

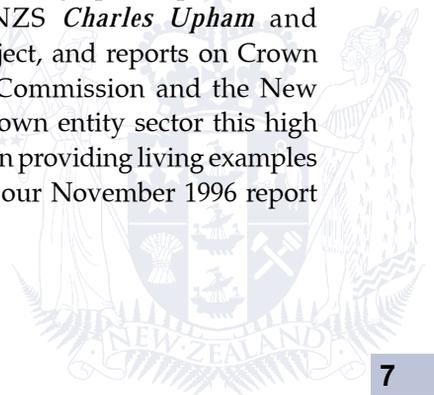
The Year in Review



I have much pleasure in presenting our report on the performance of the Audit Office for the 1998-99 financial year.

This has been another successful year for the Office. We have increased significantly the number of our reports to Parliament at a time when Parliamentary select committees are becoming more active in their role of scrutinising the Executive; and we have achieved almost all the goals and objectives we set ourselves in our *Forecast Report*.

A number of our reports have had a high public profile – for example, reports on the HMNZS *Charles Upham* and Management of the Britomart Project, and reports on Crown entities such as the Fire Service Commission and the New Zealand Tourism Board. In the Crown entity sector this high profile has been particularly useful in providing living examples of the sorts of issues we raised in our November 1996 report *Governance Issues in Crown Entities*.



However, our reports also cover less controversial but equally important subjects such as a study on Public Consultation and Decision-making in Local Government, which was undertaken to help local government carry out this difficult task more effectively.

Another report that I consider particularly important – entitled *The Accountability of Executive Government to Parliament* – was tabled in June of this year. The purpose of this report is twofold:

- to promote Parliament’s awareness of some issues in the way it currently scrutinises and controls the Executive and holds it to account; and
- to point to opportunities for improvement and to stimulate debate about them.

I am hopeful that this report will act as a catalyst for a debate that will enable Parliament to develop more effective systems for overseeing the Executive, and for the Executive itself to achieve better results.

Lastly, on the more routine but equally important subject of our annual financial audits – which represent approximately 85% of our total activity – I am encouraged to report that we have had some success in reducing arrears and improving the timeliness of completing audit reports and audit management letters. Much still remains to be done, however, and I expect to be able to report even greater improvements next year.

Achieving Our Goals

Part 2 of the report details our performance in achieving the six goals we set ourselves for 1998-99.

I have summarised these goals under two headings:

- Providing effective products and services to Parliament and other constituencies.
- Maintaining continuous improvement in our audit and contract management processes.

Providing Effective Products and Services to Parliament and Other Constituencies

Annual Audits

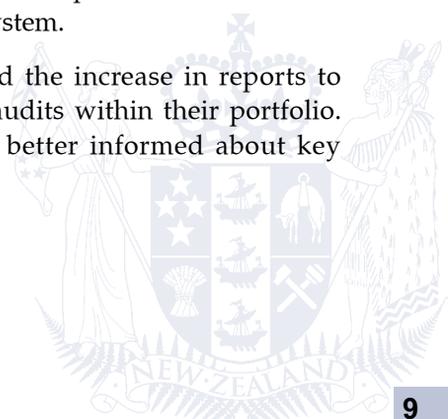
Annual audits of financial reports represent about 85% of our total workload. It was pleasing that, despite the number of entities we audit increasing only slightly during the year, we completed 204 more audits than the previous year. I am also pleased to report that we have started to get on top of the “audit arrears” problem that I have mentioned in previous years and we have taken action to make further progress in 1999-2000.

Overall, we have slightly improved our performance over last year in the timely issue of audit reports and management reports – however, we are still well below our targets in some sectors. We are in the process of putting plans in place to improve our performance in the forthcoming year and we expect to report a significantly better picture in next year’s annual report.

Relationship with Parliament

We have continued to put considerable effort into improving the quality of the advice and support we provide to Parliamentary select committees. Committees have also continued their requests for us to provide advice over and above the review of estimates and financial reviews. The *Charles Upham* inquiry was an example of this, as were reviews we conducted of the cost-benefit analysis supporting the MAF/MOF merger, and of Capital Coast Health’s acquisition of a new computer system.

In addition, we have continued the increase in reports to Ministers on the results of all audits within their portfolio. This means that Ministers are better informed about key matters arising out of audits.



Relationship with Local Government

We have again utilised the wide-ranging skills of my Advisory Group to check that our strategic planning has identified the major issues facing local government and that our planned discretionary audit work is both relevant and credible.

We have also continued our practice of using independent experts to act on the project steering committees for certain specialised projects such as *Public Consultation and Decision-making in Local Government*.

Reports to Parliament

1998-99 was again a busy year for the Office. We presented to the House three reports that included a wide range of topics relating to our 1997-98 audits – *Third Report for 1998* (November 1998); *First Report for 1999* (March 1999); and *Second Report for 1999* (June 1999).

In addition, we presented reports on the results of special audit work and major studies, including:

Second Report for 1998 (July 1998) (also mentioned in our previous annual report) –

- Financial performance of Crown Health Enterprises, Crown Research Institutes and Maori Trust Boards.
- The Information Needs of the Children, Young Persons and Their Families Service.

Third Report for 1998 (December 1998) -

- Department of Internal Affairs: Control of Gaming Machines (follow-up to our 1992 report).
- Delivering Effective Outputs for Maori.
- Statements of Corporate Intent: Are They Working?
- Governance Issues in Crown Entities (follow-up to our 1996 report).

First Report for 1999 (March 1999) -

- Maintaining Financial and Service Performance During Organisational Change.

- Public Sector Readiness for the Year 2000.
- How are State-owned Enterprises Managing Foreign Exchange Risk?

Second Report for 1999 (June 1999) –

- A number of issues relating to Regional and Territorial Local Authorities, including: Contracting Procedures; Rating Apportionments for Single Properties; Funding of Depreciation; and Managing the Risks to Assets Providing Essential Community Services.

Third Report for 1999 (June 1999) –

- The Accountability of Executive Government to Parliament.

Other special reports we presented to the House during the year were:

- New Zealand Fire Service Commission: Adequacy of the Arrangements to Ensure that the Fire Service Levy is Properly and Fully Paid (July 1998) (reported in our previous annual report).
- Public Consultation and Decision-making in Local Government (December 1998).
- Auckland City Council: Management of the Britomart Project (January 1999).
- Inquiry into Certain Events Concerning the New Zealand Tourism Board (April 1999).

A further special report was made to a select committee and tabled in the House by the committee:

- HMNZS *Charles Upham*: Report on Concerns Raised by the Foreign Affairs, Defence and Trade Committee (September 1998)

Also during 1998-99 we published:

- A revised *Guide to the Local Authorities (Members' Interests) Act 1968* (November 1998).



Maintaining Continuous Improvement in our Audit and Contract Management Processes

We strive to achieve continuous improvement in the audit processes and relationship mechanisms with Approved Auditors in both Audit New Zealand and private sector auditing firms. Achievements during 1998-99 were:

- Continuing with our policy of exposing a significant part of our audit portfolio to competitive tendering – three tender rounds were held, resulting in 5 tenders being won by Audit New Zealand, 7 by private sector firms, and 27 entities electing to re-negotiate with their existing audit service provider (in all cases this was Audit New Zealand).
- Making extensive comments on the Exposure Draft of the new codified Auditing Standards, issued by the Institute of Chartered Accountants of New Zealand, and issuing (in July 1999) a revised version of our own Standards.
- Developing a number of new general policies for inclusion in the *Manual for Audit Service Providers*, including:
 - Accounting for ACC Premiums.
 - Audit Approach to the Year 2000 Issue.
- Continuing to provide support to auditors on a range of accounting and auditing issues; and to conduct seminars in convenient locations throughout New Zealand.
- Continuing to keep in touch with auditors in a less formal way through our newsletter *the Watchdog*, which is now also published on the Web.

Management Performance

Part 3 of the report highlights our performance under the headings of:

- financial performance; and
- human resources.

It then discusses how the two business units of the Office – the Office of the Auditor-General (OAG) and Audit New Zealand

– have met their respective key objectives for 1998-99 as set out in our *Forecast Report*.

I believe that our results show that we continue to close on our goal of being *a leading example of a public sector organisation in terms of performance, financial management and accountability*.

Financial Performance

Operating Surplus for 1998-99

We achieved a slightly lower surplus (\$593,000) than forecast (\$722,000) because of unexpected costs associated with enquiries and the settlement of a long-standing personal grievance.

Financial Position

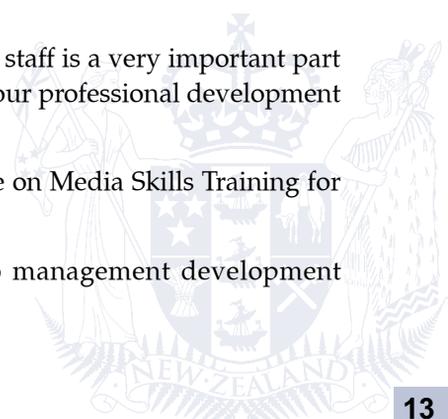
The Audit Office remains in a good financial position despite a reduction in taxpayers' funds of \$466,000 due to a Treasury requirement on accounting for a technical change in the measurement of employee entitlements. The level of physical assets was maintained and billing of work in progress and collection of receivables was undertaken in a timely manner.

Human Resources

We are continuing to strive for ways to improve our human resources policies and practices. In the past year we have focused on consolidating new policies introduced in previous years, and we have introduced new processes to ensure we comply with legislative changes.

Professional development of our staff is a very important part of our operations. Highlights of our professional development activities this year included:

- Organising an in-house course on Media Skills Training for selected senior staff.
- Sending three senior staff to management development courses.



In addition, I believe that the secondment of two of our staff as Acting Chief Executives (of the Ministries of Cultural Affairs and Youth Affairs) reflects very well on the training and variety of experience provided by the Office.

OAG Management Objectives

We have reported against the seven key management and development objectives set out in the Office's 1998-99 *Forecast Report*. Highlights include:

- A complete revision of our overall strategic processes.
- Development of a new monitoring system at Management Board level.
- Completion of much of the work to implement a new "web enabled" Technical Advice Register and develop an intranet.
- Re-negotiation of our accommodation lease on considerably improved terms.

Audit New Zealand Management Objectives

Audit New Zealand has also reported against its seven key management and development objectives as set out in the Office's 1998-99 *Forecast Report*. Highlights include:

- Achievement of its Business Plan.
- Implementation of a new organisation structure targeted to key areas of strategic focus.
- Establishment of a Specialist Services Group to develop and deliver wider assurance services to its clients.



