

# Statement of Objectives and Service Performance for the Year Ended 30 June 2004

The Office sets out its statement of objectives and service performance for each output class in its Annual Plan. Our performance over the 2003-04 year in each output class was as follows:

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## **Output Class D1** Reports and advice arising from the exercise of the function of legislative auditor

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### **Description**

- Reports to Parliament and other constituencies on matters arising from annual audits, programmed performance audits and special studies, and unprogrammed inquiries
- Reports and advice to Select Committees – to assist in their reviews of performance, estimates examinations, or other inquiries for which our assistance is sought
- Reports to portfolio Ministers on the results of annual financial report audits
- Responses to enquiries from taxpayers, ratepayers and Members of Parliament
- Advice to government bodies and other agencies – on auditing, accountability and financial management in the public sector
- Administration of the provisions of the Local Authorities (Members' Interests) Act 1968

### **Performance against output targets**

This chart is on pages 124-125.

*Performance against output targets –  
D1 Reports and advice arising from the exercise of the function of legislative auditor*

OUTPUT ACTIVITIES	QUANTITY <sup>1</sup>			COST \$'000			TIMELINESS			QUALITY <sup>2</sup>		
	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03
1 Reports to Parliament and other constituencies, comprising results of:												
• Annual audits	2	At least 2	2	3,287	3,348	3,052	Substantially achieved		Substantially achieved	Met		Met
• Programmed performance audits and special studies	10	At least 10	7									
• Unprogrammed inquiries	6	-	6									
2 Reports and advice to Select Committees, for the purposes of:												
• Financial reviews	81	100	83	669	526	694	Met		Met	Met		Met
• Estimates examinations	43	40	79									
• Other	29	20	43									
3 Reports to portfolio Ministers on: The results of annual audits	142	120	137	30	30	28	Met		Met	Met		Met

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*Performance against output targets – continued*  
*D1 Reports and advice arising from the exercise of the function of legislative auditor*

OUTPUT ACTIVITIES	QUANTITY <sup>1</sup>			COST \$'000			TIMELINESS			QUALITY <sup>2</sup>							
	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03	Actual 2003-04	Target 2003-04	Actual 2002-03					
4 Responses to enquiries from:	37	60	41	484	385	444	92%	100%	89%	Met		Met					
													• Taxpayers	80% cleared within 30 working days	60%	80%	56%
													• Ratepayers	100% advised if delay longer than 30 days	86%	100%	77%
• Members of Parliament	13	60	16														
5 Advice to government bodies and other agencies	-	On demand	-	634	857	598	Met		Met			Met					
6 Administration of the provisions of the Local Authorities (Members' Interests) Act 1968	80	80	115	138	134	139	95%	100%	97%	Met		Met					
													Initial response within 5 working days	89%	80%	85%	
													80% cleared within 30 working days	100%	100%	100%	
100% advised if delay longer than 30 days																	
<b>Total</b>				<b>5,242</b>	<b>5,280</b>	<b>4,955</b>											

## Notes:

- The work produced in this output class is largely demand driven or discretionary. Our quantity targets are therefore estimates based on average levels in previous years.
- In our *Annual Plan 2004-05*, we acknowledged the limitations of our "quality" measures. We have therefore commenced work to review our existing quality measures, particularly our external stakeholder feedback mechanisms.

## Comments

For fuller descriptions of our work under each output class, refer to the Work Programme Report on pages 95-117.

### 1 Reports to Parliament and other constituencies comprising results of:

- Annual audits
- Programmed performance audits and special studies
- Unprogrammed inquiries

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b>				
Results of annual audits	number	2	At least 2	2
Programmed performance audits and special studies	number	10	At least 10	7
Unprogrammed inquiries	number	6	-	6
<b>Cost</b>	\$000	3,287	3,348	3,052
<b>Timeliness</b>				
Reports to Parliament will be completed in a manner which ensures that the subjects being reported are timely and relevant		Substantially achieved	Substantially achieved	Substantially achieved
<b>Quality</b>				
All reports will be prepared with due professional care by an appropriately qualified person and, where circumstances require it, be subject to: <ul style="list-style-type: none"> <li>• Internal peer review</li> <li>• Substantiation</li> <li>• Entity confirmation of factual accuracy</li> </ul>		Met		Met

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*Comments*

- The level of unprogrammed inquiries has continued at similarly high levels as the previous year (i.e. 6). However, the Office has this year still been able to fully deliver its programmed performance audit and special studies target. This has been achieved as a result of process efficiencies.

