zealand E-government Strategy* – December 2001 – Update*).*

Figure 1.2
Model of Development of E-government

Key Issues to address:
• Governance
• Funding
• Privacy
• Data quality
• Enterprise architecture of e-government

Portal – Phase 2
Integrated online service delivery

E-services:
• Services stocktake by 01/02
• Strategy developed by 06/02
• Strategy implemented from 07/02

Authentication framework:
• Develop policy by 03/02
• Implement framework from 04/03

Interoperability framework:
• Approved by 04/02
• Implemented from 05/02

Secure Electronic Environment (S.E.E):
• Secure e-mail in service by 06/02
• Implement PKI policy from 06/02
• Finalise directory policy by 12/01

Portal – Phase 1
In service 07/02

E-procurement system
Full roll-out from 07/02

NZGLS Metadata Standard:
• Approved 12/01
• Use from 03/02

Web Use Guidelines:
• Release 08/01
• Adopted by 12/02

Transform

Transact

Interact

Web Presence

Cultural leap
Organisational
step change

Technology
jump

Time/Complexity

Benefits/Costs

Based on a model developed by Gartner Group (Note: not drawn to scale)

ONE

1.35 **Phase one: a web presence** – provides a web site to deliver basic information. Most public sector organisations moved beyond this phase some time ago.

1.36 **Phase two: interact** – provides a more capable web site giving on-line access to critical information, such as downloadable forms and e-mail contact to resolve queries. Many public sector organisations have this capability.

1.37 **Phase three: transact** – supports e-procurement (on-line purchasing) and provides self-service applications on the web site so that people can conduct business on-line. Some public sector organisations are in this phase with some of their services. Many of the foundation e-government projects are designed to support advancement into this phase.

1.38 **Phase four: transform** – redefines the delivery of government services and potentially the operation of government itself. The identity of public sector organisations matters less as information and services are accessed through a single point on the Internet. E-government reshapes the relationships between government and individuals, and government and business. This is the long-term goal of the *E-government Strategy* – the portal project currently under way (see paragraphs 1.44 to 1.48 on pages 24-25) is the starting point.

1.39 The three broad target groups – government, business, and citizens – will need to undergo significant transformation (changes to the way they run their operations and their lives) to enable the development of e-government.

Operational-level Key Players

1.40 The E-government Unit of the SSC has the central co-ordinating role in developing some major foundation-building projects as a basis for other agencies to deliver e-government in a coherent, cost-effective, and rapid fashion – using a set of common tools and standards, and sector-wide infrastructures.

ONE

1.41 The programme of work required to establish the foundations to transform government into e-government is set out in the *E-government Strategy* **government.nz @your.service**.

1.42 The mission of the strategy is that:

> *… by 2004 the Internet will be the dominant means of enabling ready access to government information, services and processes.*

1.43 The strategy currently includes 15 key initiatives – these initiatives and the progress made by the SSC (in conjunction with staff from other agencies) are outlined in Annex 1 on pages 37-39.

1.44 One of the key initiatives is the establishment of a government portal – which is a single web site allowing users to search for government services available from government agencies. The portal will enable members of the public to use a single Internet address to find on-line and off-line government information and services without needing to know which government agencies have the information or deliver the services, and therefore which web site they need to go to.

1.45 A catalogue of 1000 services (including 150 local government services) across 65 organisations has been collected for identification on the portal site. The portal is expected to be operational by July 2002.

1.46 The portal is likely to raise public expectations in relation to both on-line and off line access.

1.47 The portal will take the public to the service provided by the relevant entity, with each entity being responsible for providing appropriate access, information and services. Establishing the portal is likely to reveal starkly the current uneven commitment by government agencies to the electronic provision of information and services, and prompt users to compare the quality of web sites, information, and service delivery.

1.48 The portal is also likely to promote more economical ways to deliver services, which may challenge current practices. At present, members of the public might, in some cases (as in applying for a student loan), have to deal with more than

one government agency in order to carry out a single transaction. The portal is likely to draw attention to the relative efficiency of different transactions, and may provide impetus for consideration of future structural options for the machinery of government.

Crown Entities

1.49 Citizens will judge the success of the Government's portal by the extent to which they can gain ready access to services they need through the Internet. Having been directed to relevant agencies they will expect convenient and responsive service on-line or through traditional service channels.

1.50 Crown entities deliver a range of important services to citizens, such as education and health care. Some Crown entities (such as those with regulatory powers, e.g. the Commerce Commission) have close relationships with the business community. The commitment of Crown entities to the Government's e-vision and objectives is vital to the credibility of the portal and implementation of the Government's e-initiatives generally.

1.51 However, most Crown entities are governed by their own legislation, and have varied (and in some cases distant) relationships with the Government. Departments with responsibility for monitoring their performance have varying levels of control over Crown entity strategy. The central agencies have very limited oversight, and often no clear mandate to impose standards and expectations in respect of information technology and service delivery. The central agencies confirmed in their discussions with us their limited powers in this respect.

1.52 The adoption of metadata standards illustrates the difficulties in ensuring widespread compliance in such an environment. These standards, drawn up by the SSC, are designed to ensure that users have ready access to information held on the web sites of public entities, and can navigate through such sites with ease. Departments, which make up the core government sector, must comply with this set of standards; the wider state sector has been

ONE

ONE

strongly encouraged to do so. However, none of the agencies with responsibility for management of the e-government programme has a plan to monitor whether entities in the wider public sector have adopted these and other standards in relation to electronic infrastructure.

1.53   The difficulties of achieving cohesion and consistency in the wider state sector – in the absence of clear mandates, incentives and leadership – are well illustrated in the health sector.

Information Needs and Responses in the Health Sector

1.54   The health sector comprises a complex collection of participants that brings unique challenges in attempting to implement ICT in a coherent and equitable manner. Delivery of health services involves 21 District Health Boards (DHBs), 5000 general practitioners, and thousands of other providers (including voluntary and other non-government organisations, and privately operated hospitals).

1.55   Effective delivery of health services across the health sector relies on ready access to comprehensive and current information. The Director-General of Health appointed a Health Information Management and Technology Plan Advisory Board in December 2000 to oversee a plan to better organise health information. The Advisory Board published its findings in October 2001 in a report – *From Strategy to Reality: The WAVE Project.*

1.56   The Advisory Board concluded that:

• the primary strategic goal was to integrate health information systems; and

• the secondary goal was to ensure on-going continuity and governance of health information management and information technology from a sector perspective.

1.57   It recommended that (as a top priority) an agency be established to oversee and drive common information technology issues in the health sector to better record, share, analyse, and use health information.

1.58   The Advisory Board made, in all, 79 recommendations (including 10 priorities) for better organisation of health information.

1.59   In its Statement of Intent for 2002-03 the Ministry of Health identifies one of its roles as the governance of health information, systems and standards relating to health information, and technology across the health sector. The Ministry has appointed a chief adviser to oversee implementation of the Health Information and Technology Plan recommendations and to address the immediate areas requiring improvement.

1.60   The Ministry faces significant challenges in ensuring that the Plan recommendations are taken up by the many diverse participants in the health sector. The DHBs, which have considerable autonomy, nevertheless will be major partners with the Ministry. The Ministry is seeking to use its influence over funding agreements and planning processes to ensure widespread compliance with a range of standards and systems for the collection, classification, security, storage, and transmittal of electronic information.

1.61   The Ministry is using a number of tools to lead and co-ordinate implementation of ICT in the health sector:

- All DHB annual and strategic plans must be aligned with the *WAVE* report.

- Establishment of the two new organisations recommended in the *WAVE* report –

  - the Minister of Health set up and has received a report from an advisory group on establishing a Health Information Standards Organisation; and

  - a Shared Services Organisation, which has already achieved amalgamation of a national service organisation.

- The Ministry supports the Health Intranet Governance Board, which is looking to facilitate increased electronic health transactions and business.

ONE
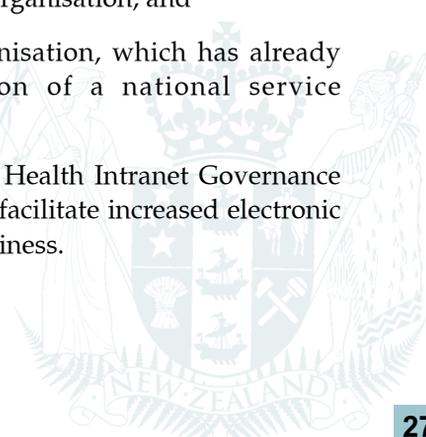
- Sector representatives (including private hospitals) meet to agree coding and data standards in the National Data Policy Group.

1.62   The Ministry has already put in place:

- a secure Health Network;

- digital certification for Ministry staff and sector providers (that conforms to the recently released e-government specifications);

- electronic claiming for over 5000 service providers; and

- a Community Management System for Maori providers.

1.63   The Ministry's main goal is to implement an ICT infrastructure to enable DHBs and other sector participants to share information. For example, the Ministry has sought to standardise clinical information and create common messaging formats for the exchange of clinical information.

1.64   The Ministry has taken steps to encourage the health sector to transact business electronically. However, in our view, the Ministry should consider ways to encourage all DHBs and other service providers to use electronic channels to their full potential. Without encouragement, initiatives are likely to be undertaken on a regional basis that are incompatible with each other and national standards.

1.65   The Ministry has adopted the *WAVE* report as its primary e-strategy for the health sector. The Ministry's progress in creating an e-society in the health sector will be measured in terms of the Health Information and Technology Plan.

Local Government

1.66   The 86 regional, city and district councils that make up local government serve different communities with a variety of priorities and expectations. Local government has no central co-ordinating agency with t roles, functions and powers of the SSC to ensure that the local government sector adopts and follows a set of consistent standards and collaborates in the development of e-initiatives.

1.67   As a result, progress in development of e-local government has been patchy and fragmented, though some promising initiatives have emerged – for example:

- a local government web site was established by New Zealand Local Government Online in September 1998;

- the Auckland area local authorities have developed a region-wide web portal; and

- a large number of local authorities have web sites – some of which are of very high quality and offer useful information and services to the public.

1.68   New Zealand Local Government Online – owned by the New Zealand Society of Local Government Managers Inc and the Association of Local Government Information Management Inc – has been assigned the task of developing strategies for e-initiatives in local government. New Zealand Local Government Online's stated vision is:

> *To help local government transform into e-local government through innovative leadership and by providing leading-edge services and facilities.*

1.69   A New Zealand Local Government Online survey has reported that 80 of the 86 local authorities currently have a web presence of one sort or another. New Zealand Local Government Online will shortly be offering a free, basic web site to those local authorities without a web site.

1.70   Other initiatives and achievements of New Zealand Local Government Online include:

- establishing a network to facilitate e-mail communication between different professional groups working in local government: a software application "List Serv" facilitates "bulletin board" style notices to 36 professional groups by an exchange of approximately 25,000 e-mail communications per week;

- co-ordinating a project to publish the results of the October 2001 local government elections on-line;

- developing a programme for local authorities to collectively procure goods or services on-line;

ONE

ONE

- setting up a local government portal to provide access to the web sites of individual authorities; and

- providing a template web site and generic service to 16 local authorities.

1.71   New Zealand Local Government Online has also compiled an on-line resource library, and plans shortly to launch a project to put on-line forms used by a group of local authorities. On-line forms are an important dimension of service delivery, and will be a convenient means for many members of the public to interact with their local authorities.

1.72   Local Government New Zealand has recently assumed responsibility for the co-ordination, promotion, encouragement, and education of e-local government.

1.73   An e-local government team has been established to develop a strategy for the local government sector. The vision in the strategy is that:

> *People will have easy access to local government information, services and local democracy.*

1.74   The strategy is intended to enable local government to engage effectively with the SSC to ensure that the e-initiatives undertaken in local government are consistent with the standards developed for central government. The e-local government team includes local authority representatives as well as the SSC and the MED. In turn, local government is represented on the E-government Advisory Board. However, implementation of the strategy in the local government sector relies on the commitment and priorities of individual councils.

1.75   Recognising that citizens do not necessarily differentiate between services provided by local and central government, the SSC has consulted local government representatives in the design of many of its e-government projects. The SSC, in conjunction with the local government representatives, identified the 150 services generic across local government to be included in the portal.

E-commerce

1.76 The MED's role is to promote the E-Commerce Strategy. Its mission (in conjunction with the private sector) is to:

- Provide leadership in communication, and in monitoring e-commerce capability through research; lead by example through e-government and e-procurement; and ensure a continuing supply of skilled resources.

- Build capability by facilitating the building of e-commerce skills; work to ensure that all people have access to life-long learning opportunities to develop information technology skills for the 21st century; and build broader information technology literacy skills in the community.

- Provide an enabling regulatory environment – through timely legislative responses; development and protection of infrastructure; and promotion of the country's interests internationally.

1.77 The MED is currently working on changes to legislation. Annex 2 (on page 40) shows the work done and progress made. The MED has also developed the *New Zealand Model Code for Consumer Protection in Electronic Commerce* to assist the business sector to develop self-regulatory mechanisms, and has supported the development of the e-Marketing Standards Authority.

1.78 The MED is responsible for considering means of increasing the availability of high-speed Internet access through the provision of increased bandwidth. As e-activity increases, and as additional media are "digitised", the requirement for data-transfer capacity – i.e. bandwidth – increases.

1.79 High-speed internet services are generally available in New Zealand's main urban centres but the regions often do not have access or only have access at a high cost. An improved information infrastructure is critical for a range of government initiatives including the E-government, E-Commerce and Regional Development Strategies.

ONE

ONE

1.80   The Government set itself the following goal in August 2001:

> *All New Zealand communities are able to access two-way, high speed Internet services by the end of 2003.*

1.81   It does not see its role as funding the roll-out of a new telecommunications infrastructure, but rather as facilitating the spread and take-up of high-speed Internet services working in partnership with businesses, local authorities, and communities.

1.82   Four major initiatives are in hand to meet this goal:

- Approval was given to fund six regional pilot schemes (Northland, Southland, Taranaki, Wairarapa, South Waikato and the East Cape) in October last year. The intention is that regional development agencies will work in their regions to establish sufficient ongoing demand for broadband services to attract and encourage suppliers (including non-traditional suppliers) to install the infrastructure. These pilot schemes have had input from the Ministry of Agriculture and Forestry, the Ministry of Education, Industry New Zealand, and the local authorities in the areas concerned.

- The Ministry of Education and the MED are working on a joint initiative to provide broadband or high speed Internet access to all New Zealand schools and communities. A steering group overseeing this programme includes representatives from the SSC and the DPMC.

- Developing business capability in the use of e-commerce – this being done in conjunction with Industry New Zealand and Trade New Zealand.

- Providing information on implementing and using broadband and e-commerce – this is largely the result of the work that the MED is doing on broadband and is closely associated with the work being undertaken by the Department of Labour and the digital divide strategy group.

1.83   The MED was also responsible for establishing an E-commerce Action Team (ECAT) in March 2001. Team members are drawn from central and local government,

business, the education sector, Maori, and community organisations. ECAT's role is to:

- co-ordinate government and private sector efforts to facilitate the adoption of e-commerce;

- identify a core research programme; and

- provide advice to the Government.

1.84 A key objective is to establish regional or sector-based teams and to support existing groups. Several "mini-ECATs" have been formed – including groups focusing on research and education, and a rural ECAT led by Federated Farmers.

