

# Statement of Objectives and Service Performance

## for the year ended 30 June 2005

61

We set out our statement of objectives and service performance for each output class in our *Annual Plan 2004-05*. Our performance during 2004-05 in each output class is set out below.

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

#### Description

This output class includes:

- reports to Parliament and other constituencies on matters arising from annual audits, performance audits and special studies, and 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; and
- preparation of a written history of the Audit Office.

For descriptions of our work under each output class, refer to Part 1 of this report.

#### 1 Reports to Parliament and other constituencies (reports on the results of annual audits, performance audits, major inquiries, and other activities)

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Reports on the results of annual audits	2	At least 2	2
Other reports (performance audits, major inquiries, other)	15	At least 17	16
Hours undertaking performance audits	17,159 hours	At least 22,100 hours	-
Research and development implementation plans	Substantially achieved	At least 90%	
Pilot project to enhance Strategic Audit Planning	Implemented (see pages 5 and 39)	Achieve implementation	-
<b>Cost (\$000)</b>	<b>3,914</b>	<b>4,005</b>	<b>3,287</b>
<b>Timeliness</b>			
All inquiry reports provided within the deadlines agreed in the terms of reference	Achieved	Achieve measure	Achieved

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
All performance audit and special study reports provided within the deadlines agreed in audit plans	Partly achieved	Achieve measure	Partly achieved
Pilot project to enhance Strategic Audit Planning	Completed (see pages 5 and 39)	Complete by 30 June 2005	-
<b>Quality</b>			
Complete an independent review of performance audits and special studies	Completed	Complete review	Completed
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

During 2004-05, we recruited additional staff to our Performance Audit Group. Delays in the new staff starting, and their training requirements, had an effect on the number of performance audits we completed. Funding not used for the planned increase in the number of performance audits has been returned to the Crown.

In December 2004, we revised our original budget of 22,100 hours to 17,700 hours, because recruiting appropriately qualified people proved extremely difficult. We achieved 17,159 actual hours against the revised budget.

On average, it took us 12.3 months to complete the performance audits we published in 2004-05, which we consider is too long. However, the 6 most recently completed performance audits took, on average, 7.9 months. This improved timeliness resulted from:

- better internal governance procedures;
- better scoping of audits;
- improved relationship management; and
- improved capability.

In 2004-05, Dr Marilyn Waring and the Office of the Auditor General of Canada were the independent external reviewers for 2 of our performance audit reports.

## 2 Reports and advice to Select Committees/Ministers (on financial reviews, *Estimates* examinations, annual financial audits, and other matters)

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Financial reviews	70	100	81
<i>Estimates</i> examinations	49	40	43
Reports to portfolio Ministers	128	120	142
Other	6	20	29
<b>Cost (\$000)</b>	<b>794</b>	<b>783</b>	<b>699</b>
<b>Timeliness</b>			
All reports provided at least 2 days before an examination, unless otherwise agreed with a Committee	97%	100%	100%
All reports provided to Ministers before Select Committee scrutiny of departmental and Crown entity performance	100%	100%	100%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

In 2004-05, the Finance and Expenditure Committee allocated 137 entities to Select Committees for financial review, and allocated 67 Votes for *Estimates* examination. While the Select Committees consider all the entities and Votes allocated to them, only a selection are subjected to a full financial review or *Estimates* examination each year. The Select Committees decide which, and how many, entities and Votes receive such scrutiny, and therefore how many briefings we have to prepare.

The yearly variation that arises from this approach gives rise to the difference between the number of briefings provided in 2004-05, and the target number of briefings for that year. The variation is also reflected in the difference between the number of briefings provided in 2004-05, and the number provided in 2003-04.

Under the *Code of practice for the provision of assistance by the Auditor-General to select committees and members of Parliament*, the Auditor-General (unless otherwise directed by a Select Committee) must provide a written brief for every financial review conducted, and every Vote examined, as directed by a Select Committee. In 2004-05, we met this expectation.