**2 Reports and advice to Select Committees, for the purposes of:**

- **Financial reviews**
- ***Estimates* examinations**
- **Other**

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b>				
Financial reviews	number	81	100	83
<i>Estimates</i> examinations	number	43	40	79
Other	number	29	20	43
<b>Cost</b>	\$000	669	526	694
<b>Timeliness</b>				
Reports presented at least 2 days before an examination, unless otherwise agreed with the committee		Met		Met
<b>Quality</b>				
All Select Committees will be surveyed as to their satisfaction with the quality of our reports and advice		Met		Met

*Comments*

- The number of *Estimates* examinations was significantly less than the previous year. This was due to the fact that *Estimates* examinations for 2001-02 were not completed until during the 2002-03 year because Parliament was dissolved ahead of the general election in July 2002. The number completed this year represents the normally expected annual number of *Estimates* examinations.

- Costs for this output were higher than target primarily because the Office continued to make available an employee to support the Primary Production Committee in its inquiry into the management of the scampi fishery for a large part of the year.
- The Auditor-General has met with each of the Chairpersons of Select Committees to enquire as to their satisfaction with the quality of our reports and advice. Overall, the Chairpersons expressed a high level of satisfaction with the work of the Office, and the level of service provided.

### 3 Reports to portfolio Ministers on the results of annual audits

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b> Results of annual audits	number	142	120	137
<b>Cost</b>	\$000	30	30	28
<b>Timeliness</b> Reports to portfolio Ministers before Select Committee scrutiny of departmental and Crown entity performance		Met		Met
<b>Quality</b> All reports will be prepared with due professional care by an appropriately qualified person and, where circumstances require it, be subject to: <ul style="list-style-type: none"> <li>• Internal peer review</li> <li>• Substantiation</li> <li>• Entity confirmation of factual accuracy</li> </ul>		Met		Met

#### *Comments*

- The number of reports to portfolio Ministers was higher than the previous year.
- However, costs remained on target.

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## 4 Responses to enquiries from:

- Taxpayers
- Ratepayers
- Members of Parliament

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b>				
Taxpayers	number	37	60	41
Ratepayers	number	129	180	105
Members of Parliament	number	13	60	16
<b>Cost</b>	\$000	484	385	444
<b>Timeliness</b>				
Initial response within 5 working days	per cent	92%	100%	89%
80% cleared within 30 working days	per cent	60%	80%	56%
100% advised if delay is longer than 30 days	per cent	86%	100%	77%
<b>Quality</b>				
All reports will be prepared with due professional care by an appropriately qualified person and, where circumstances require it, be subject to:				
<ul style="list-style-type: none"> <li>• Internal peer review</li> <li>• Substantiation</li> <li>• Entity confirmation of factual accuracy</li> </ul>		Met		Met

### Comments

- The number of enquiries was higher than the previous year (but less than our estimate). This is a demand-driven activity. Enquiries continue to be of increasing complexity and higher profile.
- Costs for producing this activity were higher than our estimate and the previous year. This is a reflection of the increasing need to apply more senior resources to deal with the complexities of the enquiries we receive.

- Our timeliness in this area requires some improvement. We have acknowledged this in our Strategic Plan and received specific additional funding to better respond to the increased number and complexity of enquiries.

## 5 Advice to government bodies and other agencies

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b> Advice to government bodies and other agencies	*	*	*	*
<b>Cost</b>	\$000	634	857	598
<b>Timeliness</b> As requested		Met		Met
<b>Quality</b> All reports will be prepared with due professional care by an appropriately qualified person and, where circumstances require it, be subject to: <ul style="list-style-type: none"> <li>• Internal peer review</li> <li>• Substantiation</li> <li>• Entity confirmation of factual accuracy</li> </ul>		Met		Met

\* This is a demand-driven activity for which there are no wholly satisfactory quantity measures. All reasonable requests for information and participation were met, including from (among others):

- in association with ICANZ, the Financial Reporting Standards Board, and various other Committees;
- International Federation of Accountants – Public Sector Committee; and
- delegations from overseas countries; and INTOSAI – Working Group on Environmental Accounting.