E-communities

1.85 The Department of Labour has been given primary responsibility for addressing the digital divide (see paragraph 1.9 on page 14). The work being done has been refocused to emphasise community access to and competence with using ICT so that:

> *All New Zealanders, either as individuals or as members of communities, have the opportunity to access and effectively use current and emerging information and communications technologies.*[9]

1.86 An inter-departmental project team led by the Community Employment Group in the Department of Labour has been formed and a Community Access to ICT Strategy has been developed. The Strategy aims to co-ordinate the efforts that already exist and involves:

- developing or adapting best-practice planning tools;

- co-ordinating central government assistance for community ICT initiatives;

- strengthening organisational infrastructures to support community ICT access;

- developing communications and networking;

- developing an ICT research and evaluation programme;

---

9   From the draft strategy – *Connecting Communities: A Strategy for Government Support of Community Access to Information and Communications Technology.*

ONE

- training programmes for workers supporting community ICT projects; and

- relationship development and partnership building.

1.87   The work is to be linked to the MED's programmes to aggregate demand for bandwidth and to the Ministry of Education's e-learning initiatives. It is intended to further contribute to the existing strategies and policies to turn the digital divide into a "digital opportunity".

1.88   It is anticipated that the Community Access to ICT Strategy will be rolled out from the second half of this year.

1.89   Education also plays an important role. By the end of this year, it is envisaged that schools will be demonstrating that they are:

- improving learning outcomes for students by using ICT to support the aims and objectives of the curriculum, and by providing professional development to teachers and principals;

- using ICT to improve the efficiency and effectiveness of educational administration; and

- developing partnerships with their communities to enhance access to learning through ICT.

1.90   Three focus areas are infrastructure, improving school capability, and learning:

- *Infrastructure issues* are concerned with increasing schools' access to and management of the technology, including sharing of resources between schools and communities.

- C*apability issues* relate to providing opportunities for school leaders and teachers to increase their ability to understand and use the technology.

- *Learning* relates to how infrastructure and capability are used to develop new ways of teaching and learning and improve management practices.

1.91   There are various initiatives, including:

ONE

- The establishment of Te Kete Ipurangi – the Online Resource Centre, the bilingual education portal for schools.

- A partnership with Australia to develop on-line curriculum content. A five-year project (2001-05) is responsible for producing high-quality digital learning objects, as well as standards for the development, management and delivering of digital material.

- Laptop computers for secondary school teachers, giving permanent full-time teachers the opportunity to lease a laptop for a three-year period, with Government funding meeting up to two-thirds of the total cost of leasing, and teachers or schools meeting the other third.

- High-speed Internet access for all schools will provide provincial areas with a similar level of service to that which is currently available in the main urban centres, making it possible for schools throughout the country to use the Internet as an integral teaching, professional development, and administration tool.

- A partnership between schools, business, and the Government to provide resources for four pilot programmes exploring various approaches to ICT to enrich learning, with an emphasis on mathematics, science and information technology – FarNet, General XP, Notebook Valley, Study Support Centres.

- Leadership development initiatives for principals including providing laptops for all principals by the end of 2003, *LeadSpace* (a dedicated portal giving principals quick and easy access to the information and services they need), and an on-line network, facilitated by ex-principals to provide principals with professional discussion and support.

- Contracting schools that are successfully using ICT to
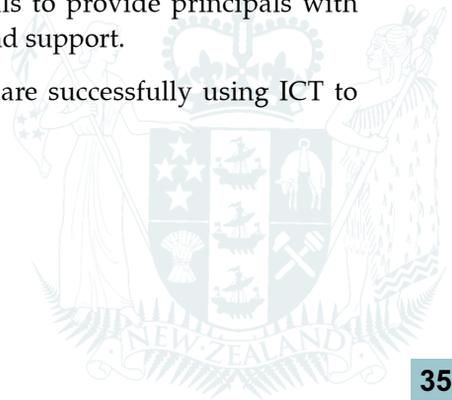
enhance teaching and learning to provide advice and guidance to school clusters. Currently, 50 clusters are contracted, which will be joined by an additional 20 in 2003, and another 23 have completed contracts. The contracts are for three years.

- A Microsoft® software package for schools.

ONE

Annex 1 – SSC Projects

Project	Description	Status
Government Portal	Structured access to the web sites of government agencies, so that government information and services can be found from one place without having to understand how government is structured and which sites to use.	A strategy has been produced to develop a citizen-focused portal by July 2002. The project is on target for 1000 services across 65 organisations.
Government Information Discovery (GUIDE)	Consistent description of information and services. The descriptions are referred to as metadata.	An agreed way to describe information and services so that they can be found easily through the portal that has been developed and is being used across 65 organisations.
Geospatial Information	Consistent description of addresses, road and place names.	A metadata standard has been developed.
Government Services Online	Identify which services will be offered on-line when the portal goes live.	Listing the government services is under way – to date 1000 services have been catalogued across 65 organisations.
Government Web Guidelines	Ensure government web sites are accessible in that they are: • easy to use; • accessible to disabled users; • accessible with low-speed computers and/or bandwidth; and • consistent.	Guidelines have been produced and published. Government agencies are expected comply with the guidelines by December 2002, or have in place firm plans to do so by that date.

Project	Description	Status
Authentication	Ensure that government services delivered over the Internet reach the right person. This will involve electronic verification that people are who they say they are and that privacy is protected.	Work done with a range of stakeholders to establish proposed policy implementation principles. Cabinet has approved the policy principles.
Internet Skills of Public Servants	Encourage training to ensure public servants use the Internet in an efficient and productive way.	Led by the Public Sector Training Organisation.
Inter-operability Framework	Introduce a standardised system of decision-making processes about investment, development, and management of IT resources. (Each government agency currently runs its own business and technology systems.)	Initial design of a framework to support the sharing of information and applications by government agencies has been completed. This is a prerequisite to enable integrated electronic service delivery.
Leveraging Infrastructure	Use existing technical capabilities more effectively. Infrastructure includes staff, business processes, computer hardware and software.	An initial analysis concluded that this goal was best achieved through the use of common standards across the public sector, which will be pursued through the interoperability framework.
National Information Infrastructure Protection	Improve the protection of critical infrastructure (e.g. telecommunications and power) from cyber attacks.	A National Information Infrastructure Protection Strategy has been developed and the Centre for Critical Infrastructure Protection established at the Government Communications Security Bureau.

ONE

Project	Description	Status
Electronic billing and payments	To develop a whole-of-government approach to electronic billing and payments to be transacted securely over the Internet.	Lack of an e-billing market identified and the initial strategy is to wait until one emerges. To be reviewed before June 2002.
Procurement	Modernise how the Government buys goods and some services.	Contract for 2 phases: • pilot April to October 2002; and • a 5-year contract from when it becomes operational in October 2002.
Secure Electronic Environment (SEE)	Enable public servants to work securely together over the Internet. "Securely" means maintaining the confidentiality of the information and ensuring that the information is not altered in any unauthorised way.	Secure e-mail system available for all government agencies – S.E.E. Mail. Draft high-level e-government directory policy and schema – the S.E.E. Directory – and a policy framework for the adoption of Public Key Technology in government – S.E.E. PKI – published.
Shared Workspace	Enable different agencies and different locations to use the Internet to work on policy documents to develop policy that cuts across several areas.	Functional requirements for a system established.
Build cross-agency e-government networks		Regular meetings and communications bringing together the people leading e-government.

Annex 2 – Regulatory Environment

MED has done the following work to establish an enabling regulatory environment.

Legislative Change	Reason for Change	Status
The Electronic Transactions Bill	The Bill is intended to remove legislative impediments to the use of electronic technology for communications and record-keeping in some areas; and to remove avoidable uncertainty surrounding the legal status of electronic communications and related uses of modern technology.	The Bill has received its second reading.
The Crimes Amendment Bill (No. 6)	The Bill will address computer-related crime.	The Bill has been reported back from the Select Committee and is awaiting Parliament's further consideration.
The Telecommunications Act	The Act is designed to create a more efficient and competitive telecommunications market in New Zealand for the benefit of both business and domestic customers.	The Act came into force in December 2001.
Other initiatives	Work on the reform of evidence law, including electronic evidence.	At the policy approval stage.

Two

Strategic Human Resource Management

TWO

It is extremely important that State sector agencies are fully capable of doing the job that is asked of them. Otherwise, desired outcomes will not be achieved, and accountability for agency performance will be compromised. Recognition of the importance of capability – and of shortfalls in the capability-related information currently available – has led to a number of recent initiatives to remedy the situation.

The most important aspect of organisational capability is human resource capability. In the past, national audit institutions have typically given little attention to the issue. However, this is now changing, both overseas and in New Zealand.

We intend to undertake some important work on this topic during 2002-03, so that Parliament can have better assurances about the state of human resource capability in government agencies.

Introduction

2.1 The purpose of this article is to draw Parliament's attention to the need to improve the information and assurances that Parliament currently receives about human resource capability and human resource management in the State sector.

2.2 We also take the opportunity to inform Parliament of our plans to investigate and report more fully on this issue in the future.

Background

2.3 The accountability information currently provided to Parliament is relatively rich in information about financial matters.

- Before the start of each fiscal year, Parliament receives detailed financial forecasts.

- After the end of each fiscal year, Parliament receives audited financial statements that report actual performance against those forecasts.

TWO

2.4   In addition, we report to Parliament and its select committees on the quality of the financial management and the service performance management of all departments, Crown entities, and State-owned enterprises that are subject to financial review.

2.5   In our 1999 report *The Accountability of Executive Government to Parliament*, we drew attention to some shortfalls that existed (and generally still exist) in the information provided to Parliament about the capability of government departments and organisations.[1] The most important dimension of organisational capability is human resource capability. In that report we expressed our belief that … *key aspects of human resource capability are measurable and can usefully be reported in accountability documents.*

2.6   The task of ensuring that an organisation secures and maintains an appropriate human resource capability is referred to by various terms – strategic human resource planning, human capital management, personnel planning, workforce planning, and (reflecting its military origins) manpower planning.

2.7   The task is critical but complex. In general, it should not be undertaken in isolation from other strategic capability planning. Organisations need to be continuously forecasting and preparing to meet their human resource requirements in the context of their own changing roles and changes in their external environment (including the labour market).

Technical Problems

2.8   Forecasting labour supply is generally difficult. At one extreme, many consider that a high degree of planning and investment is often necessary to provide reasonable assurance of supply. At the other extreme, it is often argued that conventional market forces and price adjustment mechanisms will correct instances of over- or under-supply.

---

1   Parliamentary paper B.29[99c], pages 71-82.

2.9   However, the labour market is much less likely to be efficient than many other markets, because the processes needed to change supply are much slower than those needed to change price (i.e. remuneration). In fact, a range of issues affect the efficient performance of the labour market. They include:

- a clear preference in almost all labour markets for skilled workers, especially where significant financial investments and long lead times are needed to acquire those skills;

- the potential for relatively rapid changes in the demand for skills (including their complete obsolescence) due to the emergence of new technologies and other changes that are difficult to predict;

- the obscurity of many labour market price signals (for example, information on individuals' remuneration is often protected, and market rate surveys can be slow to complete and imperfect in their validity and reliability);

- the fact that the personal rewards from work extend beyond remuneration and embrace other significant considerations (such as interest in the work, personal status, and the desire to make a contribution to public welfare); and

- the social, political and legal rigidities that arise from the importance of employment as a source of personal income and welfare.

2.10   Other trends over the last decade have added to the difficulties in forecasting human resource requirements. These include a trend towards less specific job descriptions and flatter, more collegial organisational structures. For a time, this led to a de-emphasis of human resource planning among some human resource professionals. However, in the face of ongoing skill shortages in high-demand areas, such planning is receiving renewed interest.

TWO

TWO

Relevance for the State Sector

2.11   The issue of labour supply is important in the State sector. There are concerns that certain occupational categories – such as skilled policy advisers and statutory social workers – are chronically under-supplied. In addition, new areas of demand are emerging from such initiatives as e-government.

2.12   Historically, the State Services Commission has been the organisation responsible for gathering information on human resource capability across the State sector. The results of its most recent survey are reported in *Human Resource Capability: Survey of Public Service Departments as at 30 June 2001.*[2]

2.13   The 2001 survey sought information on recruitment difficulties, skill shortages and skill gaps. The Commission observed in its report that:

Recruitment Difficulties

- Twenty-two departments reported difficulty attracting suitable applicants for positions during the year to 30 June 2001, due to remuneration levels, working conditions and/or reputation. Many of these departments reported difficulty in attracting applicants in their core professional and associate professional occupation groups. Nine departments reported difficulty recruiting policy analysts, especially at the senior and more experienced level.

Skill Shortages

- Twenty-three departments reported that they had been unable to fill some positions due to a lack of suitably qualified candidates in the labour market. Experienced policy analysts (particularly with other specialist skills) were identified as the major shortage across departments, with 14 departments reporting a shortage of that skill in the labour market.

- The most common techniques for managing skill shortages were:

  - to fill the position from within;

  - to appoint a lower-skilled applicant, with subsequent training investment; or

  - to use temporary staff or contractors.

2.14 Because its central importance is now being widely recognised, human resource management generally – and human resource planning in particular – has recently been receiving much greater attention by national audit institutions such as Australia[3], Canada[4] and the United States. The matter was well expressed by the US General Accounting Office in a recent report to a Subcommittee of the US Senate[5] –

> *No management issue facing federal agencies could be more critical to their ability to serve the American people than their approach to strategic human capital management, including attracting, retaining, and motivating their employees. High-performing organizations in the private and public sectors have long understood the relationship between effective "people management" and organizational success. However, the federal government, which has often acted as if federal employees were costs to be cut rather than assets to be valued, has only recently received its wake-up call. As our January 2001 Performance and Accountability Series reports made clear, serious federal human capital shortfalls are now eroding the ability of many federal agencies – and threatening the ability of others – to economically, efficiently, and effectively perform their missions.*

---

3 For example, *Planning for the Workforce of the Future – A Better Practice Guide for Managers,* Australian National Audit Office, March 2001.