Input to Public Sector Accounting and Auditing Development

The Office continues to play a leading role in the development of public sector accounting and auditing standards – both in New Zealand and internationally.

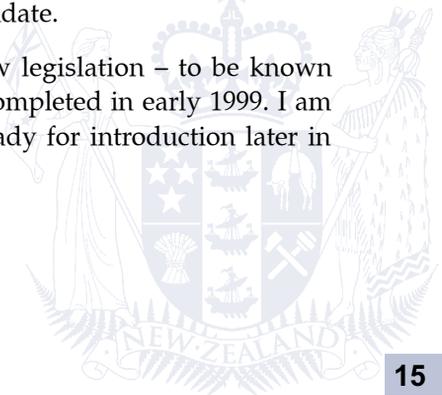
This year has again been a busy one in meeting this objective. Highlights include:

- Continuing participation by one of my Assistant Auditors-General as one of New Zealand's two technical advisers to the Public Sector Committee of the International Federation of Accountants.
- Continuing participation by my Deputy and one of my Assistant Auditors-General in international working groups on the audit of privatisations and environmental auditing.
- Continuing duties as Secretary of the South Pacific Organisation of Supreme Audit Institutions. This year one of Audit New Zealand's Directors organised a major training course for Audit Offices in the South Pacific Region, which was funded by the Asian Development Bank.
- Continuing participation of senior staff in the technical committees of the Institute of Chartered Accountants of New Zealand.

New Audit Legislation

In last year's annual report I noted the Government's favourable response to the report of the Finance and Expenditure Committee on my legislative mandate.

Drafting instructions for the new legislation – to be known as the Public Audit Bill – were completed in early 1999. I am confident that the Bill will be ready for introduction later in 1999.



Appreciation

Finally, I would like to place on record my thanks to my Deputy, Assistant Auditors-General, Directors of Audit New Zealand and all staff who have contributed to another very successful year for the Office. Our achievements have been the result of the dedication, belief in the role of the Office and hard work of all concerned.

As I write this report I have just learnt that my Deputy, Wayne Cameron, has been appointed Auditor-General of the State of Victoria, taking up his new role in mid-September.

Wayne started with the Office in 1966 in Dunedin and in his earlier career alternated between Wellington and Dunedin, interspersed by four years in London (1977-81). He has been Deputy Auditor-General since 1985 – encompassing three Auditors-General – and during that time has acted as Auditor-General for extensive periods. He is best known externally for his strategic oversight of the audits of State-owned Enterprises, Producer Boards and Pacific Islands, and his long-standing involvement with the accounting and auditing standards-setting process of the Institute of Chartered Accountants of New Zealand.

Wayne has been an outstanding figure in the Audit Office's development over the last 20 years and his leadership, good judgement and institutional knowledge will be sorely missed by both staff and clients. New Zealand's loss is Victoria's gain, however, and on a personal level I am thrilled that Wayne has achieved such a prestigious and undoubtedly challenging position.



Purpose, Role and Outcomes of the Audit Office

Purpose

The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.

The Audit Office, as an Office of Parliament, is independent of the Executive Branch of Government.

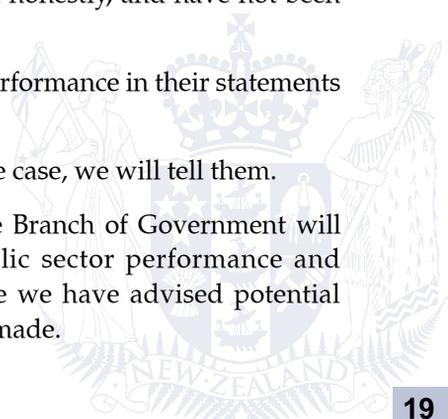
Role

The Audit Office's role is to assist Parliament to strengthen the effectiveness, efficiency and accountability of public sector organisations.

The role is discharged by providing reports on whether these organisations operate, and account for their performance, in a manner consistent with Parliament's intentions.

The Outcomes We Seek are that

- Parliament and the public will be confident that public sector organisations:
 - are delivering what they have been asked to;
 - have operated lawfully and honestly, and have not been wasteful;
 - have fairly reported their performance in their statements of account;and know that, if this is not the case, we will tell them.
- Parliament and the Executive Branch of Government will effect improvements in public sector performance and accountability in areas where we have advised potential for such improvements to be made.



Products and Services of the Audit Office

The Audit Office provides assurance through:

Parliamentary Reports –

Which contain those matters arising from audits that warrant Parliament’s attention.

Controller Certifications –

Which ensure that funds released from the Crown Bank Account are for purposes consistent with Parliament’s intentions.

Audit Reports –

Which express an opinion on the financial statements and results of the audit of in excess of 3,900 public sector organisations.

Flowing from the conduct of audits, the Audit Office provides advice to:

Parliamentary select committees

Taxpayers and ratepayers

The Government

Audited entities

Related professional bodies



Organisational Arrangements

The Audit Office consists principally of two people – those holding the statutory offices of Controller and Auditor-General¹ and Deputy Controller and Auditor-General. But, of course, they need assistance to plan, conduct and report on the results of over 3,900 audits each year. The Audit Office therefore also includes those who are authorised by the Auditor-General to carry out any particular function, duty or power assigned by him. These additional resources may be either staff employed by the Auditor-General or private sector auditing firms.

The staff directly employed by the Auditor-General are organised into two business units:

- *The Office of the Auditor-General*² – which is responsible for assisting the Audit Office in strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out special audits and studies, and parliamentary reporting and advice.
- *Audit New Zealand* – which carries out audits which it has won the right to conduct on behalf of the Audit Office in competition with private sector auditors, as well as those audits that are not subject to contestable audit arrangements.

The organisational structure of the Audit Office is illustrated in Figure 1 on page 22. The management structure of the OAG and Audit New Zealand is illustrated in Figure 2 on page 23.

Because of the potential conflict between the Auditor-General's purchase interest and his ownership responsibilities as chief executive of the Audit Department, he has established an advisory board for Audit New Zealand to assist in discharging those responsibilities. The board comprises three non-executive directors and the Executive Director of Audit New Zealand, and is responsible for:

1 Usually abbreviated to "Auditor-General" in the remainder of this report.

2 Usually abbreviated to "OAG" in the remainder of this report.

- developing a strategic focus for Audit New Zealand’s business, and a business plan which is consistent with this focus; and
- ensuring service delivery against the plan.

The Auditor-General approves the plan annually and the board periodically reports to him on progress against the plan.

*Figure 1
Organisation of the Audit Office*

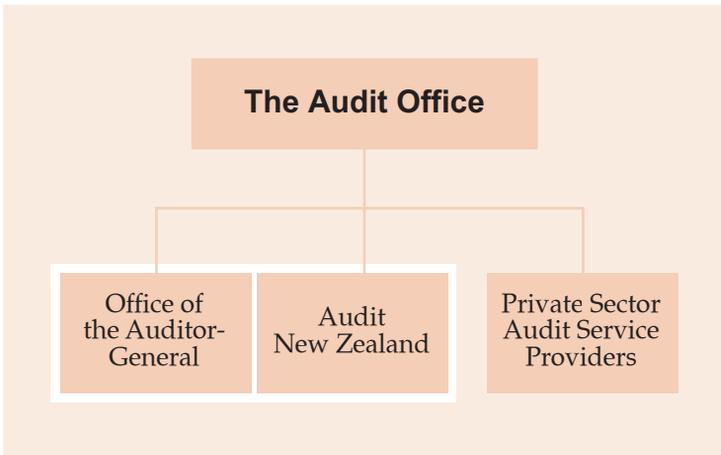
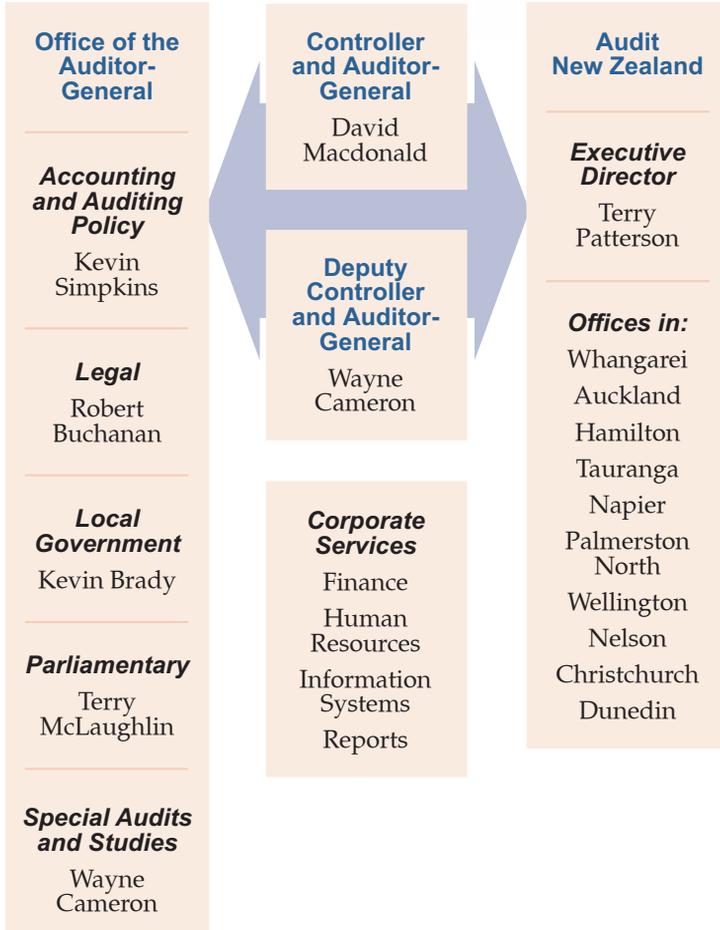


Figure 2
Management Structure



Part 2 of our *Forecast Report 1998-99* set out our six goals for the year and the strategies we thought appropriate for achieving those goals.³ This part of this report describes how we succeeded.

Maintaining Audit Quality

Goal: *That we plan and conduct all audits professionally and having regard to the full mandate of the Office.*

Auditing Standards

The *OAG Auditing Standards* establish the minimum standards (over and above those set by the Institute of Chartered Accountants of New Zealand (ICANZ)) to be applied to annual audits conducted on behalf of the Audit Office. The standards were finalised and published in June 1995 and were first applied to the 1996 audits of government departments, regional and territorial local authorities, and a number of other entities.