### Comments

- Costs for this activity were higher than the previous year although less than our estimate. The Office undertook significant work in this activity during the 2003-04 year in relation to input into the preparation of the Public Finance (State Sector Management) Bill and advice to the Finance and Expenditure Committee, but reduced its time associated with SPASAI training.



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## 6 Administration of the provisions of the Local Authorities (Members' Interest) Act 1968

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b> Administration of the provisions of the Local Authorities (Members' Interests) Act 1968	number	80	80	115
<b>Cost</b>	\$000	138	134	139
<b>Timeliness</b> Initial response within 5 working days	per cent	95%	100%	97%
80% cleared within 30 working days	per cent	89%	80%	85%
100% advised if delay is longer than 30 days	per cent	100%	100%	100%

### Comments

- Performance in this activity was good, with continuing improvements in clearing responses within the 30 working day target.

## Financial performance of Output Class D1

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Revenue				
Crown	\$000	5,285	5,277	4,993
Other	\$000	1	4	4
Expenditure	\$000	(5,242)	(5,280)	(4,955)
<b>SURPLUS</b>	<b>\$000</b>	<b>44</b>	<b>1</b>	<b>42</b>

## Output Class D2 Certification of authority to release funds from the Crown Bank Account

### Description

- This output class relates to the Controller function under section 22 of the Public Finance Act 1989. The function is to act as a monitor, on behalf of Parliament, to control the issue of funds from the Crown Bank Account.
- Operationally, this includes monitoring departmental and Crown financial reporting systems to ensure that the releases of funds are supported by appropriations and are for lawful purposes.

### Performance against output targets

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
<b>Quantity</b>				
Warrants certified	number	7	6	6
Controller statements certified	number	249	245	245
<b>Quality</b>				
Authorities will only be certified once correct documentation is received		Met		Met
Issues from the Crown Bank Account will be within the appropriations and other lawful authorities granted by Parliament		Met		Met
All payments made without a warrant from the Governor-General will be refused		No payments made without authority		No payments made without authority
<b>Timeliness</b>				
Valid certifications given on the day that documentation is provided to support certification	per cent	100	100	100
<b>Cost</b>				
Value of resources applied	\$000	252	260	238

### Comments

- The volume of controller statements issued continues at a similar level to that of previous years. The quality of statements presented continued to remain sound during 2003-04 and is evidence that the improved Treasury performance level has been maintained.

### Financial performance of Output Class D2

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Revenue				
Crown	\$000	252	260	238
Expenditure	\$000	(252)	(260)	(238)
<b>SURPLUS</b>	<b>\$000</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

### Output Class D3 Provision of non-contested audit services

#### Description

- This output class relates to the provision of audit services to public entities
- The work in this output class is carried out solely by Audit New Zealand
- The two significant outputs of this class are:

**Audit reports** – on whether the public entity's financial report fairly reflects the financial and non-financial performance of the entity, and

**Management reports** – to the management and governing bodies of public entities, on issues arising from the audit.

#### Performance against output targets

This chart is on page 134.

**Performance against output targets – D3 Non-contested audit services**  
*Performance quantity and timeliness<sup>1</sup>*

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Group	QUANTITY				TIMELINESS			
	AUDIT STATUS				TIMELY ISSUE OF AUDIT REPORTS		TIMELY ISSUE OF MANAGEMENT REPORTS	
	Total Entities in Group	Carried Out	Arrears at Year End	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual	
Government departments and Offices of Parliament	11	11	-	100%	100%	100%	100%	
2002-03	11	11	-	100%	100%	100%	100%	
Major statutory bodies <sup>4</sup>	19	17	3	100%	79%	100%	100%	
2002-03	29	28	4	100%	86%	100%	83%	
Other local authorities <sup>5</sup>	21	19	3	100%	81%	100%	100%	
2002-03	21	24	-	100%	76%	100%	83%	
Miscellaneous public bodies <sup>6</sup>	101	129	36	75%	57%	100%	99%	
2002-03	118	136	42	75%	38%	100%	97%	
Audits for which fees will not be charged <sup>7</sup>	154	162	73	75%	23%	100%	100%	
2002-03	156	202	71	75%	35%	100%	100%	
<b>TOTALS</b>	<b>306</b>	<b>338</b>	<b>115</b>		<b>44%</b>		<b>100%</b>	
2002-03	<b>335</b>	<b>401</b>	<b>117</b>		<b>45%</b>		<b>97%</b>	