4 For example, *Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities*, Report of the Auditor-General of Canada, Chapter 9, April 2000.
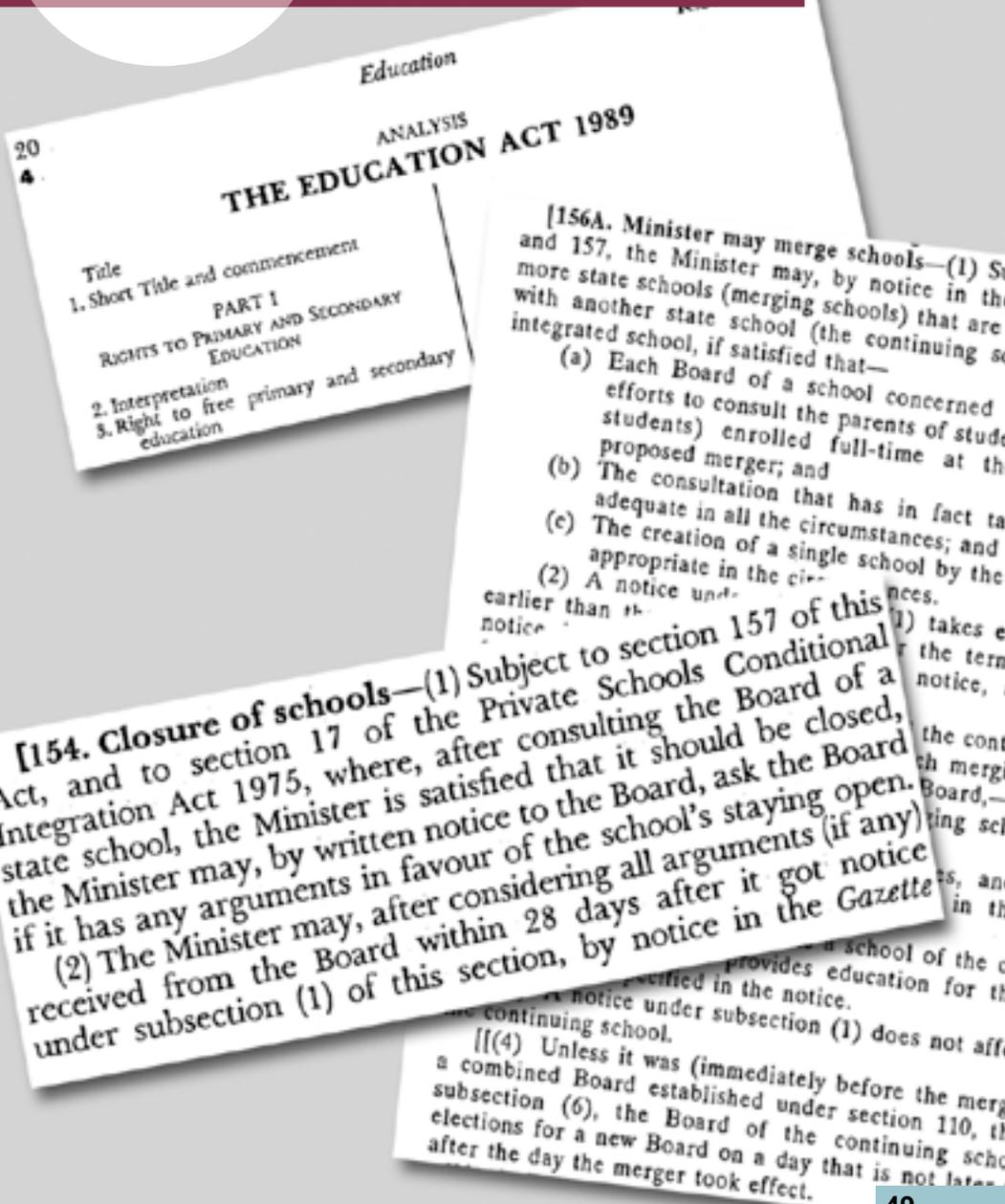
5 *Human Capital – Practices that Empowered and Involved Employees,* General Accounting Office, GAO-01-1070, September 2001.

Planned Examination

2.15   For the same reasons that have commended this issue to other national audit institutions, we will also be seeking in future to provide Parliament with more information and independent assurances about the quality and effectiveness of human resource management in the New Zealand State sector. In doing so, we are conscious that we will need to acquire new expertise. We will also work in close consultation with the State Services Commission, which has statutory responsibilities relating to those matters.

2.16   As a first step, we propose to undertake a sector-wide examination of the strategic human resource planning function. This will probably involve both a general survey and a more detailed examination of certain departments.

2.17   The precise questions to be addressed are still being developed and refined. They will be the subject of consultation with central agencies and external advisers. However, in general terms, the questions are:

- How well are government departments assessing their future human resource requirements?

- How well are they able to maintain their essential human resource capabilities?

- What constraints – whether market-driven, systemic or internal – may be frustrating their ability to do so?

2.18   Our intention is to complete the examination and publish our findings during 2002-03.

Three

Accountability Requirements for Closed or Merged Schools

Education

ANALYSIS

THE EDUCATION ACT 1989

20
4.

Title
1. Short Title and commencement

PART I
RIGHTS TO PRIMARY AND SECONDARY EDUCATION

2. Interpretation
3. Right to free primary and secondary education

[156A. Minister may merge schools—(1) Su
and 157, the Minister may, by notice in the
more state schools (merging schools) that are
with another state school (the continuing s
integrated school, if satisfied that—
  (a) Each Board of a school concerned
      efforts to consult the parents of stud
      students) enrolled full-time at th
      proposed merger; and
  (b) The consultation that has in fact ta
      adequate in all the circumstances; and
  (e) The creation of a single school by the
      appropriate in the ci   nces.
  (2) A notice und-
earlier than th
notice

[154. Closure of schools—(1) Subject to section 157 of this
Act, and to section 17 of the Private Schools Conditional
Integration Act 1975, where, after consulting the Board of a
state school, the Minister is satisfied that it should be closed,
the Minister may, by written notice to the Board, ask the Board
if it has any arguments in favour of the school's staying open.
  (2) The Minister may, after considering all arguments (if any)
received from the Board within 28 days after it got notice
under subsection (1) of this section, by notice in the Gazette

[[(4) Unless it was (immediately before the merg
a combined Board established under section 110, t
subsection (6), the Board of the continuing scho
elections for a new Board on a day that is not late
after the day the merger took effect.

49

In the five years 1996 to 2000, 103 school boards of trustees have been dissolved as a result of their school being disestablished through closure or merger. We have concerns about:

- *The risk of loss of assets as a result of inadequate controls during the period leading up to disestablishment.*

  In two of the 103 cases, we have identified instances of unlawful disposal of assets in the period leading up to the board being dissolved.

- *The lack of formal accountability, reporting, and auditing arrangements when a school is disestablished.*

  Neither the Education Act 1989 nor the Public Finance Act 1989 contemplates what accountability, reporting, or audit requirements should apply in such a situation – and this has led to instances of long delay in final financial reporting and auditing.

The Ministry of Education's procedural guidelines, improvements to the procedures followed in closures and mergers, and new provisions in the Education Standards Act 2001, will go a considerable way toward mitigating the risks involved.

Nevertheless, we believe that:

- *procedures and controls over financial transactions, assets, and liabilities during the disestablishment period need to be strengthened; and*

- *appropriate accountability requirements for the boards of closing or merging schools need to be put on a legislative footing.*

THREE

Background

3.1   When a school is closed or merged, or when school boards of trustees (boards) combine in order to improve schooling arrangements, at least one board goes out of existence. The assets of a board going out of existence should be re-applied within the education system – either in another school or schools, or in the same school under different governance arrangements.

3.2   For a board that knows it is going out of existence there are different risks to be addressed. These risks relate to its accountability to the Minister of Education (the Minister) and the community for the assets that the board has had in its care, and for the liabilities (if any) it is leaving behind.

3.3   In the five years 1996 to 2000, 103 boards were dissolved as a consequence of the schools for which they were responsible being either closed or merged with another school (see Figure 3.1 on page 54).

3.4   In two of those cases – which we describe in Case Studies A and B on pages 69-71 – we have identified unlawful disposal of assets during the period leading up to the board being dissolved. For comparison, a third (and major) case of school reorganisation entailing boards being dissolved is described in Case Study C on page 71-72.

3.5   An influencing factor on what might happen is that closure or merger takes place after a process of consultation within the school community in accordance with the Education Development Initiative (EDI). The EDI process and its time-scale are illustrated on pages 73-74.

Case Studies of Closing and Merging Schools

3.6   Case Study A (Waitangirua Intermediate School) and Case Study B (Maungati School) provide examples of the issues and risks associated with closures and mergers. Case Study C (the Wainuiomata Area Rationalisation) illustrates the improvements that have occurred in mitigating the risks inherent in the disestablishment process.

3.7 In the case of both Waitangirua Intermediate School and Maungati School, financial statements for the final periods are yet to be completed, despite the fact that disestablishment occurred in 1999 and 2000 respectively. In both cases the delays are mainly due to significant issues concerning the boards' management of school assets leading up to closure. We are concerned that neither school community has been made aware yet of the seriousness of these issues, which include:

- Making unlawful or inappropriate payments with funds meant for educational purposes (Waitangirua Intermediate School); and

- Not maintaining adequate records of the assets distributed prior to the school's closure (Maungati School).

3.8 The schools affected by the Wainuiomata Area Rationalisation have not been exposed to the same level of risk as either Waitangirua or Maungati Schools. The management of the Wainuiomata closures was markedly better because:

- the time between initial discussion over the future of the schools concerned and the closures was much shorter;

- a project manager was used from the start, rather than a project co-ordinator (see paragraphs 3.28 to 3.30 on page 58);

- the Ministry of Education (the Ministry) was more active in managing the process and ensuring that the affected boards were aware of their responsibilities (mainly through specific and detailed EDI agreements); and

- procedures were revised in order to provide better information and more controls during the EDI process.

What Are the Risks?

3.9 The two main areas of potential risk in the closing or merging of schools are:

- inadequate control over the assets of the board being dissolved; and

THREE
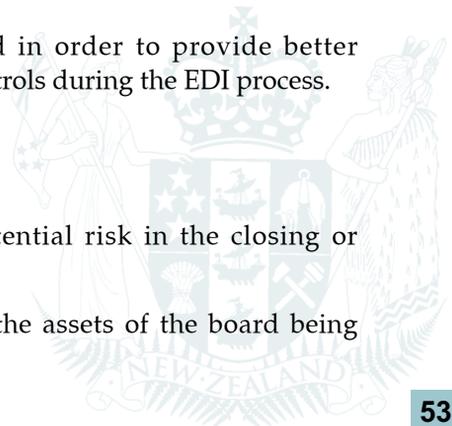
- delayed accountability reporting on events during the period leading up to closure or merger.

3.10   Both of those risks can be exacerbated by the time taken to effect the closure or merger.

Assets at Risk

3.11   The opportunity exists for unlawful disposal of assets before the dissolution of a board, if accountability arrangements for, and controls over, the disestablishment process are unclear and delays are lengthy.

3.12   Figure 3.1 below shows the number of schools that have been disestablished in the five years 1996 to 2000, and the total value of the boards' assets and liabilities.

3.13   The value of the assets at risk may not, however, be the key issue. The closing/merging schools may also have small but "attractive" assets – such as computers – that are at risk.

3.14   Nevertheless, control of that risk appears on the whole to have been effective. Of the 103 disestablishments in the five-year period, we have identified only two instances of inappropriate asset disposal (see Case Studies A and B on pages 69-71).

Figure 3.1
Total Assets and Liabilities of Boards of Disestablished Schools 1996-2000

Year of disestablish-ment	Total disestablish-ments	Total Assets[1][2] $	Total Liabilities[1] $
1996	19	1,031,000	182,000
1997	20	1,356,000	288,000
1998	17	3,104,000	1,150,000
1999	28	4,450,000	1,345,000
2000	19	1,697,000	400,000

(1) Total assets and liabilities have been calculated from each school's final set of audited financial statements. Where those statements are not yet available, the previous year's financial statements have been used.
(2) Assets consist mainly of furniture, computers, library books, and land and buildings paid for from community fund-raising. The value of land and buildings provided by the Ministry is not included.

THREE

Delays in Accountability Reporting

3.15 The school community and the public in general might not receive sufficient or timely assurance about how the board has been managing its school. Long delays in the preparation of the final set of financial statements may exacerbate this.

3.16 Despite there being no requirement to do so, we make arrangements for a final audit in each case. With legislation silent as to whether final reporting is required, there is sometimes a significant delay in the production (and hence auditing) of the final set of financial statements.

3.17 Figure 3.2 below shows the length of delays that have occurred between board dissolution and the issue of an audit report on the final financial statements.

3.18 Four sets of final financial statements have been delayed in excess of four years, while the longest is now in excess of six years.

Figure 3.2
Delay Between Board Dissolution and Issue of the Audit Report[2] on Final Financial Statements 1996-2000

Disestablishments		Months Between Dissolution and Issue of Audit report					Average Months[3]
Year	Total Number	Up to 4[1]	5-6	7-12	13-18	More than 18[2]	
1996	19	3	5	1	3	7	20
1997	20	4	6	4	2	4	14
1998	17	3	5	3	3	3	11
1999	28	6	8	7	1	6	11
2000	19	3	7	3	4	2	9
Total	103	19	31	18	13	22	
		18.4%	30.1%	17.5%	12.6%	21.4%	

(1) The statutory annual reporting requirement is to have the audit report issued within 120 days of balance date.
(2) Includes 6 instances where audit reports still not issued.
(3) "Average Months" indicates the time taken to complete the final financial statements. The figures show a decline over time. However, because some final audits have not yet been completed, the average months for each year are conservatively stated.

THREE

THREE

3.19   To minimise the risks inherent in long delays in financial reporting, we recommend the specification of a maximum period – say, six months – between the dissolution of a board of a closed or merged school and provision of the final financial statements for audit.

3.20   We support the Ministry's actions to ensure that:

- boards that are about to be dissolved are given more information on their responsibilities, in order to manage their affairs appropriately;

- controls are in place to minimise the risks that boards might unlawfully dispose of public assets; and

- the controls take into account the length of the EDI process and the need to be effective – regardless of whether the EDI was involuntary.

The Time-scale

3.21   The EDI time-scale creates the potential for disputes, both educational and financial. The Ministry has told us that the total time to complete an EDI is likely to be from at least 6 months and up to 24 months. Therefore:

- an EDI period could extend over two sets of annual financial statements;

- there may be an extended period during which a school community considers its current position and future scenarios, before it makes a request for school closure merger;

- about 3-6 months may then pass (while a minimum of 28 days' consultation and negotiation of the conditions of closure/merger are agreed) before a Memorandum of Agreement is signed (see paragraphs 3.36 to 3.39 on pages 60-61), and the Minister announces her or his decision as to the school's future; and

- about three months may be required for contractual and "good employer" requirements to be met.

3.22   In Case Study C – the Wainuiomata schools' EDI – the elapsed time from initiation to board dissolution for the Ministry-managed process was considerably shorter than in either Case Study A or Case Study B. We believe that this shorter period may have reduced the risks (see paragraphs 3.6 to 3.8 on pages 52-53).

Managing the Risks

3.23   The key risks that surround the disestablishment process are currently being managed in three ways:

- through the procedural guidelines produced by the Ministry;

- through a legal instrument – the Memorandum of Agreement – for the EDI or involuntary closure/merger; and

- by using the powers contained in the Education Act 1989 (referred to hereafter as "the Education Act"), for intervention in poorly performing schools.

Procedures and Guidelines Applying to Closure and Merger

3.24   Following the case of the unlawful disposition of the assets at closure by the then Waitangirua Intermediate School Board of Trustees (see Case Study A on pages 69-70), we urged the Ministry to re-examine its procedures to be followed in the case of school closure/merger. It did so, and the procedures were updated in January 2002.

3.25   The procedures are set out in the Ministry's *School Closure Desk File*[1], which contains detailed and useful guidance for the Ministry and "residual agents". However, while the *Desk File* may be binding on the Ministry's employees, it has no status beyond the Ministry.

THREE

---

1   Ministry of Education; updated January 2002.

3.26   The *Desk File* covers three distinct periods:

- the procedural requirements before closing a school;

- actions after the decision to close but before closure;

- and actions after closure.

Support and Management in the EDI Process

3.27   The *Desk File* requires Ministry staff to remind boards that they must act in good faith and in accordance with their functions during the EDI period. One of these functions is to achieve the orderly winding up of the school. For example, boards are expected not to appoint permanent staff at this time and not to "spend up".

3.28   The *Desk File* envisages two levels of Ministry support in the EDI process:

- a Project Co-ordinator; or

- where there is a "potentially difficult situation", a Project Manager specifically to manage the process.