### 3 Responses to enquiries from taxpayers, ratepayers, and Members of Parliament

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Taxpayers	59	60	37
Ratepayers	157	180	129
Members of Parliament	22	60	13
<b>Cost (\$000)</b>	<b>1,315</b>	<b>1,114</b>	<b>484</b>
<b>Timeliness</b>			
Provide initial response within 5 working days	82%	100%	92%
Complete within 30 working days	57%	80%	60%
Advise if the response will take longer than 30 working days	95%	100%	86%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

#### Comments

While the number of enquiries received was higher than last year (but less than our forecast), they continue to be increasingly complex.

Costs were higher than our forecast, because we needed to assign more senior staff to deal with the complexities of the enquiries we received.

We still need to improve our timeliness in this area, and in 2004-5 we have:

- reviewed how we manage enquiries; and
- sought to recruit people to better facilitate the management, conduct and timeliness of enquiries, in line with our *Strategic Plan*.

#### 4 Advice to government bodies and other agencies

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Provide advice on demand	*	*	*
<b>Cost (\$000)</b>	1,351	1,457	634
<b>Timeliness</b>			
We will deliver the advice in accordance with the terms of reference agreed, and meet the deadline in the terms of reference	Substantially achieved	Achieve measure	Substantially achieved
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

\* 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 requests from:

- the State Services Commission and the Treasury;
- local government sector groups;
- the Financial Reporting Standards Board, and various other Committees;
- the International Federation of Accountants – International Public Sector Accounting Standards Board;
- delegations from overseas countries; and
- INTOSAI – Working Group on Environmental Auditing.

#### Comments

During 2004-05, we undertook significant work in this activity both domestically and internationally. We acted as advisors to Select Committees, provided comments on draft legislation and policy proposals, and worked with various sector groups on improvements to public sector accountability and reporting.

A full description of the activities is detailed on page 31. We intend to maintain our involvement at similar levels.

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

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Enquiries	106	80	80
<b>Cost (\$000)</b>	<b>70</b>	<b>81</b>	<b>138</b>
<b>Timeliness</b>			
Provide initial response within 5 working days	92%	100%	95%
Complete within 30 working days	96%	80%	89%
Advise if the response will take longer than 30 working days	100%	100%	100%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

The higher than usual number of enquiries arose largely from the triennial local government elections, held in October 2004. A number of candidates for election, and local authorities themselves, sought guidance on how to interpret the rule about a candidates' eligibility for election to an authority with which they had an existing contractual relationship. A small number of candidates withdrew upon becoming aware of the rule.

We are pleased to report that we did not become aware of any significant breaches of the Act during the year, and did not have to undertake any formal investigations with a view to prosecution.

## 6 History of the Audit Office

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Produce a written history of the Audit Office, in conjunction with the Ministry for Culture and Heritage	-	-	-
<b>Cost (\$000)</b>	25	26	-
<b>Timeliness</b>			
Project milestones achieved	100%	100%	-
<b>Quality</b>			
Use people with appropriate professional skills	Achieved	-	-

### Comments

We have made good progress in preparing a written history of the Audit Office. While we had originally intended to complete the project over a 3-year period, we have extended it to 5 years after discussions with the Ministry for Culture and Heritage. Phase one of the project has been completed according to schedule during 2004-05, including:

- identifying and retrieving from Archives New Zealand all relevant files;
- completing most of the oral interviews; and
- starting to research specific periods.

### Financial performance of Output Class D1

Measure	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	7,914	7,863	5,285
Other	2	4	7
<b>Expenditure</b>	(7,469)	(7,466)	(5,242)
<b>Surplus</b>	<b>447</b>	<b>401</b>	<b>44</b>

### Comments

Our spending is well below our forecast because we could not fully staff the Performance Audit Group for the whole year. We agreed with the Officers of Parliament Committee, in February 2005, to return the surplus funding to the Crown.

## 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.

The Controller function 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	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Number of warrants and controller statements expected to be certified:			
Governor-General warrants	8	6	7
Controller statements	248	245	249
<b>Quality</b>			
The Controller and Auditor-General will ensure that:			
Warrants and controller statements are certified only once correct documentation provided by the Treasury (to support the certification of a warrant or the release of funds from the Crown Bank Account)	Achieved	Meet measure	Met
Issues from the Crown Bank Account will be certified only if the issue is supported by appropriation by Parliament or other lawful authorities granted by Parliament	Achieved	Meet measure	Met
All payments not within a warrant from the Governor-General will be refused	No payments made without authority	Meet measure	No payments made without authority
<b>Timeliness</b>			
All valid certifications provided promptly on day that documentation is provided by the Treasury for certification	100%	100%	100%
<b>Cost (\$000)</b>			
Value of resources applied	83	130	252

### Comments

While the volume of controller statements issued continued at a similar level to that of previous years, and the quality of statements presented remained sound during 2004-05, we applied fewer resources because the Treasury's performance was maintained.