1 Figures may not balance exactly, or may vary from those presented in the Annual Plan 2003-04 and last year's Annual Report, because of in-year changes and corrections to the audit portfolio.

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

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

4 Comprising State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown Entities.

5 Comprising Licensing Trusts, Airports, Council Controlled Organisations, Council Controlled Trading Organisations, Energy Companies, Port Companies, and Sinking Fund Commissioners.

6 Comprising Māori Trust Boards, smaller Crown Entities, and subsidiaries of major statutory bodies.

7 Entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee – comprising Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees and Patriotic Councils.

From 2001-02, the Crown is funding up to \$100,000 of the cost of these audits.

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MEASURE	MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Quality Audit reports management reports	Work will be conducted with due professional care, ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the ICANZ standards and other standards which the Auditor-General deems appropriate for the public sector	Met		Met
	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see pages 52-53)		Programme undertaken
Effectiveness	Trends in types of non-standard audit reports issued up to and including the current year	See page 30		See page 31

## Comments

- Audit arrears remain at a similar level to the previous year, albeit marginally over.
- There has been a good improvement in the timeliness of management reports (particularly in relation to audits of major statutory bodies and other local authorities).

Overall, in relation to audit reports, there remain timeliness issues. However, the results are comparable to previous years. There has been a decrease in timeliness within the “Major statutory bodies” group and the “Audits for which fees will not be charged” group. However it is pleasing to note that there have been good improvements in the result for “Miscellaneous public bodies” (increasing from 38% to 57%) and continuing improvements within the “Other local authorities” group.

### Financial performance of Output Class D3

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Revenue				
Crown	\$000	100	100	100
Other	\$000	3,477	4,114	3,661
Expenditure	\$000	(3,474)	(4,006)	(3,658)
<b>SURPLUS</b>	<b>\$000</b>	<b>103</b>	<b>208</b>	<b>103</b>

### Comments

The financial out-turn for this output class is within estimate. Over the 2003-04 year, we made improvements in our forecasting ability to take account of changes in the availability of audit resources and the ability of clients to prepare work ready for audit.

### Output Class D4 Provision of contested audit and assurance services

### Description

- This output class relates to the provision of audit services to public entities and is appropriated on a Mode B net basis
- The work in this output class is carried out by Audit New Zealand and private sector auditing firms on contract to the Auditor-General
- The two significant outputs of this class are:

**Audit reports** – on whether the public entity's financial report fairly reflects the financial and non-financial performance of the entity, and

**Management reports** – to the management and governing bodies of public entities, on issues arising from the audit.

### Performance against output targets

This chart is on page 137.

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## Performance against output targets – D4 Non-contested audit services Performance quantity and timeliness<sup>1</sup>

Group	QUANTITY				TIMELINESS			
	AUDIT STATUS				TIMELY ISSUE OF AUDIT REPORTS		TIMELY ISSUE OF MANAGEMENT REPORTS	
	Total Entities in Group	Carried Out	Arrears at Year End		Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
Government departments and Offices of Parliament	36	36	-		100%	100%	100%	100%
2002-03	36	36	-		100%	97%	100%	100%
Major statutory bodies <sup>4</sup>	99	99	3		100%	91%	100%	100%
2002-03	90	91	1		100%	94%	100%	91%
Regional, city and district councils	86	86	-		100%	100%	100%	99%
2002-03	86	86	-		100%	99%	100%	95%
Other local authorities <sup>5</sup>	397	415	39		100%	79%	100%	95%
2002-03	373	373	43		100%	85%	100%	94%
School boards of trustees	2,591	2,682	178		50%	26%	100%	97%
2002-03	2,585	2,900	180		50%	22%	100%	96%
Miscellaneous public bodies <sup>6</sup>	390	414	62		75%	60%	100%	99%
2002-03	296	305	31		75%	72%	100%	100%
<b>TOTALS</b>	<b>3,599</b>	<b>3,732</b>	<b>282</b>			<b>40%</b>		<b>97%</b>
2002-03	<b>3,466</b>	<b>3,791</b>	<b>255</b>			<b>37%</b>		<b>96%</b>