As previously reported, ICANZ has been updating its auditing standards to be more in harmony with current international standards. By the end of 1998 ICANZ had completed this process, releasing the last of the new standards in November. We undertook a major exercise to align all the *OAG Auditing Standards* with the new standards, and we recently issued our own revised standards. There were no fundamental issues or conflicts between the two sets of standards, but adjustments were necessary to a number of the OAG standards.

3 Parliamentary paper B.28FR(98), pages 18-19.



Training and Support for Our Auditors

Manual for Audit Service Providers

The primary vehicle for formal communication with Approved Auditors⁴ is our *Manual for Audit Service Providers*. This manual was first published in 1993 and includes:

- background information to assist auditors;
- the *OAG Auditing Standards*; and
- annual audit plans (known as “audit briefs”) which are issued for all major sectors.

The process of achieving improved communication through the *Manual* has continued in 1998-99. The significant initiative – commenced in 1997-98 and continuing in the future – is to enhance access to the *Manual* in electronic form.

The *Manual* contains guidance for auditors in the form of statements of general policy on matters that, for example, affect entities in more than one sector or are unique to the public sector. Audit Service Providers contribute to these statements through reporting issues that they encounter during audits, and raising issues at regular Technical Forum meetings.

In 1998-99 we issued a general policy statement on the audit of measures taken by entities to ensure that their computer systems were Year 2000 compliant.

Support for Audit Service Providers

During 1998-99 we continued to provide advice and support to Approved Auditors – both individually on request and collectively – on a range of accounting and auditing issues. We conducted eleven general-purpose seminars for auditors in six locations throughout the country. At those seminars we explained the changes to the *OAG Auditing Standards* and

⁴ An “Approved Auditor” is the person in charge of and responsible for all aspects of a particular audit. An “Audit Service Provider” is the party formally engaged by the Auditor-General to carry out a particular audit – either Audit New Zealand or a chartered accounting firm.

communicated Audit Office policy on a variety of accounting and auditing issues. We also conducted eight special seminars for Audit Service Providers undertaking local government audits.

We keep in touch with Approved Auditors in a less formal way through a periodic newsletter – *the Watchdog* – four editions of which were published in 1998-99. Extracts from issues of *the Watchdog* can be seen at our Internet web site (see page 110 for the address).

Reviewing Our Auditors' Performance

Our quality assurance programme:

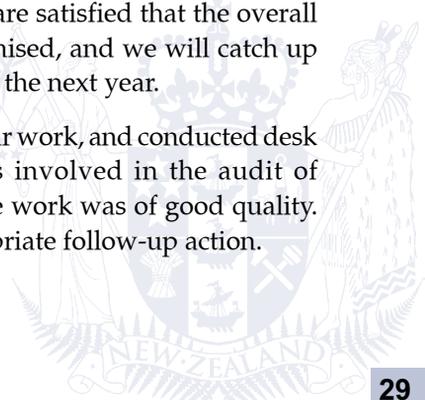
- focuses on ensuring that auditors fulfil the requirements of the *OAG Auditing Standards* and relevant audit briefs;
- is part of the continuous improvement programme within the OAG; and
- provides feedback to our policy, sector, and technical managers.

We undertake desk reviews of audit files, and also visit auditors in their offices to :

- review the systems they have developed to ensure compliance with the standards set; and
- review working paper files for evidence of compliance with those standards.

We proposed during 1998-99 to review the quality of the work of 75 auditors. In the event we completed only 60 reviews, because the position of Quality Assurance Director was unfilled for eleven months of the year. We are satisfied that the overall programme has not been compromised, and we will catch up on the outstanding reviews during the next year.

We visited 22 auditors to review their work, and conducted desk reviews on a further 38 auditors involved in the audit of schools. With a few exceptions, the work was of good quality. For the exceptions, we took appropriate follow-up action.



ACHIEVEMENT OF GOALS

Maintaining Audit Quality

We began the current cycle of reviews of Approved Auditors early in 1997 and have completed reviews of most auditors. During the year we reviewed our policies and procedures for monitoring auditor performance. In future we intend to place greater reliance on the Audit Service Provider's own quality assurance practices in cases where our previous reviews have shown a consistent quality of performance.

Another way of reviewing the quality of auditor performance is during the process of issuing a qualified audit opinion. If an auditor is considering issuing a major qualification to an audit opinion (for example, where there are doubts that the going concern assumption is appropriate), the auditor refers the matter in a submission to the OAG, stating the grounds for the proposed opinion. Fifty-three such submissions were made and responded to during the year – compared with 42 in the previous year. Overall, the quality of the submissions was sound.



Audits Carried Out

Goal: *That we complete all audits that we are required to perform.*

Audits Completed

We completed 3,960 audits of public sector entities in 1998-99. This figure is a good increase on the 3,756 completed in the previous year, and enabled us to begin to make inroads into the number of audits outstanding.

Audit reports and management reports have also been issued in a more timely way, in most sectors and overall. However, there is still considerable room for improvement.

The tables on page 82 for Output Class D3 and page 86 for Output Class D4 show in more detail the results on a sector basis. During 1999-2000 we will put a significant effort into not only reducing audit arrears, but also improving timeliness.

Audits Outstanding

Over 1997 and 1998 we put a lot of effort into ensuring our records of audits and audit completions were kept as up-to-date as possible. In 1999, we built on this and began to put increased effort into clearing outstanding audits. While early indications are positive, in that audit arrears are declining, we expect that most of the effect of this work will be realised in 1999-2000.

Overall, audits in arrears fell from 1,257 to 1,120 during the year. Often the arrears position is not within our control, because the entity has not produced financial statements for audit. But we are taking positive steps to persuade entities to produce them, and we expect a significant reduction in the number of audits outstanding this year. The outstanding audits were made up predominantly of:

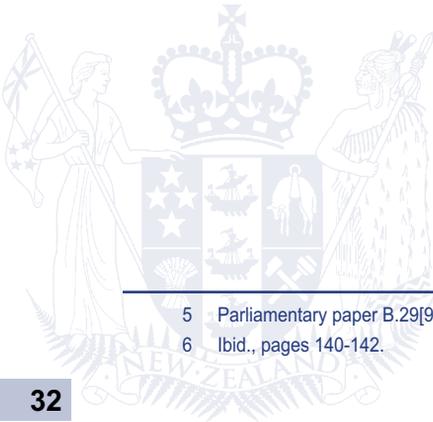
ACHIEVEMENT OF GOALS

Audits Carried Out

	As at 30 June	
	1999	1998
Other Local Authorities	526	493
School Boards of Trustees	255	376
Miscellaneous Public Bodies	320	370

The 1999 audit arrears under the heading of “Other Local Authorities” are made up predominantly of 362 audits of Cemetery Trustees. This group has historically been slow to prepare and present financial statements for audit. As we said in our *First Report for 1998*, we remain of the view that the future structure of these entities needs to be reviewed.⁵

The major components of the final group – “Miscellaneous Public Bodies” – for 1999 are 98 Reserve and Hall Boards, 28 Maori Trust Boards and their subsidiaries, and 57 subsidiaries of State-owned Enterprises. The problem with completing the audits of Reserve Boards is similar to that with Cemetery Trustees – except that Reserve Boards are Crown entities subject to the full reporting requirements of Part V of the Public Finance Act 1989. We commented on these boards also in our *First Report for 1998*.⁶



5 Parliamentary paper B.29[98a], pages 139-140.

6 Ibid., pages 140-142.

Targeting of Audits

Goal: *That we are effective in directing our audits at critical areas of performance and accountability in the public sector.*

Strategic Audit Plans

Information to prepare a strategic audit plan for each broad sector group is gathered from the results of previous audits, developments in the different parts of the public sector, changes in legislation, and other environmental factors. These plans cover a period of three years and are updated annually.

The strategic audit plans are then subject to internal critical review so that priorities can be determined – given the limited resources we have available to undertake discretionary work. The strategic audit plan for local government is also subject to review by the Office’s Local Government Advisory Group. Planned and likely projects are published annually in the Office’s *Forecast Report*, for scrutiny by Parliamentarians and other interested stakeholders.

Audits of Annual Financial Statements

Some 85% of our work relates to conducting audits of annual financial statements. Elements of that audit programme are subject to explicit direction by way of audit briefs issued by the Auditor-General.

The prime objective of each audit is to perform the work necessary to form an opinion and issue an audit report on the financial statements. In addition, however, audit briefs may identify matters of particular interest which Approved Auditors are required to look into and report back on. Typical examples of matters we looked at during 1998-99 were:

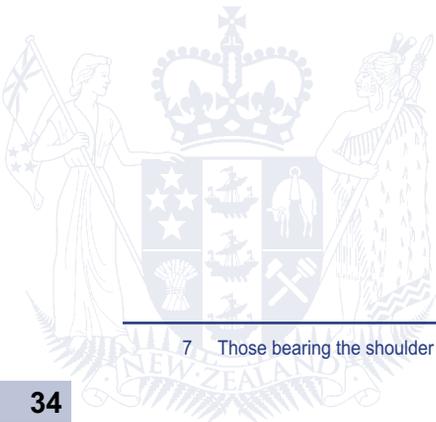
- Long-term maintenance of school property.
- Financial management in schools, including timeliness of reporting.
- Financial performance of tertiary education institutions.
- Management of capital assets in tertiary education institutions.
- Public sector readiness for the Year 2000.

Special Audits and Studies

Apart from any additional coverage required as part of the annual financial statement audits, we develop a programme of special audits and studies from our detailed risk and payoff assessment for each of the segments of the public sector.

The Crown funds the costs of special audits and studies. The results are reported either in one of our general reports to Parliament⁷ or in a separate report (which may also be presented to the House).

The areas which we focused on in 1998-99 are set out on pages 36-41.



⁷ Those bearing the shoulder number series B.29.

Reporting Audit Results

Goal: *That we communicate effectively with those who have a key interest in the results of our work.*

Annual Audits

Government Departments, Crown Entities and State-owned Enterprises

The results of our audits of the 1997-98 financial statements of the Government and of government departments were reported in our *First Report for 1999*.⁸ That report also contained the results of the following audit examinations carried out during 1997-98:

- Cost allocation and appropriation.
- Validation of expenditure in excess of appropriation.
- Management of appropriations for non-departmental transactions.
- Maintaining financial and service performance during organisational change.
- Public sector readiness for the Year 2000.
- Management of foreign exchange risk in State-owned enterprises.