### Financial performance of Output Class D2

Measure	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	83	130	252
<b>Expenditure</b>	(83)	(130)	(252)
<b>Surplus</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 NZ and the OAG. The 2 significant outputs of this class are:

- *audit reports* – on whether the financial statements fairly reflect the financial and non-financial performance of these entities; and
- *management reports* – to the management and governing bodies of these entities, on issues arising from the audit.

From 1 July 2005, Output Class D3 will be combined with Output Class D4 to form one output class for the provision of audit and other assurance services.

### Performance – in quantity and timeliness – against Output Class D3 targets

Group	Audit status			Timely issue of audit reports		Timely issue of management reports	
	Entities in group <sup>1</sup>	Carried out	Arrears at year end	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
<b>Government departments and Offices of Parliament</b>	<b>8</b>	<b>8</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
2003-04	11	11	-	100%	100%	100%	100%
<b>Major statutory bodies<sup>4</sup></b>	<b>18</b>	<b>21</b>	<b>1</b>	<b>100%</b>	<b>83%</b>	<b>100%</b>	<b>86%</b>
2003-04	19	17	3	100%	79%	100%	100%
<b>Other local authorities<sup>5</sup></b>	<b>19</b>	<b>19</b>	<b>3</b>	<b>100%</b>	<b>74%</b>	<b>100%</b>	<b>94%</b>
2003-04	21	19	3	100%	81%	100%	100%
<b>Miscellaneous public bodies<sup>6</sup></b>	<b>87</b>	<b>111</b>	<b>21</b>	<b>75%</b>	<b>55%</b>	<b>100%</b>	<b>95%</b>
2003-04	101	129	36	75%	57%	100%	99%
<b>Audits for which fees will not be charged<sup>7</sup></b>	<b>146</b>	<b>160</b>	<b>49</b>	<b>75%</b>	<b>33%</b>	<b>100%</b>	<b>100%</b>
2003-04	154	162	73	75%	23%	100%	100%
<b>Totals</b>	<b>278</b>	<b>319</b>	<b>74</b>		<b>48%</b>		<b>97%</b>
2003-04	306	338	115		44%		100%

1 Figures may not balance exactly, or may vary from those presented in the *Annual Plan 2004-05* and the *Annual Report 2003-04*, because of in-year changes 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 State-owned Enterprises, tertiary education institutions, producer boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

5 Licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners.

6 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 – Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees, and Patriotic Councils. During 2004-05, the Crown funded up to \$190,000 of the cost of these audits.

## Performance – in quality – against Output Class D3 targets

Measure		2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quality</b>				
Audit 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	Achieved	Achieve measure	Achieved
Management reports				
Quality assurance reviews	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see page 10)	Undertake programme	Programme undertaken
Stakeholder satisfaction	Audit New Zealand will survey a range of its clients to ascertain satisfaction with the quality of work completed	Completed (see page 16)	Undertake survey	-
Balance of non-financial and financial audit work	We will set a benchmark of non-financial audit work to financial audit work	Completed (see page 10)	Set benchmark	-
Balance of senior and junior staff involved in annual audits	We will determine the proportion of senior to junior audit staff involved in annual audits	Completed (see page 10)	Determine proportion	-
Effectiveness	We will report on trends in non-standard audit reports issued up to and including the current year	See pages 11-12	-	See page 30 of the <i>Annual Report 2003-04</i>

### Comments

Audit arrears are 36% less than the previous year, reflecting our concerted effort to reduce arrears.

### Financial performance of Output Class D3

	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	186	190	100
Other	3,973	4,076	3,477
<b>Expenditure</b>	(3,928)	(4,110)	(3,474)
<b>Surplus</b>	<b>231</b>	<b>156</b>	<b>103</b>

### Comments

The financial result for this output class is within our forecast.

## 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. Audit NZ and contracted Audit Service Providers carry out the work in this output class.