1 Figures may not balance exactly, or may vary from those presented in the Annual Plan 2003-04 and last year's Annual Report, because of in-year changes and corrections to the audit portfolio.

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

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

4 Comprising State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown Entities.

5 Comprising Licensing Trusts, Airports, Council Controlled Organisations, Council Controlled Trading Organisations, Energy Companies, Port Companies, and Sinking Fund Commissioners.

6 Comprising mainly Māori Trust Boards, smaller Crown Entities, and subsidiaries of major statutory bodies.

MEASURE	MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Quality Audit reports Management reports	Work will be conducted with due professional care, ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the ICANZ standards and other standards which the Auditor-General deems appropriate for the public sector	Met		Met
	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see pages 52-53)		Programme undertaken

### Comments

- Audit arrears are slightly higher than the previous year. This means we did not achieve our target to “maintain arrears at a level no higher than at 30 June 2003”. The increase in number of audits in arrears falls mainly within the “Miscellaneous public bodies” group and reflects ongoing issues our auditors experience with small trusts.
- The total number of entities audited under this output class has increased from 3466 in the previous year to 3599 this year. This is reflective of a number of entities being newly identified as falling within the Auditor-General’s mandate of the Public Audit Act 2001.
- There has been a good improvement in the timeliness of management reports.
- Overall, in relation to audit reports, there remain timeliness issues. However, the results are slightly improved on the previous year.
- The quality of work within this output class remains at similar levels to the previous year.



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### Financial performance of Output Class D4

MEASURE	UNIT OF MEASURE	2003-04 ACTUAL	2003-04 TARGET	2002-03 ACTUAL
Revenue				
Other	\$000	31,697	29,551	30,703
Expenditure	\$000	(31,686)	(29,506)	(30,697)
<b>SURPLUS</b>	<b>\$000</b>	<b>11</b>	<b>45</b>	<b>6</b>

PART 7

### Comments

The financial out-turn for this output class is above estimate.

## Financial performance indicators

for the Year Ended 30 June 2004

Details of the actual performance of the Office against performance measures established in the *Annual Plan 2003-04* are summarised below.

<i>Actual</i>		<i>Actual</i>	<i>Final</i>	<i>Annual</i>
<i>2002-03</i>		<i>2003-04</i>	<i>Estimates</i>	<i>Plan</i>
<i>\$000</i>		<i>\$000</i>	<i>2003-04</i>	<i>2003-04</i>
		<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<b>Operating Results</b>				
	Revenue: other than Crown and departmental audit fees	27,832	26,722	27,593
28,037				
39,548	Output expenses	40,654	39,052	39,643
435	Surplus before capital charge	356	559	573
151	Surplus	158	254	268
<b>Working Capital Management</b>				
2,535	Current assets less current liabilities	2,446	2,294	2,218
153%	<i>Current ratio</i>	145%	147%	178%
58 days	<i>Average receivables and work in progress</i>	45 days	58 days	41 days
<b>Resource Utilisation</b>				
<i>Physical assets:</i>				
2,037	Total physical assets at year-end	2,220	2,410	2,399
38%	<i>Additions as % of physical assets</i>	54%	52%	51%
<b>Taxpayers' Funds</b>				
3,586	Level at year-end	3,586	3,586	3,586
<b>Net Cash Flows</b>				
2,160	Surplus/(deficit) on operating activities	2,844	1,279	1,496
(532)	(Deficit) on investing activities	(1,068)	(1,085)	(1,050)
(679)	(Deficit) on financing activities	(151)	(151)	(61)
949	Net increase/(decrease) in cash held	1,625	43	338