3.29   Neither a Project Co-ordinator nor a Project Manager has the power to overrule the board should this be necessary in the wider public interest. Until it goes out of existence, or until its responsibilities are superseded in some other way, the board – under section 75 of the Education Act – has complete discretion, subject to the law, to control the management of the school as it thinks fit.

3.30   **The Ministry's guidelines need to be made clearer on:**

- **the limitations to the powers of a Project Co-ordinator and a Project Manager; and**

- **how to ensure that action can be taken promptly in the public interest should the powers of the Project Co-ordinator or Project Manager be insufficient to overrule an inappropriate act by the board.**

Management of Residual Matters

3.31   The Ministry advises boards to appoint (voluntarily) a residual agent as soon as possible after the decision to seek closure. It says that the board's residual agent should be in place to manage the board's interests in the period following the Minister's formal announcement of the closure/merger (at which time the board still has the responsibility for running the school). The residual agent continues to act until the actual closure/merger, and beyond that if there are any residual matters.

3.32   The *Desk File* sets out in detail the residual agent's responsibilities in the period before closure (including financial oversight) and information about disposal of school property and equipment.

3.33   However, the *Desk File* is unclear about who the residual agent is representing:

- It says that, prior to the closure date, *the board's* residual agent or a nominated member of the board should carry out the actions to assist in the winding up of the financial affairs of the school.[2]

- However, it also says that *the Ministry* can appoint a residual agent to handle the financial matters of the closure. This residual agent should ideally – with the board's agreement – *work with the nominated board member (and financial agent) before the school closes.*[3]

3.34   We have concerns about this lack of clarity:

- An agent cannot act outside of the interests of the entity that the agent represents.

- But the wider public interest necessitates oversight of the process of closure or merger by a manager who has interests wider than those of the outgoing board. This oversight needs to be exercised from the time of appointment of the manager until the end of the process.

THREE

---

2   *Desk File,* page 16.

3   Ibid, page 17.

THREE

3.35   **We recommend, therefore, that:**

- **a residual manager be appointed by the Ministry as a condition of the closure (merger) agreement between the Minister and the board (see below);**

- **the residual manager should have effective control of the process after the board is dissolved, and should work with the board before closure (merger) to ensure that the necessary actions are taken to assist in winding up the financial affairs of the board; and**

- **the residual manager should ensure that the financial affairs of the school are wound up within the time prescribed, which we believe should be no more than six months from closure/merger.**

Memorandum of Agreement

3.36   The Ministry uses a legally binding Memorandum of Agreement in its EDI process to ensure prudent manage-ment by the board of the education resources under its control. Typically, the Memorandum covers the requirements for accounting and being audited, education delivery and resourcing, staffing, disposal of assets, and a general statement about "prudent governance".

3.37   The Memorandum of Agreement is in force only from about the time of notification in the *Gazette* of the decision on the closure/merger (usually about three months before). It is not in place in time to mitigate the risks involved in earlier parts of the process.

3.38   Whether a closure/merger is "voluntary" or "involuntary" has in the past affected the risks involved in closure. Until November 2001, an *involuntary* closure did not entail using the EDI policy, and therefore no Memorandum of Agreement was signed. In effect, this meant that there was no legally binding agreement to constrain the board's behaviour from the time of the decision to close or merge until the time when the board ceased to exist.

3.39 Between 1992 and November 2001, only *voluntary* closures and mergers entailed the use of a Memorandum of Agreement – accounting for 80% (126 out of 158) of all closures and mergers. After November 2001, *all* decisions to close or merge have entailed the use of a Memorandum of Agreement.

Legislative Powers to Intervene in a Poorly Performing School

3.40 Up to the passing of the Education Standards Act 2001, the Education Act contained provisions enabling the Minister or Ministry to:

- insist that a board engage expert services where the school was performing poorly[4];

- appoint a financial manager[5]; and

- dissolve the board and appoint a commissioner[6].

3.41 The Education Standards Act 2001 introduced further legislative powers, giving the Ministry wider powers to intervene if there is a risk to the operation of the school[7]. The full range of powers now includes:

- the ability of the Secretary for Education to require a board to –

  - provide information;

  - engage specialist help; or

  - carry out an action plan;

- appointment of a limited statutory manager; and

- dissolution of a board and appointment of a commissioner.

THREE

---

4 Section 64A of the Education Act 1989 (repealed from 25 October 2001 by the Education Standards Act 2001).

5 Section 81B of the Education Act 1989 (repealed from 25 October 2001 by the Education Standards Act 2001).

6 Sections 106 and 107 of the Education Act 1989 (repealed from 25 October 2001 by the Education Standards Act 2001).

7 Part 7A of the Education Act 1989.

Are the Ministry's Powers Sufficient to Manage the Risks?

3.42　These powers can be employed at any point in the EDI or closure/merger process. Taken together with the support mechanisms mentioned in the procedural guidelines, the Ministry has at its disposal a range of means of support and intervention – from facilitation to take-over of the governance role.

3.43　The Ministry believes that these powers give it sufficient scope to address the wide variations in the level of assistance that boards may require in either voluntary or involuntary closure or merger.

3.44　**In our view, for these powers to be as effective as possible, the Ministry needs to be clearer in its procedural guidelines and in the Memorandum of Agreement on:**

- **what constitutes a "potentially difficult situation", which would invoke the appointment of a manager of an EDI project, and what the management powers of that person would be; and**

- **management of residual matters.**

Timing of Disestablishment

3.45　The timing of a school closure or merger, or the combining of boards, is considered as part of the EDI process. The Minister ultimately determines the date of closure.

3.46　**We recommend that, in order to minimise disruption, the Ministry should, where practicable, agree to coincide the closure with the end of a natural accounting period (year-end or month-end).**
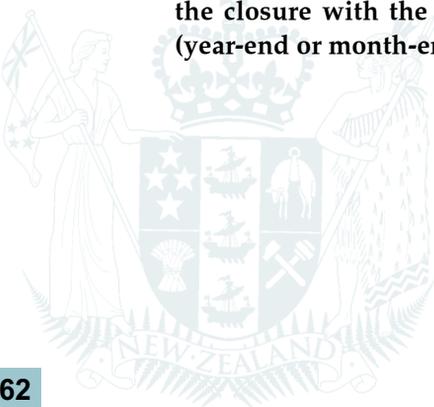
Need to Clarify the Financial Reporting Requirements for Boards

3.47 Boards are Crown entities for the purposes of the Public Finance Act 1989 (the Public Finance Act) and, in the ordinary course of events, have to prepare annual financial statements within 90 days of the end of the financial year. The Public Finance Act also requires the chairperson of the board and the principal to sign a statement taking responsibility for the financial statements.[8] The auditor appointed by the Auditor-General must audit those statements within 30 days of receipt from the board.

3.48 The Public Finance Act contains no provisions relating to a Crown entity (or, for that matter, a government department) that is ceasing to exist. We have commented on this issue several times in the past.[9] Neither the Public Finance Act nor the Education Act contain provisions relating to a reporting period that is less than 12 months.[10]

3.49 Where a school is disestablished within the 90-day period referred to in paragraph 3.47 above, the board may not have completed the financial statements for the previous financial year or for the period between the end of the previous financial year and the date of closure. Unlike for a tertiary education institution being disestablished, the Education Act does not provide for the board of a closed school to continue in existence for the purpose of complying (or assisting compliance) with the accountability and financial reporting requirements of the Public Finance Act.[11]

THREE

---

8 Section 42 of the Public Finance Act.

9 See, for example, our 1990 report on *Selected Public Sector Issues* (parliamentary paper B.29B, pages 67-72) and our 1991 report on *The Audit of the Crown and Government Departments* (parliamentary paper B.1[Pt.II], pages 38-41).

10 The Education Standards Act 2001 amended the Education Act by introducing new requirements for planning and reporting, to be operational from 2003. These requirements mainly concern changes to the long-term and annual reporting of service performance. They refer to, but do not essentially alter, the financial reporting requirements. They are silent on the issue of boards of closing/merging schools.

11 Section 217(10) of the Education Act deems the council of a disestablished tertiary institution to continue to exist for financial reporting purposes, and provides for the council to be assisted to meet those requirements.

THREE

Principle and Practicalities of Accountability

3.50 In principle, an entity's governing body for a particular period should account for the discharge of its responsibilities through financial statements for that period. This would mean that the board of a school being disestablished would be responsible for preparing the financial statements for:

- the last full financial year before disestablishment; and

- if required to report, for the period from the end of the last financial year until disestablishment.

3.51 In practical terms, it may not be reasonable to expect the board of a closed/merged school to be responsible for any reporting requirements that are still outstanding at the date of its dissolution. Board members serve their "electorate" voluntarily, and receive only small fees for their formal monthly meetings. Their interest might be expected to cease when the board is dissolved.

3.52 Nevertheless, the option for the board of a disestablished school to continue to exist for financial reporting purposes is one that could be available at the request of the board.[12]

Responsibility for Reporting on the Last Financial Year Before Closure/Merger

3.53 Section 154 of the Education Act concerns closure of schools by the Minister.[13] It sets out a process for closing a school and provides that, where a school is closed:

- its board is deemed to have been dissolved from the date of closure; and

- all assets, liabilities, and debts that the board had immediately before dissolution are deemed to have become assets, liabilities, and debts of the Minister.[14]

12 To do so would require a change to section 154 of the Education Act, which dissolves the board on closure.

13 This power is delegated to the Senior Manager, National Operations of the Ministry. However, it is Ministry policy for the Minister to make the decision about a school closure.

14 Except any property held by the Board in trust – section 154(3A) of the Education Act.

3.54   In our view, the Minister becomes responsible for meeting any outstanding obligations of the board – including financial reporting – once it is dissolved. Certainly, the Minister would be responsible for any required financial reports for the period *after* dissolution.

3.55   **In our view, it is preferable to have an express reporting obligation on the Minister in the case where a board has been dissolved.** The Ministry – as the manager of all residual matters – would thus be responsible for any financial reporting requirements that are still outstanding when the board is dissolved.

3.56   **The Ministry's guidance on, and the procedures to be followed when, a board is going to be dissolved – such as its *School Closure Desk File* – need to be clear on this point.**

Responsibility for Financial Reporting On the Period After the Last Annual Financial Statements

3.57   While the Public Finance Act does not require financial statements to be completed for reporting periods of less than a year, in our view:

- there is a need for the preparation of financial statements to the date of closure;

- such statements should be audited; and

- the Minister should take responsibility (in place of the dissolved board) for preparing and presenting such statements for audit.

3.58   In our view, the residual responsibility for financial reporting on the period after that covered by the last annual financial statements is the Minister's. In practice, the Ministry has procedures in place to ensure that this happens. However, there is no statutory requirement to this effect.

THREE
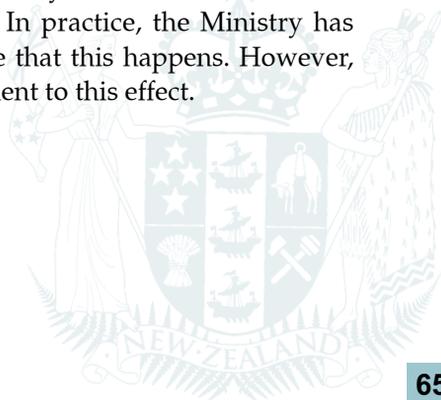
3.59   In the *Desk File*, the Ministry states that:

- the board should sign the Statement of Responsibility up to the date of closure; and

- the board's "residual agent" (see paragraphs 3.31 and 3.32 on page 59) is to be responsible for finalising the financial statements and sending them to our auditor.

3.60   It is clearly not practicable for the financial statements for the period from the end of the last financial year to date of closure to be ready for signing by closure date. The Ministry should have the responsibility for finalising the financial statements and sending them to the auditor, and for signing the Statement of Responsibility, should those things not have been done by closure date.

3.61   **We recommend that the Education Act be amended to make explicit that residual responsibility for preparing and presenting financial statements for audit, and disseminating the audited financial statements, rests with the Minister in place of the dissolved board of a closed school.**

Responsibility for Financial Reporting
In the Case of Merger

3.62   A similar issue arises where schools are merged. The effect of the Minister merging a school (the merging school) into another school (the continuing school) is that:

- the merging school is part of the continuing school; and

- if the continuing school and the merging school are not already administered by a single board –

  - the board of the merging school is dissolved; and

  - all rights, assets, liabilities, and debts of the merging school are vested in the board of the continuing school.[15]

---

15 Section 156A of the Education Act. More than one school can be merged into another (continuing) school.

3.63   Therefore, where the board of a merging school has been dissolved, it is no longer responsible for any outstanding annual financial statements. The assets and liabilities of the merging school are vested in the board of the continuing school, but the Education Act is silent on responsibility for any financial reporting obligations of the board of the merging school.

3.64   The board of the continuing school:

- is not responsible for reporting on the operations of the merged school up to the date of merger; and

- in any case, would not necessarily have sufficient knowledge of the merged school's financial affairs to be able to take on the job of residual financial reporting for the merged school.

3.65   Section 156A(4A) of the Education Act requires the continuing school board to co-opt a member or members of the dissolved board. The co-opted member(s) might be able to help the continuing board to undertake any residual reporting for the dissolved board. If the co-opted member(s) had insufficient knowledge of the merged school's financial affairs, the Ministry might have to appoint a specialist under section 78K of the Education Act, to undertake the task.

3.66   **We recommend that the Education Act be amended to clarify whether the Minister – or the continuing board – has the residual responsibility for preparing and presenting financial statements in place of the dissolved board of a merged school.**

Final Financial Reporting for Dissolved Public Entities

3.67   The issues raised about lack of legislative requirements for final reporting and audit on the dissolution of boards apply in the wider public sector.

THREE

3.68   We brought these issues to the attention of the Education and Science Committee in the context of the disestablishment of the Specialist Education Services and the Teacher Registration Board. Part of the problem is that the Public Finance Act contemplates only annual reporting.

3.69   **We recommend that the legislation be amended to require production and audit of financial statements up to the date of closure or merger.**

- **Preferably, the Public Finance Act should be amended to ensure that, for every public entity (including a school board of trustees) that is being disestablished:**

    - **financial statements have to be prepared for the period from the end of the last financial year to the date of disestablishment;**

    - **those financial statements are presented for audit within six months of the date of disestablishment; and**

    - **if the final financial reporting period is three months or less, then, by agreement with the Auditor-General, the last annual reporting period can be extended to include that final period.**

- **For schools in particular, the Ministry could consider promoting amendments to sections 154 and 156A of the Education Act.**

THREE

Case Study A – Waitangirua Intermediate School

A.1   The future of Waitangirua Intermediate School was under discussion because of its falling roll from well before 9 June 1998, when EDI discussions were formally instituted. The Board of Trustees was involuntarily dissolved on 27 January 1999, and the School was closed on that date.

A.2   A project co-ordinator had been appointed in 1997. The co-ordinator facilitated the EDI process from then until after the School closed. A residual agent[16] was empowered to act for the Board from October 1998, but the position was left vacant after the agent left the Ministry of Education in late-2000.

A.3   We have specific concerns about the management of assets between the commencement of the EDI process on 9 June 1998, and the Board's dissolution. After 31 December 1998, but before the closure of the School on 27 January 1999, the Board made payments that, in our view, were unlawful.