8 Parliamentary paper B.29[99a].



Local Government

The results of our audits of the 1997-98 financial statements of regional and territorial local authorities were reported in our *Second Report for 1999*.⁹

That report also contained the results of other audit examinations carried out, or issues identified, during the 1997-98 audits, including:

- Audit committees.
- Contracting for maintenance services.
- Investments and surplus funds.
- Statements of Corporate Intent: are they working?
- Contracting procedures.
- Rating apportionments for single properties.
- Funding of depreciation.
- Managing the risks to assets providing essential community services.
- Local authority trading enterprises.
- Public consultation and decision-making.

Special Audits and Studies

We made good progress on, or completed work in, the following areas indicated in our *Forecast Report* for 1998-99.¹⁰

Primary Production (Fisheries)

The Fisheries Act 1996 states that its purpose is “to provide for the utilisation of fisheries resources while ensuring sustainability”. We continued our audit of the adequacy of the arrangements employed by the Ministry of Fisheries to determine the benchmarks for a sustainable aquatic ecosystem, and expect to report on its results later in 1999.

9 Parliamentary paper B.29[99b].

10 Parliamentary paper B.28FR(98), page 27.

Justice (Rehabilitation)

We continued development of the work begun in 1996-97 examining certain aspects of the management of custodial sentences by the Department of Corrections. The Department has made the strategic decision to implement an integrated offender management (IOM) approach to its administration of custodial sentences, which it believes will facilitate a reduction in reoffending rates. We expect to report early next year on the rationale behind IOM and progress made towards its implementation. A focus of our report will be how the Department intends to evaluate the success of this new approach.

Policy Impact Evaluation

We have nearly completed a special study into the use of evaluation in making better policy choices and ensuring that the Government achieves maximum impact for each dollar spent.

Statements of Corporate Intent (SCI)

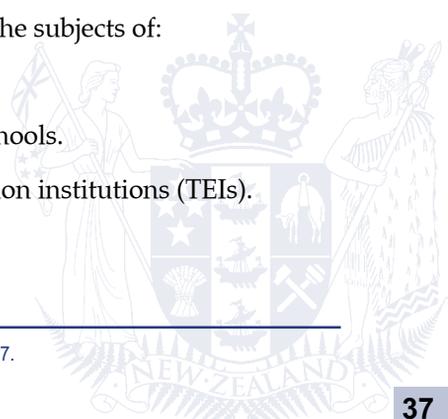
SCI's were first introduced for SOEs in 1986, and subsequently applied to port companies, energy companies, and Crown entities listed in the Sixth Schedule to the Public Finance Act 1989. In our *Third Report for 1998*,¹¹ we reported on our review of the current operation of the SCI model.

Education

We completed special audits on the subjects of:

- School property maintenance.
- The control environment in schools.
- Governance of tertiary education institutions (TEIs).
- Asset management by TEIs.

11 Parliamentary paper B.29[98c], pages 99-137.



Service Delivery in Government

We assessed the responsiveness of five departmental operations to the needs of their clients. Using audit data from these case studies for illustration, we are preparing reports for Parliament and for government agencies which outline best practice principles for the delivery of services to the public. We will consider using this best practice framework to initiate a programme of work addressing service quality issues in different parts of the public sector.

Tax Collection (Fire Service Commission Levies)

This special study was carried out as a result of claims that the New Zealand Fire Service Commission was not receiving all of the revenue due from the Fire Service levy. We made a number of recommendations for improvement to the processes used for assessing and collecting the levy.

Compliance with Legislative Changes effected by the Local Government Amendment Act (No.3) 1996

We reported on local authorities' compliance with the Local Government Amendment Act (No.3) 1996 in our *Second Report for 1999*.¹² During the year we also provided advice to our auditors on the Act through the provision of training forums and the release of guidelines on the application of sections of the Act.

Public Consultation in Local Government

Some local authorities are experiencing difficulties in interpreting and applying the legal requirements concerning consultation. In addition, there are different expectations and understandings of what consultation requires – both among local authorities and between local authorities and their communities.

As a result we developed some guidance for local authorities. The guidance was published in a report titled *Public Consultation and Decision-making in Local Government*¹³ in December 1998.

¹² Parliamentary paper B.29[99b], pages 15-18.

¹³ ISBN 0 477 02857 8.

Management of Funds in Local Government

As part of the 1998 annual audit, we asked our auditors to undertake an extensive review of investments and surplus funds. The review sought to establish whether each local authority's long-term financial strategies, annual plans, and investment policies were consistent and based on credible information.

The results of our review were reported in our *Second Report for 1999*.¹⁴

Follow-up of Earlier Studies (Governance, Gaming, and Debt Management)

We completed follow-up reviews on our 1996 Report *Governance Issues in Crown Entities*, and the 1992 report *Department of Internal Affairs: Control of Gaming under the Gaming and Lotteries Act 1977*. These were published in our *Third Report to Parliament for 1998*.¹⁵ We decided not to undertake a follow-up review of the New Zealand Debt Management Office, following its decision to commission an independent review.

In a number of areas we did not make the progress we had hoped or expected to:

- Special studies in welfare (information processing), financial forecasting, management practices in Crown entities, and Police (crime statistics) made little progress because of resource constraints, but are still on the agenda for completion.
- Special studies in health (overview of the reforms) and tax collection (IRD) were replaced by the projects in health purchasing and Customs crown revenue described below.
- A special study on human resources capability was deferred until completion of a project on organisational capability that was begun in 1998-99.

We also completed, or made substantial progress on, a number of studies which were not foreshadowed in our *Forecast Report*.

¹⁴ Parliamentary paper B.29[99b], pages 49-58.

¹⁵ Parliamentary paper B.29[98c], pages 139 to 143 and 53 to 72 respectively.

Auckland City Council: Management of the Britomart Project

The Britomart project is the largest development of its type involving a local authority in New Zealand. It will have a major effect on Auckland's public transport and property scene for at least the next decade. In response to a request from the Auckland City Council, we undertook a review to form an opinion on the quality of the Council's management of the project.

HMNZS Charles Upham: Report on Concerns raised by the Foreign Affairs, Defence and Trade Committee

In August 1998 the Foreign Affairs, Defence and Trade Committee, as part of its inquiry into *Defence Beyond 2000*, asked us to advise them in relation to the quality of policy advice provided in respect of a disjunction between the initial acquisition of the HMNZS *Charles Upham* and the subsequent decision to defer conversion of the vessel.

We interpreted the Committee's request as a wish to answer the question:

Why, after nearly four years since its purchase, is the Charles Upham not in service with the New Zealand Defence Force in a condition fit for the purpose for which it was purchased?

We reviewed the relevant papers, interviewed key advisers, and reported to the Select Committee in September 1998. The report was subsequently made public by the Committee.

Inquiry into Certain Events Concerning the New Zealand Tourism Board

Early in 1999, we reviewed and reported on a range of matters relating to the New Zealand Tourism Board. The matters we reported on included governance, accountability, institutional arrangements, and the legality of severance payments to certain members of the Board and the Board's executive.

The Accountability of Executive Government to Parliament

This report was tabled as our *Third Report for 1999*¹⁶ and presents the Audit Office's views on:

- Parliament's interests and information needs.
- Outcomes of government expenditure.
- Current versus capability expenditure.
- Supply.
- Risk and risk management.

Effectiveness for Maori

Following development of a framework and pilot work undertaken during 1996-97,¹⁷ in 1997-98 we carried out audits in two public sector organisations to assess their respective capability to deliver effective outcomes for Maori. Our report in each case was provided to the organisation's management. We reported to the House during the 1998-99 year on our suggested audit model for testing capability.¹⁸

Organisational Capability in the State Sector

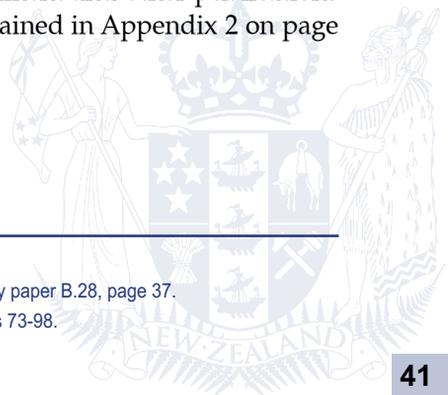
Continuing the theme begun with the audits to assess capability to deliver effective outcomes for Maori, we continued research and development in the area of organisational capability in the state sector. We expect to report on this work during 1999-2000.

A full list of our reports to Parliament and other publications produced during the year is contained in Appendix 2 on page 112.

16 Parliamentary paper B.29[99c].

17 *Annual Report 1996-97*, parliamentary paper B.28, page 37.

18 Parliamentary paper B.29[98c], pages 73-98.



An Appropriate Legislative Mandate

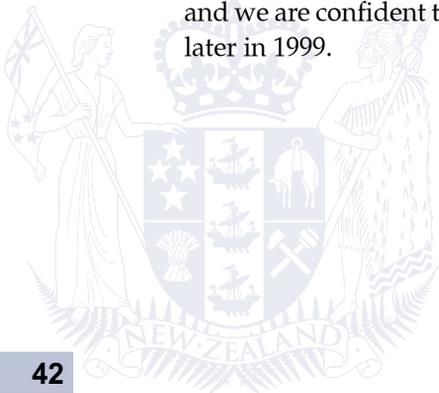
Goal: *That we have legislation that provides an appropriate mandate for the Office.*

In last year's Annual Report we noted the Government's favourable response to the report of the Finance and Expenditure Committee on the legislative mandate of the Auditor-General and the Audit Office.

The FEC's recommendations, which the Government endorsed, adopted the general principles that:

- Parliament should appoint the Audit Office as auditor of all entities comprising the Crown's estate, including non-Crown public sector organisations;
- the Audit Office should be appointed as the auditor of those organisations for which Parliament has asserted its right to appoint the auditor; and
- in terms of its mandate, the Audit Office should be able to audit the full range of Parliament's interests (although with some limitations in respect of State-owned Enterprises).

Drafting instructions for the new legislation – to be known as the Public Audit Bill – were completed in early 1999. As this report went to print, a first draft of the Bill had been prepared, and we are confident that the Bill will be ready for introduction later in 1999.



Leading by Example

Goal: *That we are a leading example of a public sector organisation in terms of performance, financial management and accountability.*

Practising What We Preach

We take seriously the proposition that, to lead by example, we must practise what we preach.

We continually look for ways to improve our performance – both externally and internally – and to report on our activities in a comprehensive and open manner. Striving to improve the content and readability of this report is just part of the culture we wish to demonstrate to those who have an interest in how the Audit Office is running.