The 2 significant outputs of this class are:

- *audit reports* – on whether the financial statements fairly reflect the financial and non-financial performance of these entities; and
- *management reports* – to the management and governing bodies of these entities, on issues arising from the audit.

From 1 July 2005, Output Class D4 will be combined with Output Class D3 to form one output class for the provision of audit and other assurance services.

### Performance – in quantity and timeliness – against Output Class D4 targets

Group	Audit status			Timely issue of audit reports		Timely issue of management reports	
	Entities in group <sup>1</sup>	Carried out	Arrears at year end	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
<b>Government Departments and Offices of Parliament</b>	<b>37</b>	<b>37</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
2003-04	36	36	-	100%	100%	100%	100%
<b>Major statutory bodies<sup>4</sup></b>	<b>97</b>	<b>97</b>	<b>5</b>	<b>100%</b>	<b>93%</b>	<b>100%</b>	<b>95%</b>
2003-04	99	99	3	100%	91%	100%	100%
<b>Regional, city and district councils</b>	<b>86</b>	<b>86</b>	<b>-</b>	<b>100%</b>	<b>98%</b>	<b>100%</b>	<b>95%</b>
2003-04	86	86	-	100%	100%	100%	99%
<b>Other local authorities<sup>5</sup></b>	<b>422</b>	<b>443</b>	<b>41</b>	<b>100%</b>	<b>74%</b>	<b>100%</b>	<b>90%</b>
2003-04	397	415	39	100%	79%	100%	95%
<b>School boards of trustees</b>	<b>2,548</b>	<b>2,645</b>	<b>155</b>	<b>50%</b>	<b>20%</b>	<b>100%</b>	<b>98%</b>
2003-04	2,591	2,682	178	50%	26%	100%	97%
<b>Miscellaneous public bodies<sup>6</sup></b>	<b>488</b>	<b>494</b>	<b>68</b>	<b>75%</b>	<b>58%</b>	<b>100%</b>	<b>96%</b>
2003-04	390	414	62	75%	60%	100%	99%
<b>TOTALS</b>	<b>3,678</b>	<b>3,802</b>	<b>269</b>		<b>35%</b>		<b>97%</b>
2003-04	3,599	3,732	282		40%		97%

1 Figures may not balance exactly, or may vary from those presented in the *Annual Plan 2004-05* and the *Annual Report 2003-04*, because of in-year changes 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 State-owned enterprises, tertiary education institutions, producer boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

5 Licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners.

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

## Performance – in quality – against Output Class D4 targets

Measure		2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quality</b>				
Audit 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	Achieved	Achieve measure	Achieved
Management reports				
Quality assurance reviews	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see page 10)	Undertake programme	Programme undertaken
Stakeholder satisfaction	Audit New Zealand will survey a range of its clients to ascertain satisfaction with the quality of work completed	Completed (see page 16)	Undertake survey	-
Balance of non-financial and financial audit work performed	We will set a benchmark of non-financial audit work to financial audit work	Completed (see page 10)	Set benchmark	-
Balance of senior and junior staff involved in annual audits	We will determine the proportion of senior to junior audit staff involved in annual audits	Completed (see page 10)	Determine proportion	-
Effectiveness	We will report on trends in non-standard audit reports issued up to and including the current year	See pages 11-12	-	See page 30 of the <i>Annual Report 2003-04</i>

## Comments

Audit arrears are slightly lower than the previous year.

Overall, in relation to Audit Reports and Management Reports, the results are similar to the previous year in that there remain timeliness issues. Under the Public Finance Act 1989, school boards of trustees have to provide their audited financial statements by 30 April each year. In most cases, they are completed by 31 May. With the passing of the Crown Entities Act 2004, schools have 5 months to produce audited financial statements, which will be reflected in improved performance from next year.

The quality of work within this output class remains at similar levels to the previous year.

## Financial performance of Output Class D4

	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Other	31,327	29,751	31,697
<b>Expenditure</b>	(31,229)	(29,361)	(31,686)
<b>Surplus</b>	<b>98</b>	<b>390</b>	<b>11</b>

## Comments

The result for this output class is above our forecast. However, as revenue is greater than expenses, there is no unappropriated expenditure. The output is appropriated on a Mode B net basis.