A.4   The payments included amounts for Board members to receive training and skill-improvement services, as well as total payments of $60,000 to charitable organisations within the Porirua community. The payments were not made in pursuance, or intended pursuance, of the functions of a Board as prescribed by the Education Act because, in our view, they did not have an educational purpose.

A.5   The final audit is yet to be completed due to delays arising from the preparation of the final financial statements.Those delays arose because the final financial statements were inappropriately prepared on a "going concern" basis. While the discussions about the correct preparation of the financial statements were under way, we also discussed with the Ministry the recovery of the unlawful payments. The Ministry has told us that it will not seek recovery of the unlawful payments.

THREE

16 Employed by the Ministry of Education.

A.6   Another major issue is that there is no officer to take responsibility for preparation of the financial statements. The Public Finance Act requires a Statement of Responsibility to accompany every set of annual financial statements. Where any board is dissolved (other than as a result of merger), the Ministry is responsible for the preparation of the financial statements. The Ministry accepts such responsibility in general, but is unable to do so in this case, because there is now no person who can verify that the assumptions used in the preparation of the financial statements are appropriate.

Case Study B – Maungati School

B.1   Maungati School was involuntarily disestablished on 26 April 2000 and the Board of Trustees dissolved on the same date.

B.2   Under the EDI Memorandum of Agreement, on 17 April 2000 a residual agent was empowered to act for the board from that date until the activities of the School were fully wound up. The residual agent is still acting.

B.3   Before 17 April 2000 discussions between the Board and the Ministry over the future of the School had been going on for some time. A project co-ordinator was appointed in mid-1999. The co-ordinator facilitated the EDI process from 20 August 1999 to 24 February 2000.

B.4   We have concerns about the management of the board's assets between the start of the EDI process on about 8 February 1999 and the Board's dissolution. Specifically:

• The Board did not maintain adequate records of the distribution of its fixed assets to other schools in the South Canterbury area. As a result, the latest audit report (which covers only the last complete financial year, not the period up to dissolution of the Board) includes a "disclaimer of opinion" over the lack of those records.

• On 2 December 1999 the Board transferred most of its cash to the Maungati Education Trust Board. The cash comprised operational grants provided for the education of the School's students, and some other locally raised funds. The Ministry was told of the transfer and sought

to recover the cash. The Ministry was largely successful and most of the cash was returned to the Board's accounts. Discussions over possible recovery of the balance of the missing cash are yet to be concluded.

- The unrecovered amount is $3,550. Part of this amount was used to pay for the legal expenses to establish the Trust. We believe that payment of the legal expenses was inappropriate because it was not made in pursuance, or intended pursuance, of the functions of the Board as prescribed by the Education Act, as it did not have an educational purpose.

- Investigation also showed that almost $1,800 of the $3,550 was Telecom School Collection funds that only the Board should have received, but which were incorrectly collected by the Trust.

B.5   The final audit has just been completed, because the final financial statements were being up-dated to better reflect the issues raised in the audit.

Case Study C – Wainuiomata Area Rationalisation

C.1   In December 2000, a Ministry Area Review was initiated because of falling rolls in most of the schools in the Wainuiomata area. As a result of the review, on 8 May 2001 the Minister announced the largest EDI in the last six years.

C.2   The EDI included the rationalisation (closure and merger) of:

- two state secondary schools;

- two state intermediate schools; and

- six state primary schools.

C.3   On 15 August 2001 an announcement was made that the schools were to be (involuntarily) disestablished, and the boards were dissolved on 31 December 2001. A project manager has been involved in the project from the beginning.

THREE

C.4   Residual agents were appointed on:

- 18/12/01 for the two state secondary schools and the two state intermediate schools;

- 19/12/01 for the merger between two state primary schools;

- 16/1/02 for the merger between two more state primary schools; and

- 17/1/02 for the merger between the last two state primary schools.

C.5   Final financial statements are currently being prepared. Our discussions with the Ministry and our auditors indicate that the process has not generated any issues of the magnitude of those in the other two case studies. This is due mainly to the Ministry's involvement and management of the disestablishment process.

C.6   In particular, the Wainuiomata Area Rationalisation EDI agreements between the boards being dissolved and the Ministry are very specific – and include more detail on the management (e.g. the requirement for a final audit) and the distribution of the assets of each board.

C.7   In our view, the EDI agreements used in the Wainuiomata Area Rationalisation have contributed to the good management of the rationalisation.

B.29[02b]

EDI Process and Time-scale for Closure or Merger of a School
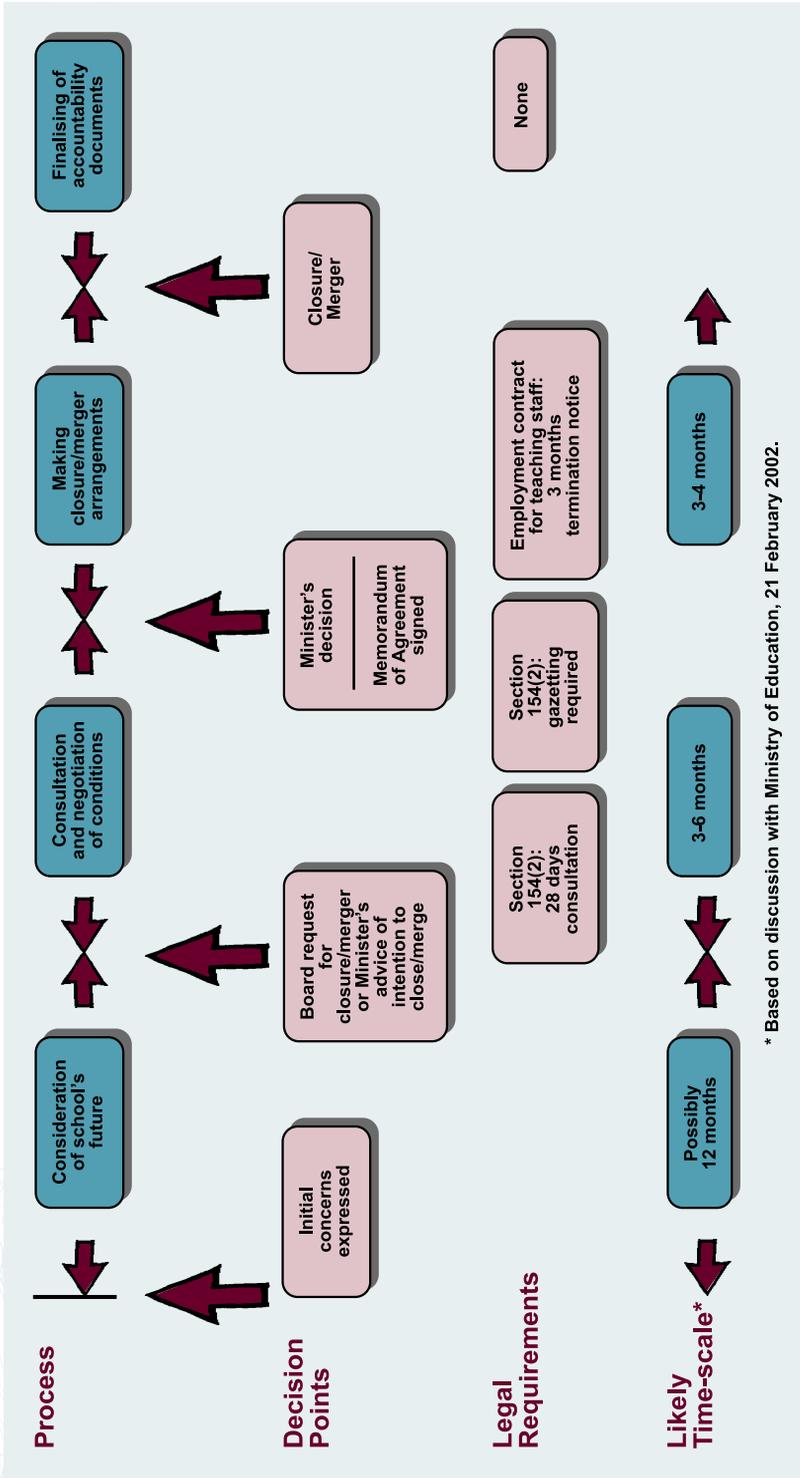
The EDI:

- takes into account the educational and economic viability of the school, and the availability of education alternatives;

- might be initiated by the board (*voluntary*) – as it is in 80% of cases – or by the Ministry of Education (*involuntary*), perhaps following a recommendation of the Education Review Office; and

- could result in –

  - closure of the school;

  - merger of the school with one or more other schools, and consequent closure of the non-continuing school(s); or

  - an initiative to improve schooling arrangements and/or performance in a cluster of schools that may not physically merge schools, but might combine the boards.

THREE

THREE

Process

| Initial concerns expressed | → | Consideration of school's future | → | Consultation and negotiation of conditions | → | Making closure/merger arrangements | → | Finalising of accountability documents |

Decision Points

Board request for closure/merger or Minister's advice of intention to close/merge

Minister's decision — Memorandum of Agreement signed

Closure/ Merger

None

Legal Requirements

| Section 154(2): 28 days consultation | Section 154(2): gazetting required | Employment contract for teaching staff: 3 months termination notice |

Likely Time-scale*

| Possibly 12 months | 3–6 months | 3–4 months |

* Based on discussion with Ministry of Education, 21 February 2002.

Four

Financial Management Issues in the Fire Service Act 1975

PART IV

FINANCIAL PROVISIONS

44. Expenditure of Commission
45. Commission to submit financial fore-
    casts and estimates
       70
       60
46. Accounts and
    Commission
46A. Rural Fire
46B. Grants and
    Fire Fi
46C. Eligibili
46D. Propo

Fire Service

R.

[45. Commission to submit financial forecasts
estimates to Minister—(1) Subject to this section
Commission shall produce 8-year financial forecasts (inc
capital expenditure forecasts) and such other fina
information as may be required fro... time to time by
Minister of Internal Affairs on ...is as the Ministe
Internal Affairs shall fre... ... determine, and
producing such fir... ...er information
Commission ... ... the policy of t
Gover- ...ne to time to t
...irs, regarding th
...iency governin
...rements of the
...expenditure.
...section, the
...forecasts or
...Minister of
...all consult
...ections to
...al Affairs
...ll apply.

46. Accounts and annual report of Commission—
(1) The Commission shall keep full and correct accounts and
records of all money received and expended by it and of its
assets and liabilities.
   (2) All money belonging to or held in trust by the
Commission shall be paid into such bank accounts as the
Commission from time to time appoints:
   Provided that the Commission may, with the consent of the
Audit Office, pay into a separate account at the same bank any
money appropriated or held by it for any special purpose:
   Provided further that there may be opened at such branches
of the same bank as the Commission from time to time
appoints such disbursement accounts as the Commission from
time to time determines.
   [(3) Notwithstanding subsection (2) of this section, the
Commission may invest money in accordance with the ...

The financial provisions of the Fire Service Act 1975 are outdated, over-prescriptive and inconsistent with current public sector financial practices. The provisions are typical of the financial environment that existed in the public sector 25 years ago – cash-based fund accounting with mechanistic approval regimes.

The Fire Service Act does not provide a framework for sound financial governance. It sits uneasily with the provisions of the Public Finance Act 1989 and, in certain respects, is at odds with generally accepted accounting practice.

We recommend that the Fire Service Act be amended to remedy these inadequacies.

Introduction

4.1   We carried out a detailed review of the financial provisions of the Fire Service Act 1975 (the Act) and posed the questions:

- Are the financial provisions of the Act a sound basis for financial management of the New Zealand Fire Service (the Fire Service) by the New Zealand Fire Service Commission (the Commission)?

- Are the financial provisions of the Act consistent with generally accepted accounting practice (GAAP)?

- If the financial provisions do not provide a basis for sound financial management or are inconsistent with GAAP, how has the Commission coped in practice?

4.2   We did not at this time review other aspects of financial management. These aspects might include:

- treasury management;

- long-term planning of borrowing; and

- long-term forecasting of revenue, expenditure and capital requirements.

FOUR

4.3   We consider that a review of these aspects should be carried out at a later date, when the Commission has better developed physical asset management plans and procurement plans. Such plans will form a large part of future expenditure forecasting and, until they are prepared, longer-term financial planning will not be as soundly based as it ought to be.

4.4   We also do not comment on known issues and problems in relation to the basis for and collection of the Fire Service levy. We reported to Parliament in 1998 on the difficulties being experienced in levy collection arrangements.[1] That report identified difficulties and uncertainties over the base for calculating levies and the range of techniques used to minimise or avoid fire service levies. We are not aware of any change, since issuing that report, in the circumstances giving rise to it.

Statutory Framework for Financial Management

4.5   Part IV of the Act sets out the statutory provisions for the Commission's financial management. There are also references in the Act that bring into application other legislation such as the Trustee Act 1956, the Fees and Travelling Allowances Act 1951, and the Public Finance Act 1989. However, the Act provides the bulk of the financial framework within which the Commission must operate.

4.6   When the Act was enacted in 1975, the public sector financial regimes in place were characterised by cash accounting, an emphasis on separate fund accounts, and micro-management of approvals and authorisations. Such characteristics are evident in the Act's provisions. Many of the financial provisions are similar to the statutory provisions which then applied to local government financial management. This was to be expected, as the Act brought under the umbrella of the Commission the separate local fire authorities which had previously been part of local government.

---

1   *New Zealand Fire Service Commission: Adequacy of the Arrangements to Ensure that the Fire Service Levy is Properly and Fully Paid*, ISBN 0 477 02855 1, July 1998.

4.7   Since 1975 there have been several significant amendments
        to the financial provisions of the Act:

    • In 1990 amendments were made to incorporate financial
      aspects of rural fire activities which had been outside the
      control of the Commission;

    • In 1994 an amendment introduced a Restructuring Fund
      (which had only a temporary status); and

    • In 1998 amendments were made to borrowing powers
      and to the process of reviewing the rate of fire service
      levy.

How Sound is the Framework?

4.8   On a number of counts, it is apparent that Part IV of the Act
        is not consistent with current public sector financial
        management practice. If the Commission approached
        financial management purely from the perspective of the
        Act, it is unlikely that it would be effective or efficient.
        Problems can be grouped as:

    • overly prescriptive provisions;

    • clouded governance arrangements;

    • a deficient approval mechanism;

    • uncertainty of terms;

    • unnecessary fund accounts; and

    • varying treatment of income.

Overly Prescriptive Provisions

4.9   There is elaborate and prescriptive detail in a number of the
        provisions of the Act, which places significant constraints
        on the Commission's financial management. For example:

    • *Section 44* – which provides authority to spend money both
      on the general functions and duties of the Commission,
      and on a number of specific purposes which are listed.

FOUR

The specific authorisations appear unnecessary and could have the effect of calling into question items of expenditure which are not specifically authorised, but which are likely to be consistent with the overall functions and duties of the Commission.

In addition, section 44 allows the Commission to spend an aggregate of $12,000 each year *out of its ordinary funds for purposes not authorised by any Act or law*. Such expenditure is commonly referred to as "unauthorised expenditure". This is similar to a provision in the Local Government Act 1974 in relation to expenditure of local authorities. The intention of such provisions is to act as a back-stop to catch minor expenditure which does not cleanly fit into the normal functions and duties of a public entity. However, such provisions are now seen as anachronistic, and somewhat impractical to apply. Any expenditure of public entities should be consistent with the purposes and tasks they are mandated to perform.