The information contained in this report presents a full but succinct picture of the performance targets we set ourselves for the year, and the extent to which we met those targets. Some targets we have exceeded (such as the number of reports presented to the House), some we have met (such as the number of audits completed), and some we did not meet (such as the promptness of clearing taxpayer and ratepayer enquiries). Generally, however, we believe that we have met or exceeded most of our targets for the year.

The Contestable Audit Policy

Another way in which we try to lead by example is through our policy of exposing a significant part of our audit portfolio to competitive tendering. Entities comprising approximately 81% (by audit hours) of the portfolio have now been invited to participate in the contestability arrangements.

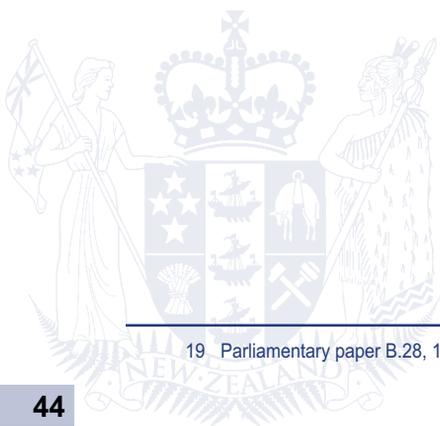


The contestable audit policy means that audits are carried out by Approved Auditors from either:

- *Audit New Zealand* which is the auditing business unit of the Audit Office, and which operates under a combination of a purchase agreement for some audit services and individual contracts for specific audits; or
- *private sector auditing firms* which are contracted by the Auditor-General to conduct specific audits on behalf of the Audit Office.

As at 30 June 1999, in total, 148 individual Approved Auditors from 73 private sector firms and Audit New Zealand were conducting audits and signing audit reports on behalf of the Audit Office. Of these, 77 Approved Auditors and 66 firms audit only schools or other small organisations.

We gave a full description of the tendering and contracting process in the 1996-97 Annual Report.¹⁹ Figure 3 on page 45 illustrates the process leading to appointment of an Approved Auditor, and Figure 4 on page 46 illustrates the post-appointment procedures attaching to an audit.



¹⁹ Parliamentary paper B.28, 1997, pages 41-45.

Figure 3
The Audit Tender Process

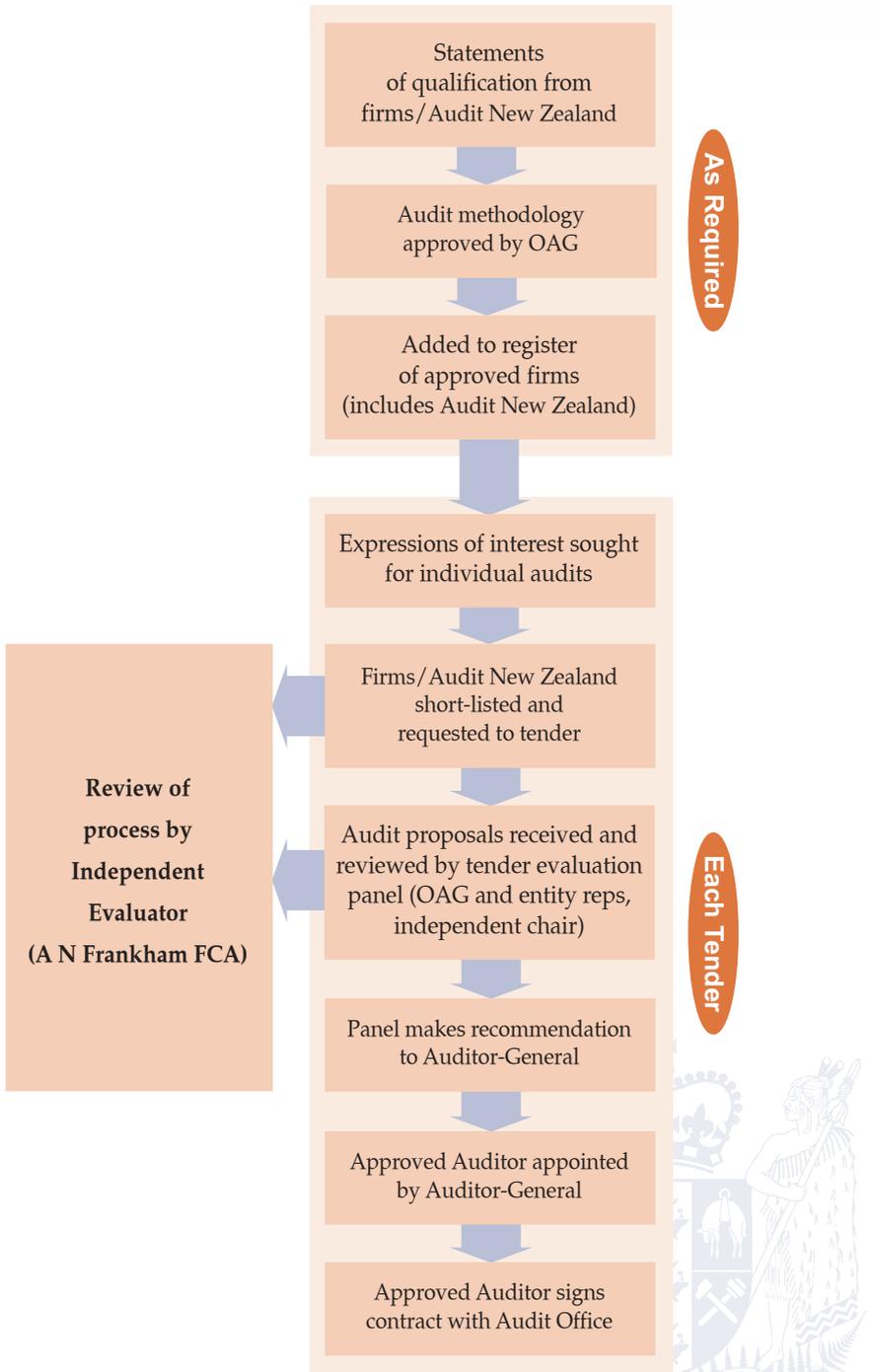
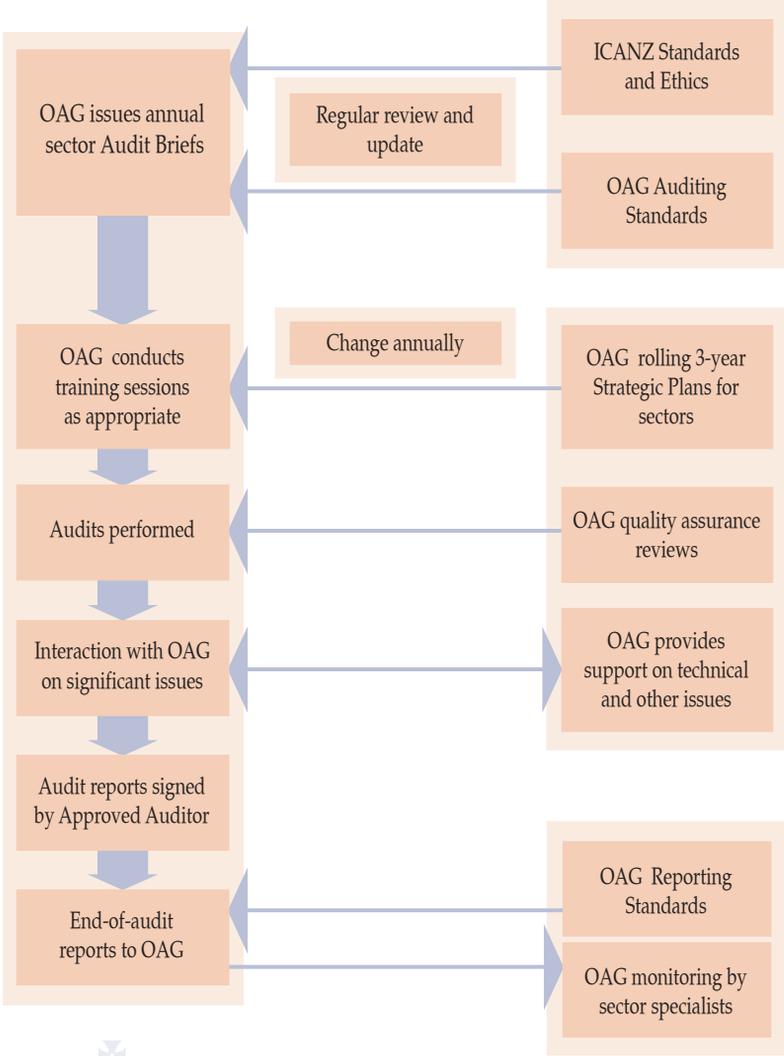


Figure 4
The Conduct of Audits



Part Two



Tender Rounds Completed in 1998-99

During 1998-99 we have continued the competitive tendering process for entities which fall within the “core” of the audit portfolio of the Audit Office – such as central government departments, hospital and health services, tertiary education institutions, statutory bodies and other Crown entities.

Three tender rounds were completed in the 1998-99 year. Thirty-nine entities were invited to participate. Twenty-seven of these elected to negotiate terms for a three-year contract with Audit New Zealand as their current audit service provider, rather than subject their audit to a tender process. In our view, that result continues to indicate a sufficiently high level of satisfaction with the service provided by Audit New Zealand and with the competitiveness of its fees. The audits of 12 entities and their subsidiaries were put out to tender.

The results of the 1998-99 tender rounds are set out in Figure 5 below.

Figure 5
Audit Tender Outcomes 1998-99

Tender Round	Number of Entities	Elected Negotiation	Tendered	Audit New Zealand Win	Private Sector Win
September-October 1998 <i>Government Departments, Crown Entities, Energy Companies, Health Entities.</i>	11	7	4	2	2
February-March 1999 <i>Crown Entities, Statutory Bodies.</i>	25	20	5	3	2
February-April 1999 <i>New State-owned Enterprises.</i>	3	–	3	Did not tender	3

* *Government departments, Crown entities, and other statutory bodies.*

Report of the Independent Evaluator

Mr Anthony N Frankham FCA has continued to act as an independent evaluator to assist in ensuring that any tendering performed by the Audit Office is seen to be rigorous, objective, and unbiased. Mr Frankham's summary report on the integrity of the process for the tender rounds completed during the year is reproduced below.

A N T H O N Y N F R A N K H A M



Chartered Accountant

Associate
Brendan Lyne

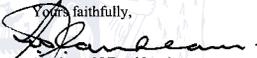
16 July, 1999

The Controller and Auditor-General
PO Box 3928
WELLINGTON

ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT TENDER PROCESSES

1. You have retained me as an independent evaluator of the processes for tendering audits by the Office of the Auditor-General ("OAG"). I confirm that I am independent of the OAG and Audit New Zealand and the other tendering audit firms. My terms of reference are to evaluate the processes established and implemented and report on their probity and objectivity. I have reported in the past on six tender bid rounds and on specific processes relating to the tender of school audits.
2. Since my report dated 3 July 1998 I have undertaken further independent reviews of the policies and processes adopted during the period and followed by the OAG to implement the tender rounds and to specify conditions for renewal of existing contracts as additional steps in the contestable audit engagement process. I have reviewed the process for the renewal/appointment of audit service providers for school audits. I have reviewed the process for small audit tendering and auditor capacity. My review has involved the consideration of existing and emerging policies and their implementation. I have had discussions with you and your staff, with the independent panel chairs and with several of the tendering firms. I have reviewed the reports of the panels that have met and have made recommendations to you. I have not considered it necessary, this year, to participate in panel meetings to observe the process in operation. No limitation has been placed on the manner in which I carry out my assignment.
3. In my opinion, the policies for awarding audit assignments to the delegates of the Auditor-General over the period to the date of this report dealt with by the documentation I have examined and the process I have observed, were fair and appropriate having regard to;
 - The objectives of the contestability arrangements
 - The experience of previous tender rounds
 - The rights, interests and obligations of the parties involved.
4. I have reported separately to the OAG on specific matters which have arisen or been referred for my attention during the period. None of these matters relate to issues, which cause me to alter the view I express in this report.

Yours faithfully,


(Anthony N Frankham)

LEVEL 7 TOWER 2 SHORTLAND CENTRE SHORTLAND ST AUCKLAND 1 NEW ZEALAND.
P.O. BOX 701 AUCKLAND 1 DX CP2505 TELEPHONE 09 300 5800 FAX 09 300 5805

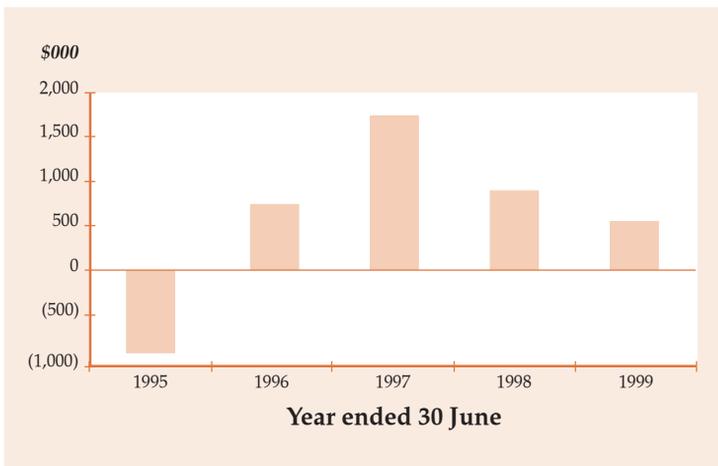
Financial Performance

Surplus

An operating surplus of \$593,000 has been achieved for the year. The graph shows how this result compares with the operating results for previous years. The operating surplus this year is lower than 1998 because of unexpected costs associated with inquiries and the settlement of a long-standing personal grievance.

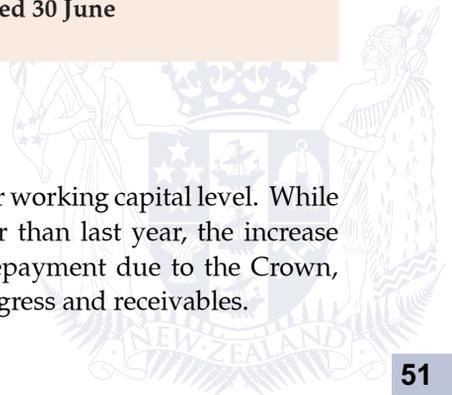
In addition, a change in the method of valuing employee entitlements to long service, retiring and resigning leave from a nominal basis to an actuarial basis resulted in other expenses of \$466,000 – giving a surplus of \$127,000.

Operating Surplus/(Deficit) 1995-1999



Working Capital

This year we have maintained our working capital level. While payables outstanding are greater than last year, the increase is offset by the lower surplus repayment due to the Crown, and a net increase in work in progress and receivables.



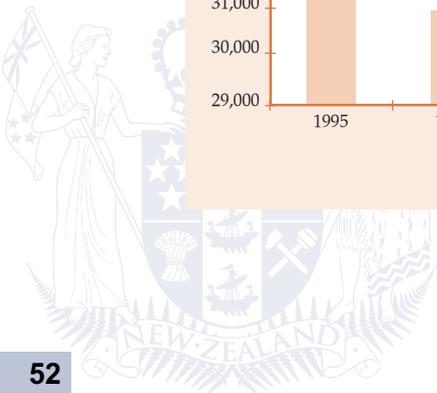
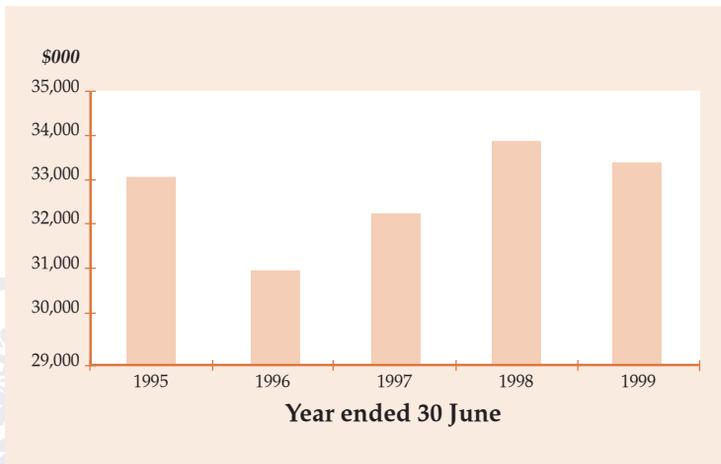
Working Capital 1995-1999



Expenditure

The expenditure outturn on the Vote (page 100) shows that total output expenditure at \$33.389 million is 95.8% of the estimate, and compares with \$33.809 million in 1997-98. Expenditure for each of the four output classes is within appropriation.

Operating Expenses 1995-1999

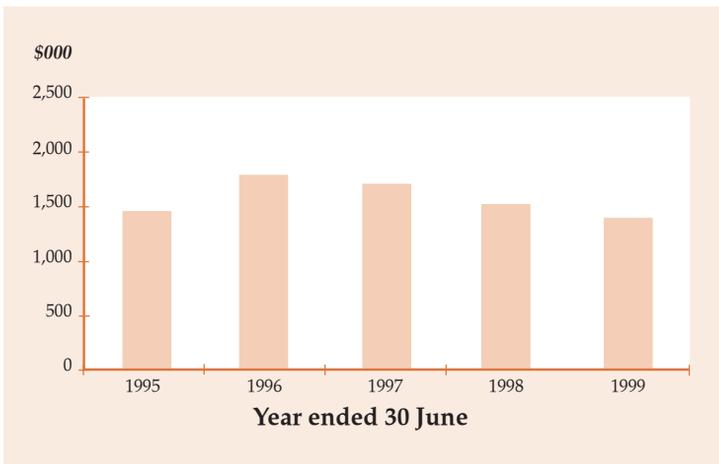


Financial Position

The financial position of the Audit Office has reduced by \$466,000 because of the Treasury requirement to account for the technical change in the measurement of employee entitlements (see note 7 on page 104). The increase in these liabilities has been included in the calculation of the surplus for repayment to the Crown.

The value of physical assets has reduced by \$79,000, representing the net result of additions, depreciation expenses and disposals during the year.

Physical Assets 1995-1999



Human Resources

Good Employer Requirements

Section 56 of the State Sector Act 1988 requires the Auditor-General, as the Chief Executive of the Audit Department, to operate policies that comply with the principle of being a “good employer”. Such policies must provide for the fair and proper treatment of employees in all aspects of their employment.

We are continuing to strive for ways to improve our human resources policies and practices. In the past year we have focused on the consolidation of new policies introduced in previous years, and introduced new processes to ensure compliance with legislative changes.

Developing and Implementing Sound Professional Development Policies and Practices

During the year we continued to focus on the professional development of staff. This included:

- Helping staff meet the membership requirements of the Institute of Chartered Accountants of New Zealand by continuing Audit New Zealand’s professional development programme. This programme ensures that Audit New Zealand fulfils its obligations as an Approved Training Organisation.
- Running formal study programmes, providing training relevant to an individual’s needs and on-the-job coaching and organising an in-house course on Media Skills Training to meet the business and professional requirements of the OAG and Audit New Zealand.
- Creating secondment opportunities for staff within the Office to enhance their knowledge and experience outside of their normal job requirements.

- Sending three senior staff to senior management development courses.

Continuing to Improve the Working Environment of our Employees

The Audit Office is required by the Health and Safety in Employment Act 1992 to safeguard the health and well-being of all staff and visitors to the Office. During the year we have continued to:

- develop programmes and equipment to help ensure the safety of employees should a civil defence emergency or bomb alert occur;
- identify any hazards within our premises;
- develop effective emergency plans;
- provide a confidential Employee Assistance Programme to all staff; and
- provide flu vaccinations to staff on request.

We also continue to apply family friendly work practices.

Continuing to Encourage Diversity Within Our Organisation

We recognise that understanding and knowledge of different perspectives enhance the performance of our employees and hence the organisation. We are endeavouring to achieve this through:

- incorporating EEO principles into our business planning processes;
- ensuring that all employees have equal access to employment opportunities;
- continuing to operate a Maori scholarship programme, although no scholarship was awarded during 1998-99 due to lack of applicants; and
- continuing to support the Pacific Island policy advisers forum.