- *Section 46* – which requires the Commission (i.e. the governing body) to appoint the bank accounts to be used. While a provision of this type was typical of legislation passed at the time, modern practice is to confer these powers on a Chief Executive.

Clouded Governance Arrangements

4.10 The financial provisions of the Act also give agencies external to the Commission micro-management roles in relation to Fire Service matters. Those roles could be at odds with the primary role of the agencies concerned.

4.11 One example is section 46(2), which requires the Commission – if it wishes to open a separate bank account for any special purpose – to obtain Audit Office consent. Such a provision was not uncommon at the time the Act was passed, particularly in legislation applying to local government. Legislative provisions concerning such administrative details have since been largely removed from the governing legislation of public entities.

4.12   Another example is in section 58, under which expenditure from the Reserve Fund for purchase of land (where that expenditure was not provided for in the approved estimates) can be made only with the approval of the Secretary for Internal Affairs.

4.13   Until recently, the Secretary for Internal Affairs was a member of the Commission, and the Department of Internal Affairs is the Crown's monitoring agency for the Fire Service. The Department therefore had three potentially conflicting roles – being part of a management process (albeit of a minor nature); exercising governance at the highest level (as a commissioner); and reporting to the Minister on Fire Service matters (the Crown's monitoring agency).

Deficient Approval Mechanism

4.14   We have described in paragraph 4.9 some legislative provisions that are very prescriptive in nature. Normally, the more prescriptive a provision, the greater the clarity it would be expected to provide. That does not always appear to be the case in the financial provisions of the Act.

4.15   Section 45 provides an example. Subsection (3) requires the Commission to prepare estimates of expenditure for the next financial year and submit these to the Minister by 30 April. These estimates become the *Approved estimated expenditure* when approved by the Minister under subsection (4).

4.16   What is missing from section 45 is legislative provision as to the timing of the Minister's approval. The Commission's financial year begins on 1 July, so there is a two-month period from the latest date the Commission must provide its estimates to the Minister until the start of the year to which the estimates apply. In practice, the date of the Minister's approval has been much later than this, as shown on the next page.

FOUR

Financial Year	Estimates Submission Date	Estimates Approval Date
1998-99	30 April 1998	4 June 1999
1999-2000	30 April 1999	14 October 1999
2000-01	5 May 2000	3 October 2000
2001-02	30 April 2001	27 June 2001

4.17 For the 1998-99 estimates, the approval was given in the final month of the financial year to which the estimates related. For the 1999-2000 estimates, the approval was given just over 3 months into the year, and the 2000-01 estimates were also approved after 3 months of the year had passed.

4.18 It is not for us to question why the Minister approved the estimates on the dates shown. Our concern is instead with the uncertain status of the Commission's expenditure up to the time of the approval of estimates. It could be argued that there was no authority for any expenditure by the Commission in each financial year until the approval for that year was obtained.

Uncertainty of Terms

4.19 There is also uncertainty as to what is meant by the term *expenditure* in section 45. Is it intended to be net of revenue or gross? And is it to be calculated on a *cash* or on an *accrual basis*? Other sections of the Act appear to give subtly different meanings to income and expenditure. In the absence of any definitions, the practice of the Commission has been to prepare the estimates on an accrual basis with both expenditure and revenue shown in gross terms. This is a pragmatic approach, but the uncertainty in the Act is not helpful.

4.20   Section 47 also contains an unusual mechanism. The general intent of the section is to regulate the setting of income. Where the Levy income exceeds or falls short of net expenditure, the excess or shortfall must be taken into account when next reviewing the levy rate. However, section 47(4) states:

> *The uncommitted surplus (if any) or the amount of the deficit (if any) of the Commission for any financial year must be taken into account in calculating the income and expenditure of the Commission for the next succeeding year.*

4.21   The legislation does not define what is meant by *uncommitted surplus* or *deficit*, or how the surplus might be regarded as uncommitted. The intent of other financial provisions of the Act is to equate the yearly income with yearly expenditure, thus providing no *surplus* or *deficit* on Fire Service operations. The financial statements of the Commission show that any surpluses or deficits for the year are only brought about by the net movements in special funds of the Commission.

Unnecessary Fund Accounts

4.22   The Act makes provision for the following funds to be established:

- Rural Fire Fighting Fund (sections 46A-46L)

- Gratuities Fund (section 57)

- Reserve Fund (section 58)

- Special funds for authorised purposes (section 58A).

Rural Fire Fighting Fund

4.23   The Rural Fire Fighting Fund was introduced into the Act when the Rural Fire Service was brought under the control of the Commission in 1990. The Fund is financed by a first charge against the proceeds of the Fire Service levy and a Crown grant through the Department of Conservation. Money from the Fund is applied towards meeting costs of fire authorities in the control, restriction, suppression or extinction of fires.

FOUR

4.24 There is legal opinion that the status of the Rural Fire Fighting Fund is a trust fund. The Fund's income and expenditure is shown as part of the Commission's income and expenditure, and the Fund's net surplus or deficit of the year is incorporated in the Commission's surplus or deficit. The Fund's balance at 30 June 2001 was $3.8 million, and is 'ring-fenced' within the amount of equity.

Gratuities Fund

4.25 The Commission has not seen the need to establish a Gratuities Fund. A more modern legislative provision would have been merely to permit the payment of gratuities in given circumstances.

Reserve Fund

4.26 The Reserve Fund is used for capital expenditure which has been allowed for in the approved estimates, and for purchase of land where this has not been allowed for in the approved estimates. The nature of the Reserve Fund is somewhat impractical and cumbersome. Section 58 of the Act appears to contemplate a cash basis of accounting with a separate capital fund account. The Reserve Fund has not been used by the Commission in recent times.

Special Funds

4.27 Section 58A makes it possible for any number of special funds to be created. However, maintaining and accounting for numerous separate funds complicates the financial statements.

4.28 The Commission has established four special funds in terms of section 58A of the Act. The funds and their balances at 30 June 2001 are:

	$000
ACC Partnership Fluctuation Fund	2,044
Contestable Research Fund	626
Loss of Medical (Residual) Fund	169
Volunteer Needs Fund	303
	3,142

4.29 While there may be sound reasons for the Commission establishing a separate financial identity for an aspect of the Commission's activity, the prescriptive wording of section 58A makes practical administration of special funds difficult. The funds are to be separately banked or invested and tight restrictions are placed on investment avenues.

4.30 While the Commission can establish funds, it does not have an unfettered right to wind up a special fund. Furthermore, there is some doubt as to whether the special funds should form part of the Commission's financial statements. However, the Commission has acted prudently in disclosing the balances and movements of the special funds in its financial statements.

Varying Treatment of Income

4.31 The Act makes distinctions between various types of income:

- levy income;

- other income earned by the Commission (e.g. interest, fire alarm revenue);

- revenue of statutorily established Funds (e.g. Rural Fire Fighting Fund, Reserve Fund); and

- special fund income.

FOUR

4.32   For each type of revenue, the Act has rules as to how it should be treated. The distinctions appear to be somewhat artificial and do not assist in the overall financial management of the Commission.

Inconsistencies between the Act's Financial Provisions and Generally Accepted Accounting Practice

4.33   The Public Finance Act (section 41) provides that all Crown entities are to prepare annual financial statements in accordance with generally accepted accounting practice (GAAP). GAAP is defined (in summary) as approved financial reporting standards or, where there are no approved standards, as accounting policies that are appropriate to the entity and have authoritative support within the accounting profession in New Zealand.

4.34   As a Crown entity, the Commission is subject to the Public Finance Act. But it is also subject to the provisions of the Fire Service Act. There are financial provisions in the Fire Service Act which do not sit comfortably with GAAP.

Recognition of Fire Service Levy Income

4.35   Section 48(12) of the Act states:

> *all money received by the Commission in respect of the levy under this section shall be deemed to be income of the Commission in the financial year in which it is received ….*

4.36   Under GAAP, levy income should be recognised on an accrual basis. This means that the levy should be recognised as income in the Commission's Statement of Financial Performance in the financial year to which the levy relates, rather than in the year when the levy is actually received by the Commission.

4.37   The Act also states, in section 47(2) and (3):

> *Where in any financial year the levy income of the Commission under this section exceeds (is less than) the actual net expenditure of the Commission, that excess (shortfall) is deemed to be an advance (shortfall) in the payment of the levy …*

Based on this wording, any excess or shortfall in levy collection above or below the requirements is accounted for as revenue in advance or in arrears. This accounting treatment effectively ensures that any levy revenue recorded in the Commission's Statement of Financial Performance is equal to the net expenditure of the Commission. However, this accounting treatment, brought about by sections 47(2) and (3) and 48(12), is inconsistent with the principles of GAAP.

4.38   Some accounting consequences are:

- actual levies received may include levies assessed beyond the financial year of the Commission.

- delays in remitting levies to the Commission from one financial year to the next could mean levies are not recognised in the correct financial year;

- any arrears of levies are not recognised in the financial statements, as they are not generally known by the Commission; and

- in situations where the Commission is aware of arrears (e.g. a dispute over the way levies were calculated), the revenue is still not recognised in the financial statements, and nor are the arrears recorded as debts due to the Commission.

Presentation of Financial Results

4.39   Section 47 of the Act specifies the procedures to reconcile levy income with the Commission's expenditure. Subsections (1) to (3) state:

FOUR
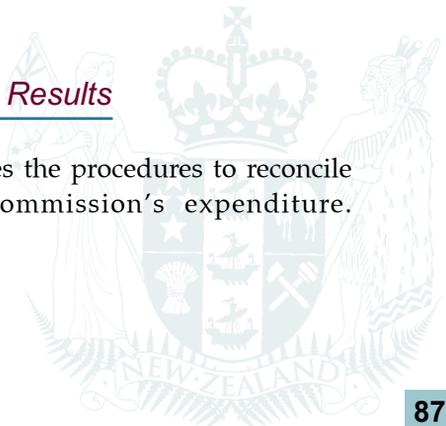
Income of Commission – (1) In each financial year there must be paid to the Commission such income from the proceeds of the levy (other than the portion of the proceeds required for the Rural Fire Fighting Fund) as is required to meet the actual net expenditure of the Commission.

(2) Where in any financial year the levy income of the Commission under this section exceeds the actual net expenditure of the Commission, that excess is to be deemed to be an advance in the payment of the levy and is to be taken into account when the rate of the levy is next reviewed.

(3) Where in any financial year the levy income of the Commission under this section is less than the actual net expenditure of the Commission, that shortfall is to be deemed to be a shortfall in the payment of the levy and must be taken into account when the rate of the levy is next reviewed.

4.40   For accounting purposes, the *excess* referred to in section 47(2) – representing the excess of levy income over actual net expenditure – has been treated as a liability called "Levy in advance" in the financial statements. In the opposite case – where actual net expenditure exceeds the levy income – the shortfall has been treated as an asset and included in debtors.

4.41   This means that the financial performance of the Commission is not readily discernible by reading the Statement of Financial Performance in the Annual Report. The deficit or surplus of the Commission, as measured in the Statement of Financial Performance, represents only the net movement of its special funds. Disregarding these movements, the Commission's approach to applying section 47 results in a break-even position each year.

4.42   More information is found in the Note to the Financial Statements which shows the movements in the Levy in Advance or the Levy in Arrears account as shown on the next page.

FOUR

	2001 $000	2000 $000	1999 $000	1998 $000
Levy in advance/ (shortfall) at beginning of year	(7,410)	33,804	67,226	67,934
Levy contribution collected	190,097	144,209	132,900	171,922
Levy contribution available for operations	**182,687**	**178,013**	**200,126**	**239,856**
Funding of net operating expenditure	195,974	183,423	165,072	171,130
Funding of Rural Fire Fighting Fund	1,000	2,000	1,250	1,500
	196,974	**185,423**	**166,322**	**172,630**
Levy in advance/ (shortfall) at end of year	**(14,287)**	**(7,410)**	**33,804**	**67,226**

4.43   However, a portrayal of the Commission's financial performance that would more closely accord with GAAP could be shown by setting off the actual operating expenditure shown in the Statement of Service Performance against the actual levy contribution collected (albeit cash-based) shown in the Note to the Financial Statements, as follows on the next page.

FOUR

	2001 $000	2000 $000	1999 $000	1998 $000
Levy contribution collected	190,097	144,209	132,900	171,922
Interest	-	833	2,530	6,832
Other revenue	9,488	8,242	7,235	9,834
	199,585	153,284	142,665	188,588
Total operating expenditure	202,859	192,969	175,543	203,596

Funding of
   Rural Fire
   Fighting Fund
	1,000	2,000	1,250	1,500

	203,859	194,969	176,793	205,096
"Surplus"/ "(Deficit)"	(4,274)	(41,685)	(34,128)	(16,508)

Levy Asset/Liability

4.44   At 30 June 1999 the levy in advance liability was $33.8 million compared to $67.2 million the previous year. This then changed to a shortfall asset of $7.4 million at 30 June 2000 which increased to $14.3 million at 30 June 2001.

4.45   In a normal business situation, it would be expected that, if there is a revenue in advance liability, the entity would know to whom the liability is owed and the circumstances in which it arose. That is not possible with the Commission's levy in advance liability.

4.46   The levy shortfall is treated as a current asset in the financial statements. It is regarded as an asset as it is a first call on the next year's levy receipts; that is, it represents anticipated income. However, the extent to which it can be treated as an asset in this case is problematic, because it assumes a future flow of levy income.

FOUR

Treatment of Funds and Trusts

4.47   We have earlier commented on trusts and funds that are either statutorily required or able to be established by the Commission.

4.48   With the exception of the Rural Fire Fighting Fund, the provisions of the Act suggest that a cash basis of accounting is contemplated, rather than an accrual regime. This results in the same conflict with GAAP for these accounts as was referred to in paragraph 4.37 on page 87.

Conclusions

4.49   The financial provisions of the Fire Service Act 1975 are outdated, over-prescriptive, and inconsistent with current public sector financial practice. The provisions reflect the type of financial environment that existed in the public sector twenty-five years ago – cash based fund accounting with mechanistic approval regimes.

4.50   The Act does not provide a framework for sound financial governance. It sits uneasily with the provisions of the Public Finance Act and, in certain respects, at odds with generally accepted accounting practice.

4.51   Mooted changes to financial arrangements, as part of Crown entity reform considerations, would have aided the Commission in putting its financial governance on a sounder footing. However, this would not have been sufficient without simultaneous amendments to the Fire Service Act.

4.52   Significant changes are required to the Fire Service Act in order to:

- clarify financial accountabilities, particularly the mechanism for budget approval;

- remove constraints on decision-making; especially the approval of petty matters by external agencies;

- remove the legal requirements for specific funds;

- clarify the status of the Rural Fire Fighting Fund; and

- remove provisions which are inconsistent with generally accepted accounting practice.

FOUR

Five

Procurement –
A Statement of Good
Practice

FIVE

Background

5.1   In September 1995 we issued a guide entitled *Good Practice for Purchasing by Government Departments.*[1]

5.2   Feedback on the guide indicated that it was well received and useful to departments in developing their own procurement policies and procedures. However, procurement practice has continued to evolve. We considered that the 1995 statement would benefit from revision, in order to:

- identify the overriding principles which apply to the procurement process;

- address new developments over the last 4-5 years;

- widen the application of our guide to include Crown entities; and

- address more fully three elements of the process which are especially relevant to significant procurements:

    - the business case;

    - the procurement plan; and

    - project management.

5.3   Consequently, in June 2001 we made available on our web site *(www.oag.govt.nz)* our updated guide *Procurement – A Statement of Good Practice*. It was initially placed there as a draft, but is now in its final form.

FIVE

What does this 2001 Statement of Good Practice Contain?

5.4   The statement is in three easy-to-absorb parts:

- Part 1 sets out the overriding considerations that a public entity should consider when procuring goods or services:

  - **General obligations** – including, for example, being aware of and, if appropriate, complying with government procurement policies;

  - **Legal considerations** – including any public law considerations;

  - **Ethical considerations** – including how these considerations extend to the use of consultants and procurement agents;

  - **Economic considerations** – including the total cost of ownership; and

  - **Risk management considerations** – including involvement of competent people in the process.

- Part 2 describes, in relation to each part of the basic procurement process, the overall principles of good practice and information which a public entity might include in its own procurement manual.

- Part 3 discusses particular types of procurement, and how the basic procurement process described in Part 2 applies to them. The types of procurement covered include:

  - the engagement of consultants; and

  - syndicated procurement.

B.29[02b]
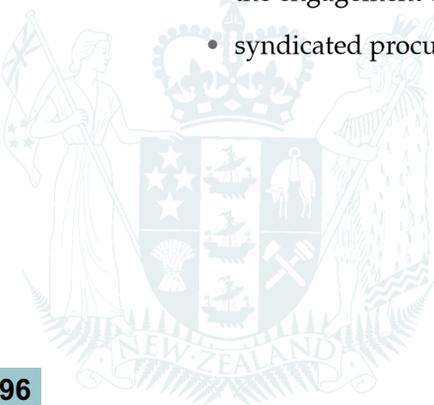
How Should this Statement be Used?

5.5   The statement is not a set of rules. Rather, it is an outline of good practice which is intended to assist public entities. We suggest that each public entity uses the statement as a benchmark for its own procurement policies and procedures, and as a guide to what its own procurement manual should contain.

5.6   The statement is also not a comprehensive guide to a public entity's legal obligations. Each entity should supplement the comment in the statement with separate legal advice where necessary.

5.7   In our role as the auditor of public entities, we would expect to find that an entity's procurement policies and procedures compare favourably with this statement.

What Else is Worth Reading on Procurement Practice?

5.8   Other government departments have issued related material. For example, the Treasury has published guidelines for contracting with non-government organisations for services sought by the Crown at *www.treasury.govt. nz/publicsector/ngo/default.asp*.

FIVE

Six

Status of Follow-up Action on Previous Reports

6.1   The Audit Office produces reports on a broad range of topics and issues across the public sector. Parliament is our primary audience for these reports. By their nature, however, these reports are usually focused on the Executive. This focus may be on:

- single agencies; or

- multiple agencies; and/or

- central agencies (the Treasury, the State Services Commission, and the Department of the Prime Minister and Cabinet).

6.2   For formal consideration of our reports by the House, we have been reliant until recently on relevant subject committees taking the opportunity to consider the reports and deciding whether they want to ask for a Government response.

6.3   The Officials Policy Committee (comprising the chief executives of the three central agencies – see above) has also considered the need for a Government response to our reports.

6.4   Both of these mechanisms have been informal. Nevertheless, they formed a basis to complete the "accountability loop" between:

- Audit Office reports;

- parliamentary scrutiny of our reports; and

- Government responses.

6.5   Towards the end of 2000, however, the Finance and Expenditure Committee established a subcommittee specifically to deal with Audit Office reports. We have welcomed this initiative and see significant potential to work with this subcommittee.

SIX
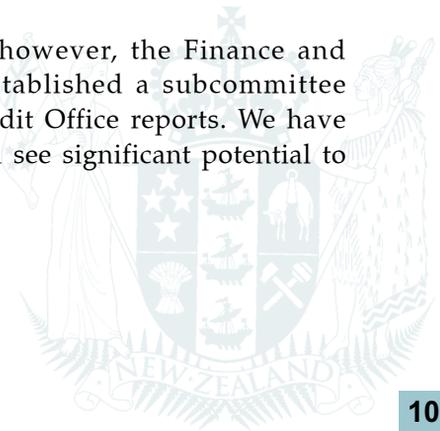
6.6   Under current committee arrangements, we see the ideal process for dealing with our reports being as follows:

- Audit Office reports are presented to the House;

- relevant subject select committees receive a briefing from us and consider the reports;

- select committees are also briefed by affected agencies;

- Government responses are developed and actioned;

- the Finance and Expenditure subcommittee maintains an oversight of this process to ensure that our reports receive select committee consideration, and Government responses where relevant; and

- We provide six-monthly status reports on where Audit Office reports are in this process.

6.7   The following pages give a brief analysis of our reports for the last three years. We have not included our reports on local government issues, or on once-only inquiries of the moment, except where there is a remaining parliamentary interest.

SIX

Title of Report

New Zealand Defence Force: Deployment to East Timor

Date Presented

15 November 2001

Brief Description

Our report describes and assesses the systems used by the NZDF to:

- plan for a military operation;

- prepare a joint force; and

- deploy that force to East Timor.

We also examined the systems by which the NZDF has reviewed its military practice and processes in the light of the East Timor experience; and we assessed the extent to which the NZDF has identified lessons for future contingencies and implemented necessary changes.

Select Committee Scrutiny

The Foreign Affairs, Defence and Trade Committee has considered this report.

Government Response

Not required.

Issues Outstanding

We will be presenting a second report on the East Timor deployment, which will be about the roles performed by two specific components of the joint force – the Air Force's Iroquois helicopters and the Army's health support.

SIX
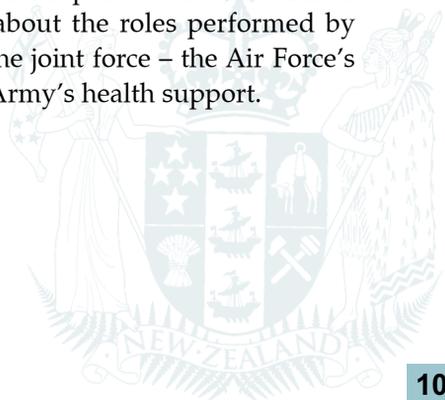
Title of Report

The Police: Dealing with Dwelling Burglary

Date Presented

13 September 2001

Brief Description

The purpose of this report is to provide Parliament with information on what the Police are doing about dwelling burglaries, including how the Police measure their performance.

Key Findings

- The process for investigating burglary is broadly similar throughout the Police, but we found variations in practice at a local level. The reasons for these variations are not always clearly stated or argued.

- There is potential for the Police to:

    - evaluate new and alternative approaches and share good practice in crime prevention between areas;

    - make greater and better use of science and information technology; and

    - improve their measuring and monitoring of performance in relation to dwelling burglary.

Select Committee Scrutiny

The Law and Order Committee considered this report as part of its 2000-01 Financial Review of the Police.

Government Response

None as yet.

Issues Outstanding

Awaiting a Government response if applicable.

Title of Report

Providing and Caring for School Property

Date Presented

> 5 September 2001

Brief Description

> This report assesses the Ministry of Education's performance in managing the school property portfolio. We concentrated on:

> - the management arrangements in place between the Ministry and School Boards of Trustees; and

> - systems and processes for managing (including funding) the provision and maintenance of school property.

Key Findings

> **Capital Works**

> We conclude that the Ministry is:

> - taking positive steps with respect to planning and funding capital works which aim to meet the needs of schools and students; and

> - ensuring that the provision of property is well planned and appropriate.

> These steps represent a substantial improvement on what was found in previous reviews.

> **Maintenance**

> We are less satisfied with the arrangements for maintenance. The Ministry is responsible for ensuring that School Boards of Trustees meet their responsibility to ensure that schools are properly maintained.

> In our view, the Ministry needs to significantly improve the information it has about the maintenance that Boards are undertaking and the condition of the school estate. We suggest that better information can be obtained through enhancement to the current property management framework.

SIX

Select Committee Scrutiny

> Awaiting consideration by the Education and Science Committee.

Government Response

> None as yet.

Issues Outstanding

> Awaiting Select Committee scrutiny and a Government response if applicable.

Title of Report

Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operating Vehicles

Date Presented

> 22 August 2001

Brief Description

> This report is about the acquisition of two types of new vehicle for the New Zealand Army:

- light armoured vehicles; and
- light operating vehicles.

Key Findings

> **Our views on the light armoured vehicle (LAVIII) acquisition:**

- from the start, the project was poorly defined;
- the changing project definition also led to lack of clarity on the number of vehicles required;
- the approach to research of the market for this purchase was, in our view, deficient;
- use of essential criteria restricted the scope of competition;
- there was no strategic management of the project;

- in at least two instances the Ministry of Defence (MoD) failed to consult appropriately;

- relationships between MoD and the New Zealand Defence Force (NZDF) and the Army were dysfunctional;

- pursuit of the project diverged considerably from Cabinet approvals in a number of respects;

- the longer the acquisition was delayed, the more expensive it became;

- there was insufficient documentation of some key decisions; and

- the significant capability requirements associated with acquisition of 105 LAVIII were inadequately assessed before the decision to acquire the vehicles.

   Our views on the light operating vehicle acquisition:

- the use of essential criteria restricted scope for competition;

- the approach to research of the market for this purchase was, in our view, deficient;

- there was no strategic management of the project; and

- relationships between MoD, NZDF and Army were dysfunctional.

Select Committee Scrutiny

Both the Foreign Affairs, Defence and Trade Committee and the Finance and Expenditure Committee have received briefings on this report.

Government Response

The Government set up an inquiry into the management and relationship issues that we drew attention to. The report of the inquiry is expected shortly.

Issues Outstanding

We will wait to see the reports from the three inquiries mentioned above.

SIX

SIX
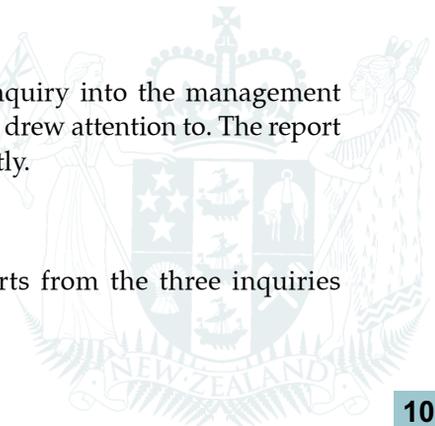
Title of Report

Parliamentary Salaries, Allowances and Other Entitlements: Final Report

Date Presented

> 24 July 2001

Brief Description

> This report sets out our detailed review of the regime for setting and administering salaries, allowances and other entitlements for MPs and Ministers. As a result of our review, we now believe that the current arrangements are inadequate and are in need of change.

Key Findings

> In our view, there needs to be a more coherent, principled regime to ensure that:

> - the policies, systems and procedures applying to this expenditure are soundly based, transparent, effective and efficient; and

> - they are clearly seen to be so by the public.

> We advocate five guiding principles in order to improve the overall regime, as follows:

> - there needs to be a clear distinction between remuneration and expense reimbursement;

> - an independent body should determine all remuneration and expenses to be reimbursed;

> - designated agencies should be responsible for paying remuneration and reimbursing expenses;

> - all remuneration should be taxed on the same basis as that of an ordinary employee; and

> - the independent body should have overall ownership of the system for setting and paying remuneration.

Select Committee Scrutiny

> The Parliamentary Service Commission considered our report and established an independent advisory panel to report back to the Commission in early-2002. The panel's recommendations were referred to the parliamentary parties for consideration, which in turn provided their comments to the Commission. The Commission accepted the findings of the panel, and legislation to give effect to the recommendations was prepared.

Government Response

> Not applicable.

Issues Outstanding

> The Remuneration Authority (Members of Parliament) Amendment Bill is currently before Parliament.

Title of Report

Reporting Public Sector Performance

*Date Presented*

> 31 July 2001

Brief Description

> This report is about how performance reporting in the public sector can be improved. We believe that stake-holders are not getting the best information they could on how public entities are performing.

Key Findings

> The report builds on our 1999 report: *The Accountability of Executive Government to Parliament.* We suggest that the development of a common measurement and reporting framework is a critical task, and all elements of performance should be taken into consideration.

Select Committee Scrutiny

> None to date.

SIX
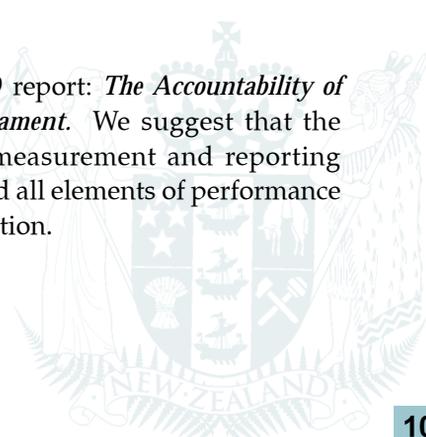
Government Response

See below.

Issues Outstanding

While there has been no specific Government response, there is currently a range of initiatives across government departments. These are encouraging. We will maintain an active interest in these developments.

Title of Report

Meeting International Environmental Obligations

Date Presented

8 May 2001

Brief Description

This report sets out the results of our examination of New Zealand's approach in respect of four specific multilateral environmental agreements.

Key Findings

Our findings show uneven levels of implementation of New Zealand's obligations under the four agreements that we examined:

- The *Montreal Protocol on Substances that Deplete the Ozone Layer (the Montreal Protocol)* has been the most successfully implemented.

- New Zealand's international obligations under the *Convention on Trade in Endangered Species of Fauna and Flora (CITES)* are also being successfully fulfilled.

- New Zealand is generally meeting the specific obligations of the *Convention on Wetlands of International Importance* (the *Ramsar Convention*), but the measures taken have:

  - failed to arrest the continuing degradation of wetlands; and

- failed to achieve the desired outcome of stemming the progressive encroachment on and loss of wetlands now and in the future.

- New Zealand has met most of its international obligations under the *United Nations Framework Convention on Climate Change (FCCC)* and its *Kyoto Protocol*, except the adoption of effective national greenhouse gas policies to mitigate climate changes.

Select Committee

The report has been considered by the Local Government and Environment Committee.

Government Response

None as yet.

Issues Outstanding

Some of our recommendations have been implemented by the departments concerned. We will do a formal follow-up later this year.

Title of Report

Civil Aviation Authority Safety Audits – Follow-up Audit

Date Presented

20 December 2000

Brief Description

This report sets out the results of our follow-up audit of the Civil Aviation Authority's conduct of safety audits of operators in the civil aviation industry.

Key Findings

- While there has been a downward trend in the overall New Zealand aviation accident rate over the last 10 years, New Zealand's accident rate is higher than rates of the UK, USA and Australia.

SIX

SIX

- The CAA needs to do further work in risk analysis and the application of its audit resources amongst the various types of operators in the civil aviation industry.

Select Committee Scrutiny

The Transport and Industrial Relations Committee considered the report in early-2001.

Government Response

None.

Issues Outstanding

The issues raised in our report are of concern given that this was a follow-up of a 1997 study. We are considering doing a more widely scoped study of the CAA.

Title of Report

Central Government: Results of the 1999-2000 Audits[1]

Date Presented

20 December 2000

Brief Description

This report includes articles on:

- the 1999-2000 audited financial statements of the government;

- government departments – results of the 1999-2000 audits;

- compliance with Cabinet expenditure delegations;

- departmental reporting on "closing the gaps";

- managing employee fraud;

- funding arrangements with non-government organi-sations;

- disclosing fiscal risks on defence capital projects;

---

1   Parliamentary paper B.29[00b].

- student loan debt; and

- supplementary estimates for 1999-2000.