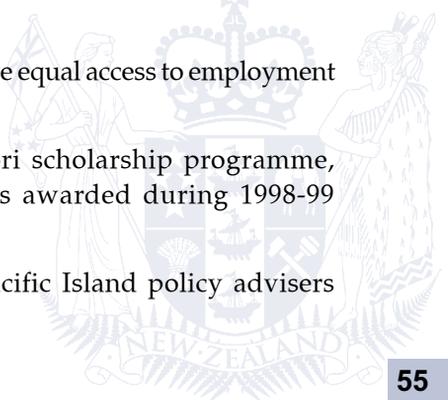


Figure 6
Composition of Staff by Gender

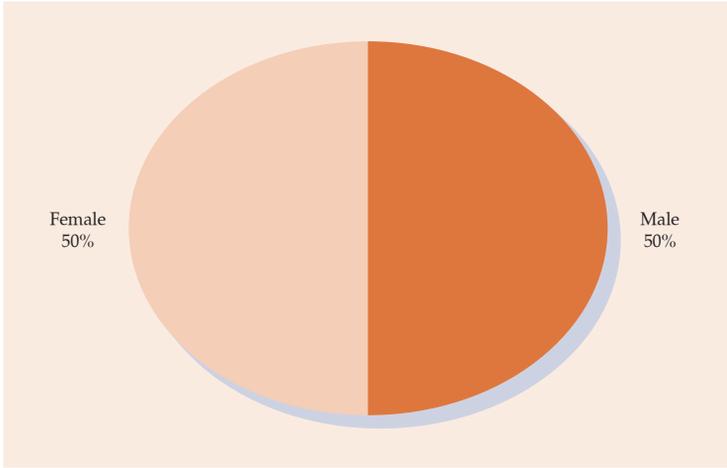
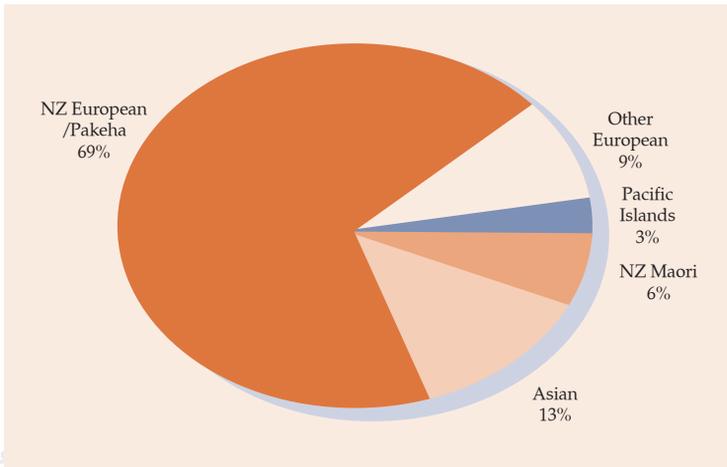


Figure 7
Composition of Staff by Ethnicity



Ensuring Our Human Resource Policies Support the Achievement of Our Objectives

We are continuing to improve our human resources policies and practices so that these support the achievement of our corporate objectives. In particular, this year we have:

- continued to ensure that our performance management and remuneration policies and practices reflect accepted benchmark practices;
- replaced our payroll systems to ensure operational rigour;
- realigned the internal structures within Audit New Zealand to improve business efficiencies;
- reviewed our employment contract arrangements; and
- reviewed our Code of Behaviour to ensure consistency across both operational units, and clarified our provisions relating to conflicts of interest.

Operational Capacity

Total staff numbers of 290.5 full time equivalents (FTEs) at 30 June 1999 were 10 higher than the 280.7 at 30 June 1998. Staff turnover within the OAG has increased from 8.5% in 1997-98 to 17.2% in 1998-99. This increase shows a volatility which reflects the small size of the OAG, and neither the level of this year's turnover nor the type of staff having to be replaced give us cause for concern at present. Turnover in Audit New Zealand held reasonably steady, decreasing from 19.3% to 18.9%.



Figure 8
Staff Numbers (FTE) 1995-1999

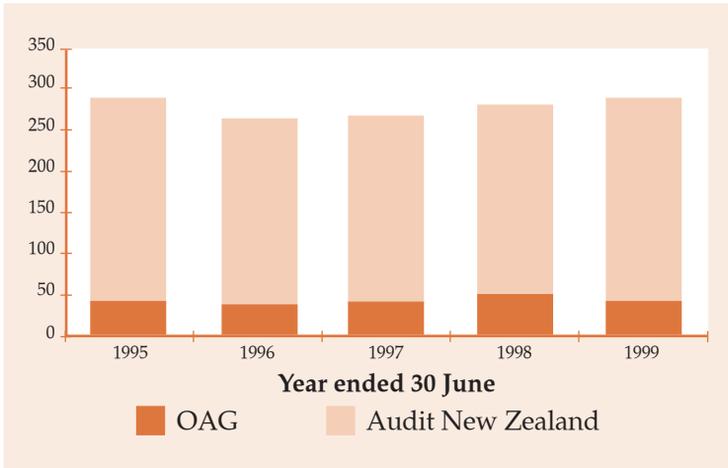
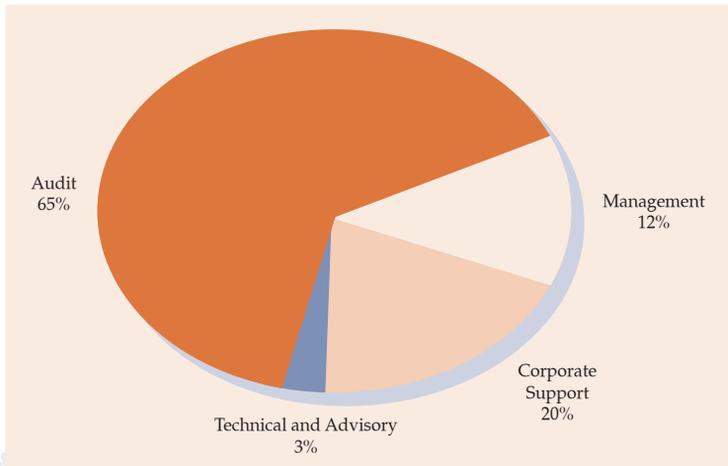


Figure 9
Composition of Staff by Function



Office of the Auditor-General

The OAG can look back on the year's improvements in its operational performance with some pride. Our seven key management and development objectives for 1998-99 are set out in the Office's *Forecast Report*²⁰ and our actual achievements are described below:

Objective 1:

Refine the strategic audit planning process and liaise with key stakeholders.

We completely revised our overall strategic processes during the year. This will help provide a sharper focus to the strategic priorities of the Office and improve both the quality and the timeliness of the strategic audit planning process.

We continued our efforts to improve the focus and timeliness of our briefings to Select Committees for Estimates and Financial Reviews. We encouraged Select Committees to focus on key areas by offering preliminary briefings to them.

Objective 2:

Examine processes to improve delivery of the Parliamentary reporting programme.

We continue to review our internal processes to ensure that our reports to Parliament are of a high quality and timely. Whilst the majority of our reports are prepared in a timely manner and reach Parliament at the highest quality possible, further improvement in timely completion in some reports remains possible. We have instituted a revised goal achievement monitoring process for the 1999-2000 year, which is designed to ensure that internal performance targets are met.

²⁰ Parliamentary paper B.28FR(98), page 39.

Objective 3:

Maintain the quality assurance programme to ensure that our auditors' work is carried out to the highest professional standard.

An effective quality assurance programme is fundamental to the maintenance of an effective Audit Office. A comprehensive framework designed to ensure that all audits undertaken on our behalf are conducted competently and in accordance with the *OAG Auditing Standards* is commented on at pages 29-30.

Objective 4:

Develop a business continuance plan.

We have prepared an overall framework for a disaster recovery plan and matched it for compatibility with similar work carried out by Audit New Zealand. Backup and recovery arrangements for our IT systems have been tested, but further refinements to the plan are required to provide assurance in the event of other physical disasters such as fire or earthquake. The recent renegotiation of our accommodation lease provides some greater certainty around which to develop those plans. We expect to complete the OAG plan in 1999-2000.

Objective 5:

Review current accommodation arrangements with the aim of achieving the best long term lease arrangements.

The current lease at 48 Mulgrave Street terminates on 2 September 1999. Steps were taken late last year to look for suitable replacement accommodation. We are pleased to report that we have recently concluded highly successful negotiations with the current landlord that achieve our goal of ensuring that we have good quality cost-effective accommodation available for the staff of the OAG.

Objective 6:

Implement improvements to our management information requirements through the use of technology.

The 1998-99 year was one of consolidation for our Information Systems environment. In the latter part of the year, we spent considerable time proving our environment to be Year 2000 compliant.

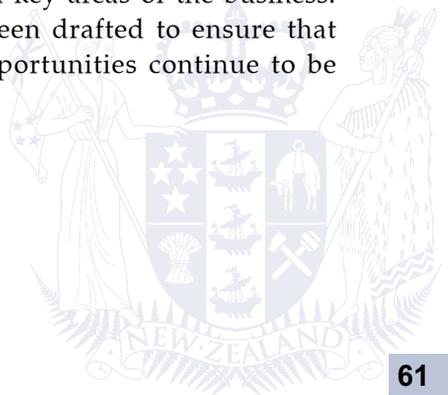
We also began to research and plan for an Intranet, combined with an electronic document management system, which we expect to go live early in 2000.

We completed much of the work required to implement a new “web enabled” system (the Technical Advice Register) late this year. The Technical Advice Register is used to track pieces of advice given to our Approved Auditors. This system will help make our advice consistent, and enable us to track more effectively to whom and what advice is given.

Objective 7:

Further develop our strategic human resource planning.

We have undertaken preliminary investigations to identify and develop the essential knowledge/attributes/skills required for each position within the Office. In addition, management has reviewed succession plans and appointments to ensure that capability is maintained in key areas of the business. Policy and procedures have been drafted to ensure that management development opportunities continue to be made available to staff.



Audit New Zealand

Audit New Zealand achieved significant progress during the year. Its seven key objectives for management and development in 1998-99 are set out in the Office's *Forecast Report*²¹ and its actual achievements are described below:

Objective 1:

Further develop and communicate a shared vision of the organisation's identity, values, and future position.

At Audit New Zealand, we continued to develop the vision of being the leading provider of audit and assurance services to the public sector. A new organisation structure targeted key areas of strategic focus, while improving communication and feedback mechanisms to enhance all staff's understanding of the future direction of the business and how they can contribute to its successful implementation.

Objective 2:

Achieve revenue targets by client retention and extending assurance-based services.

We continued to compete successfully in retaining clients that participated in the tender rounds. As set out in Figure 5 on page 47, of the 39 entities that were offered the opportunity to have their audit tendered, 27 chose to negotiate with Audit New Zealand for a further three years. Of those clients tendered, we did not tender for 3, retained 5 and lost 4.

Assurance-based services continued to grow and this, coupled with the success achieved in the tender round, ensured that revenue was slightly ahead of target.

²¹ Parliamentary paper B.28FR(98), page 41.