Key Findings

A wide range of issues have been canvassed in this multi-subject report.

Select Committee Scrutiny

The Finance and Expenditure Subcommittee has considered this report.

Government Response

None as yet.

Issues Outstanding

A range of issues as outlined in the above brief description remain live. We will maintain an active interest in monitoring developments in this regard.

SIX

Title of Report

### Student Loan Scheme – Publicly Available Accountability Information

Date Presented to Select Committee

23 May 2000

Brief Description

This report is about:

- the student loan scheme;

- those who have a stake in the scheme – either as borrowers or administrators, or those who otherwise expect some accountability for the scheme;

- what the information requirements are; and

- whether, in our view, those requirements are being met.
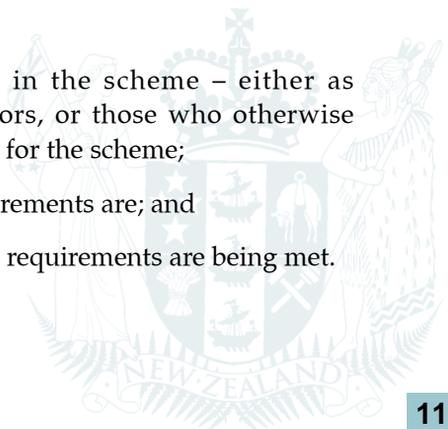
Key Findings

In our view, key stakeholders receive adequate information on the current financial position of the scheme at an aggregate level. However, we believe that there are the following shortcomings in public accountability information:

- limited information on the fiscal risks attached to the scheme; and

- lack of information on the impact of the scheme on the intended and unintended socio-economic outcomes.

The adequacy of valuation of student loan debt also needs to be reviewed, especially in light of the expected move to a net present value model for valuation.

In our opinion, the following related capability and accountability issues need to be addressed to provide better public account-ability information:

- fragmented responsibility for the scheme as a whole;

- lack of focus of strategic policy advice and research;

- shortcomings in data collection analysis and exchange;

- shortcomings in forecasting;

- lack of systems responsiveness to change; and

- gaps in service to borrowers.

Select Committee Scrutiny

The Education and Science Committee considered the report in 2000.

Government Response

There was a comprehensive Government response in 2001.

Issues Outstanding

All the issues raised in the report remain live. We will maintain an active interest in how the government response is implemented, and in any unresolved issues.

B.29[02b]

Title of Report

Governance and Oversight of Large Information Technology Projects

Date Published

> 5 May 2000

Brief Description

> This report is about the governance and oversight of large information technology projects in the public sector. The report was in response to a number of highly publicised difficulties with public sector IT projects. The problems have included: failure to deliver what was required; and major cost over-runs.

Key Findings

> We discuss:

- basic governance structures for IT projects;

- IT projects that actually happened; and

- reasons for success and failure.

> Each part of the report raises issues for consideration, summarised in a set of questions which we believe that chief executives, ministers, and select committee members should ask with respect to any large IT projects they are involved with.

Select Committee Scrutiny

> Most select committees have taken an interest in the report, and we have given briefings to a number of them.

Government Response

> The Government has released guidelines on managing large IT projects.

Issues Outstanding

> No issues in particular. However, we will continue to maintain an active interest in the governance and oversight of large IT projects.

SIX

SIX
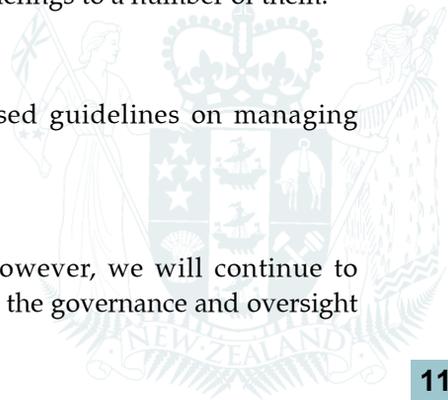
Title of Report

First Report for 2000[2]

Date Presented

21 March 2000

Brief Description

Health Sector

This report contains several articles on the health sector, including:

- a review of the financial condition of hospital and health services;

- capital purchasing by hospital and health services; and

- electronic claiming of pharmaceutical subsidies and dispensing fees.

School Boards of Trustees

We discuss what we see as difficulties – both for School Boards of Trustees and the Audit Office – with the accountability requirements of the Public Finance Act 1989 and the Education Act 1989, and we suggest some possible changes.

Impact Evaluation

This article demonstrates the value of impact evaluation as a practical tool to enhance the quality of decision-making by the Government and Parliament.

Select Committee Scrutiny

The article on Impact Evaluation was considered by the Finance and Expenditure Committee in 2000.

Government Response

There has been no response to the School Boards of Trustees and Health articles. The article on Impact Evaluation received a Government response.

---

2   Parliamentary paper B.29[00a].

Issues Outstanding

> The issues raised in relation to School Boards of Trustees remain current. Similarly, Impact Evaluation is an on-going issue. We will take an active interest in developments.

Title of Report

Fifth Report for 1999[3]

Date Presented

> 21 December 1999

Brief Description

> This report includes articles on:

- the 1998-99 audited financial statements of the government;

- government departments – results of the 1998-99 audits;

- maintaining standards of financial management during organisational change; and

- New Zealand Customs Service collection of excise duty.

Key Findings

> A range of issues arising out of the 1998-99 audits in the Crown sector.

Select Committee Scrutiny

> The Finance and Expenditure Committee considered the report in late-1999.

Government Response

> None as yet.

Issues Outstanding

> The issues raised in the article on maintaining standards of financial management during organisational change remain current and relevant.

SIX

---

3   Parliamentary paper B.29[99e].

SIX

Title of Report

Information Requirements for the Sustainable Management of Fisheries[4]

Date Presented

21 December 1999

Brief Description

This report is about:

- the information required to achieve stable management of the fisheries resource within a healthy aquatic eco-system; and

- the extent to which relevant and adequate information is actually being used to manage the country's fisheries within a sustainable framework.

Key Findings

We examined the information available for 44 of the 257 fish stocks. The species within those 44 fish stocks represent 60% of the value of all fish caught in New Zealand's exclusive economic zone.

In our view, the Ministry is unable to be certain if 31 of those fish stocks are being utilised to their potential or, in some cases, being utilised sustainably at all.

For those 31 fish stocks, we believe that there are significant gaps in information required by the 1996 Fisheries Act for sustainable utilisation of fisheries.

We conclude, therefore, that the Ministry manages most fish stocks without being sure if this management is sustainable. Because of the lack of information, the Ministry also cannot be sure that the catch levels that are established allow for fisheries to be utilised to their potential. This conclusion is similar to that reached by the Audit Office and the Parliamentary Commissioner for the Environment in 1990.

---

4   Part of *Fifth Report for 1999,* Parliamentary paper B.29 [99e], pages 49-112.

Select Committee Scrutiny

> The Primary Production Committee considered our report in 2000.

Government Response

> None as yet.

Issues Outstanding

> The majority of the issues we raise remain current. We are likely to conduct a follow-up audit in the next year.

Title of Report

Fourth Report for 1999[5]

Date Presented

> 5 October 1999

Brief Description

> This report includes articles on:

> - Capital Coast Health Limited: New Computerised Information System;

> - Health Funding Authority:

> - Contract for Specialist Sexual Health Service;

> - Health Funding Authority: Contract for Forensic Post Mortem Services; and

> - Health Benefits Limited: Payments for Claims for Pharmaceutical Service Subsidies.

Select Committee Scrutiny

> The Health Committee considered our article on Capital Coast Health's new computerised information system.

Government Response

None required.

---

5   Parliamentary paper B.29 [99d].

SIX

SIX

Issues Outstanding

> None.

Title of Report

Towards Service Excellence: The Responsiveness of Government Agencies to their Clients

Date Presented

> 15 September 1999

Brief Description

> The report is based on an audit of service delivery in five government departments. Although each department performed different functions, carried out different activities, and served different client groups, we were able to provide a common set of good practice criteria and identify a number of challenges and emerging issues.

Key Findings

> Overall, we were impressed with the efforts that each of the five agencies had taken to be responsive to its clients. We found examples of excellent service in all five agencies. Nevertheless, we identified some areas for improvement, covering the following areas:

- making a corporate commitment to client service;

- understanding the client;

- providing access to services;

- delivering the service;

- resourcing service delivery;

- judging service performance;

- reporting service performance; and

- seeking continuous improvement.

Select Committee Scrutiny

> None

Government Response

> None required

Issues Outstanding

> The report remains current and relevant, and should be useful for agencies in considering responsiveness to their clients.

Title of Report

Third Report for 1999 – The Accountability of Executive Government to Parliament[6]

Date Presented

> 29 June 1999

Brief Description

> The purpose of this report is two-fold:

> - to promote Parliament's awareness of a number of issues relating to the way in which it currently scrutinises and controls executive government (the Executive) and holds it to account; and

> - to point to opportunities for improvement and to stimulate debate about them.

Key Findings

> We have sought to bring together and summarise a number of observations that we have made to Parliament since the introduction of the financial management reforms at the end of the last decade. These issues relate to:

> - the nature and purpose of Executive spending;

> - the impact and outcomes of Executive spending;

> - the structure and capability of the Executive's agencies (departments, crown entities and state-owned enterprises);

---

6   Parliamentary paper B.29[99c].

SIX

- governance and accountability;

- appropriation and supply; and

- the assessment and management of risk.

Select Committee Scrutiny

The Finance and Expenditure Committee and some other committees considered this report in early-2000.

Government Response

There has been a partial Government response to the issues raised.

Issues Outstanding

The report remains current and relevant. It has provided the foundation for a number of our other initiatives, and is also likely to have had an impact on initiatives from central agencies.

Title of Report

First Report for 1999[7]

Date Presented

23 March 1999

Brief Description

This report covers:

- the 1997-98 audited financial statements of the government;

- government departments – results of the 1997-98 audits;

- cost allocation and appropriation;

- validating expenditure in excess of appropriation;

- managing appropriations for non-departmental transactions;

- maintaining financial and service performance during organisational change;

---

7   Parliamentary paper B.29[99a].

- public sector readiness for the Year 2000; and

- how are state-owned enterprises managing foreign exchange risk?

Key Findings

The report covers a wide variety of issues arising out of the 1997-98 Crown audits.

Select Committee Scrutiny

None.

Government Response

None.

Issues Outstanding

A number of issues remain current and form part of our annual audit approach on an on-going basis.

SIX

Title of Report

Third Report for 1998[8]

Date Presented

3 December 1998

Brief Description

This report contains articles on:

- School Boards of Trustees;

- Tertiary Education Institutions;

- Department of Internal Affairs: Control of Gaming Machines;

- Delivering Effective Outputs for Maori;

- Statements of Corporate Intent: Are They Working? and

- Governance Issues in Crown Entities.

---

8   Parliamentary paper B.29[98c].

SIX

Select Committee Scrutiny

None.

Government Response

None as yet.

Issues Outstanding

Control of Gaming Machines

Issues of significant concern are raised in this article. We had planned to undertake a more comprehensive review of gaming machines in 2001, but decided to defer it, given the major work completed by the Department of Internal Affairs in its recent gaming review. That review has now resulted in the Responsible Gambling Bill being considered by Parliament.

### Delivering Effective Outputs for Maori

In this article, we identify the processes that we expect agencies to follow when preparing outputs which would be effective for Maori. We intend applying the resultant process model to central agencies over the next few years.

Statements of Corporate Intent (SCI)

In this article we note a lack of compliance with the SCI model. We have asked our auditors to maintain an active interest in ensuring entities meet their obligations with SCIs.

Governance Issues in Crown Entities

This article was a follow-up to our 1996 report *Governance Issues in Crown Entities*. We note that there had been little change in the strength of governance arrangements affecting Crown entities. This continues to be a matter of concern, and we will maintain an active interest in the issue.
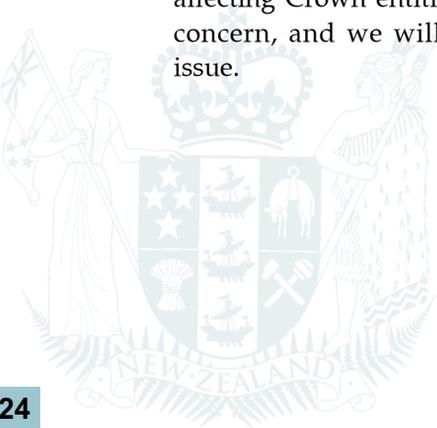
Title of Report

Second Report for 1998[9]

Date Presented

> 13 July 1998

Brief Description

> This report contains articles on:
>
> - The financial performance of Crown Health Enterprises;
>
> - The performance of Crown Research Institutes;
>
> - Maori Trust Boards; and
>
> - The information needs of the Children, Young Persons and their Families Service.

Select Committee Scrutiny

> None.

Government Response

> None.

Issues Outstanding

> **Maori Trust Boards**
>
> We now provide quarterly reports to the Maori Affairs Committee and the Minister of Maori Affairs on the status of Maori Trust Board audits.
>
> **The Information Needs of the Children, Young Persons and their Families Service**
>
> While there was no Select Committee scrutiny of this article, or any formal Government response, we note that there are now significant initiatives from the Government in response to the report by Judge Brown. We will maintain an active interest in developments.

---

9   Parliamentary paper B.29[98b].

SIX

Title of Report

New Zealand Fire Service Commission: Adequacy of the Arrangements to Ensure that the Fire Service Levy is Properly and Fully Paid

Date Presented

8 July 1998

Brief Description

We set out to determine whether the New Zealand Fire Service Commission has adequate arrangements to ensure that all levy revenue is properly and fully paid to the Commission.

Key Findings

The Commission did not have adequate systems and procedures in place to ensure that levy revenue – particularly that relating to non-residential property owners – is properly and fully paid to the Commission. The Commission was not able to determine what percentage of the total levy is derived from non-residential property owners – however, in 1996, an independent study estimated the figure to be 41% of the total levy received.
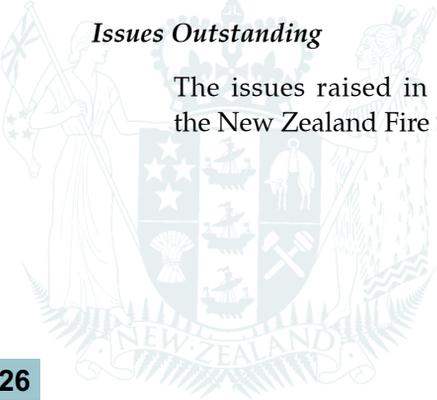
Select Committee Scrutiny

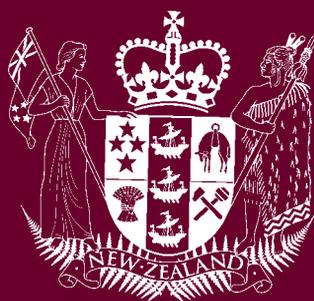The Government Administration Committee has considered the report.

Government Response

None.

Issues Outstanding

The issues raised in this report remain problematic for the New Zealand Fire Service Commission.

Controller and Auditor-General
Tumuaki o te Mana Arotake

*Central Government
and Other Issues 2001-02*