Objective 3:

Increase value to clients by producing more relevant audit and assurance-based products and services.

We established a Specialist Services Group to develop and deliver wider assurance services to our clients. Assurance services include: tender/contract reviews, asset management plan reviews, and Year 2000 reviews.

Objective 4:

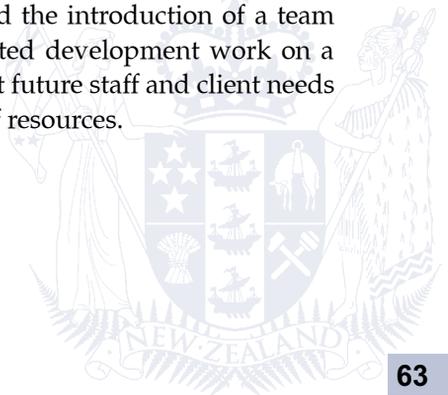
Further develop components of the Human Resource System to reflect the move to a wider multi-skilled work force.

We reviewed and refocused our Human Resource System to address future staff recruitment, retention and development needs. This approach will also see integration with professional development programmes, in order to enhance our wider audit and assurance skills base.

Objective 5:

Promote within Audit New Zealand the continuous learning concept.

We further developed learning opportunities through secondments, staff exchanges and the introduction of a team leadership programme. We started development work on a broader skills programme to meet future staff and client needs – this caused some reallocation of resources.



Objective 6:

Develop further the ability to meet client needs by the better utilisation of staff on a national basis.

We continued to focus on deployment of staff on a national basis during 1998-99, with some reallocation of resources undertaken. While optimum allocation is the ideal, this is balanced against the impact of prolonged travel on individual staff's circumstances.

Objective 7:

Develop sector support structures to enhance strategic focus and communicate sector issues.

During the year we started work on revising and refocusing our sector specialist groups. This was completed for the local government and tertiary sectors, with central government and health to follow in the first quarter of 1999-2000. In addition, we supplied sector briefings to clients through presentations, individual visits and technical updates.



Statement of Responsibility

As Chief Executive of the Audit Office, I am responsible for the accuracy of and judgements used in the preparation of the Statements of Account, and the establishment and maintenance of systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

Appropriate systems of internal control have been employed to ensure that:

- transactions are executed in accordance with authority;
- all transactions are correctly processed and accounted for in the financial records; and
- the assets of the Office are properly safeguarded.

In my opinion, the information set out in the statements and attached notes to those statements fairly reflects the service performance, financial activities and cash flows of the Audit Office for the year ended 30 June 1999 and its financial position as at that date.



D J D Macdonald
Controller and Auditor-General
18 August 1999



(Countersigned)
D E Atkin
Finance Manager
18 August 1999



Audit Report

SPICER & OPPENHEIM

TO THE READERS OF THE STATEMENTS OF ACCOUNT OF THE AUDIT OFFICE FOR THE YEAR ENDED 30 JUNE 1999

We have audited the statements of account on pages 70 to 108 of the Audit Office. The statements of account provide information about the past financial and service performance of the Office and its financial position as at 30 June 1999. This information is stated in accordance with the accounting policies set out on pages 90 to 94.

Responsibilities of the Controller and Auditor-General

Sections 35 and 37 of the Public Finance Act 1989 require the Controller and Auditor-General to prepare annual statements of account in accordance with generally accepted accounting practice and which fairly reflect the financial position of the Audit Office as at 30 June 1999 and the results of operations, cash flows and service performance achievements for the year ended 30 June 1999.

Auditor's Responsibilities

Section 40 of the Public Finance Act 1989 requires the auditor appointed by the House of Representatives to audit the statements of account presented by the Controller and Auditor-General. It is the responsibility of the auditor to express an independent opinion on the statements of account and report its opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the statements of account. It also includes assessing:

- the significant estimates and judgements made by the Controller and Auditor-General in the preparation of the statements of account, and
- whether the accounting policies are appropriate to Audit Office circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statements of account are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statements of account.

Other than in our capacity as auditor, we have no relationship with or interests in the Audit Office.

Unqualified Opinion

We have obtained all the information and explanations we have required.

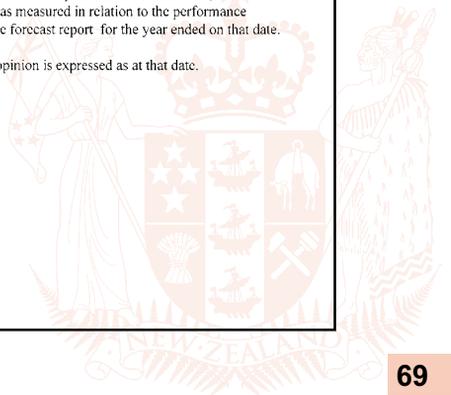
In our opinion the statements of account of the Audit Office on pages 70 to 108:

- comply with generally accepted accounting practice; and
- fairly reflect:
 - the financial position as at 30 June 1999; and
 - the results of its operations and cash flows for the year ended 30 June 1999; and
 - the service performance achievements as measured in relation to the performance targets and other measures set out in the forecast report for the year ended on that date.

Our audit was completed on 18 August 1999 and our unqualified opinion is expressed as at that date.



SPICER & OPPENHEIM
CHARTERED ACCOUNTANTS
WELLINGTON



Statement of Objectives and Service Performance For the Year Ended 30 June 1999

Departmental Output Classes

The Audit Office has four output classes. The extent to which we have met our objectives for each output class (as set out in our *Forecast Report 1998-99²²*) is reported below.

Output Class D1 – *Reports and Advice arising from the Exercise of the Function of Legislative Auditor*

This class of outputs has five elements relating to the Audit Office undertaking its constitutional function in assisting Parliament in its role of ensuring accountability for public resources.

The products and services contained in this class of outputs are either demand-driven (e.g. ratepayer enquiries or advice to select committees), or are subject to the discretion of the Auditor-General as to the particular audit undertaken and reported (e.g. special studies).

Desired Outcomes

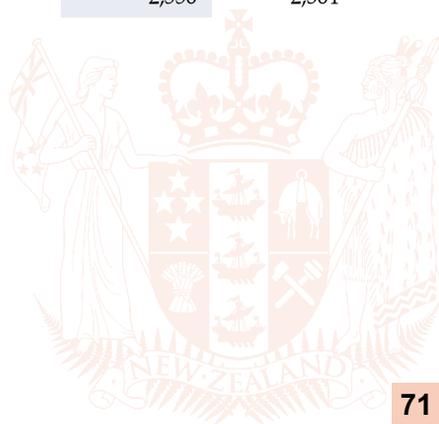
- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public bodies.
- 2 Better use of public resources.

²² Parliamentary paper B.28FR(98), pages 26-37.

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

Performance Results

Actual 1997-98		Actual 1998-99	Estimate 1998-99
7	<p>Quantity</p> <ul style="list-style-type: none"> • Reports to the House of Representatives 	9	At least 3
All	<p>Quality</p> <ul style="list-style-type: none"> • All reports will be prepared with due professional care and be subject to: <ul style="list-style-type: none"> • internal peer review; • substantiation; and • entity confirmation of factual accuracy. 	All	All
	<p>Timeliness</p> <ul style="list-style-type: none"> • Reports prepared in time to be of maximum value. For example, the results of the audit of government departments are reported prior to the conduct of financial reviews by Parliamentary select committees, and the results of the audit of territorial local government are reported prior to preparation of annual plans and financial statements in the following year. 	Substantially achieved	
86%	<ul style="list-style-type: none"> • Reports to Parliament completed within internal budgets and deadlines. 	72%	100%
\$000		\$000	\$000
2,534	Value of resources applied	2,556	2,364



Commentary on Performance

We presented four omnibus reports and the following single-issue reports to Parliament during the year:

- New Zealand Fire Service Commission – Adequacy of Fire Service levy collection arrangements 8/7/98
- Public Consultation and Decision Making in Local Government 23/12/98
- Auckland City Council – Management of Britomart Project 26/1/99
- Inquiry into certain events concerning the New Zealand Tourism Board 21/4/99
- The Accountability of Executive Government to Parliament 29/6/99

The improvement in the number of reports completed this year is particularly pleasing, with the outlook for the provision of an even greater number of reports next year looking good. For instance, we expect to report in September on the outcome of a number of special studies that have essentially been completed during the year, but which were not ready for publication at year end. One area where further attention is required is in the timely completion of special studies. The apparent lengthening of completion date is due not so much to lengthy periods of fieldwork but more to time delays at the protocols and scoping phases of an audit and at the entity clearance phase.



II Reports and advice to select committees and Ministers.

Performance Results

Actual 1997-98		Actual 1998-99	Estimate 1998-99
	<i>Quantity</i>		
	• Reports to select committees:		
100	• financial reviews	108	110
91	• estimates examinations	54	40
31	• other	19	20
103	• Reports to portfolio Ministers on the results of annual audits.	124	90
	<i>Quality</i>		
All	• All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to:	All	All
	• internal peer review; and		
	• auditor clearance of factual accuracy.		
	<i>Timeliness</i>		
All	• Reports presented at least two days before committee examination, unless otherwise agreed with the committee.	All	All
\$000		\$000	\$000
608	<i>Value of resources applied</i>	604	640

Commentary on Performance

The steady increase in demand for ‘other’ reports confirms the value placed on advice sought by committees on a wide range of issues. For example:

- Ministry of Defence purchase of the HMNZS *Charles Upham*;
- comments on draft legislation; and
- advice on the status of certain audits.

The continuing increase in the number of reports provided to Ministers reflects the policy stance taken by the Office that Ministers receive a report on the results of audits within their portfolio. We believe it is important to ensure that the relevant Minister is adequately informed about any audit issues which may become subject to scrutiny by a select committee.

III *Responding to enquiries from taxpayers, ratepayers and Members of Parliament.*

Performance Results

<i>Actual 1997-98</i>		<i>Actual 1998-99</i>	<i>Estimate 1998-99</i>
	<i>Quantity</i>		
	• Enquiries received from:		
73	• taxpayers	53	40
164	• ratepayers	182	110
56	• Members of Parliament	39	40
	<i>Quality</i>		
All	• All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to internal peer review.	All	All
	<i>Timeliness</i>		
67%	• Initial response within seven days.	72%	100%
75%	• Cleared within six weeks, unless otherwise advised.	100%	100%
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>
256	<i>Value of resources applied</i>	310	300

Commentary on Performance

This is a demand-driven activity, the quantity of enquiries received being beyond our control.

Although many of these enquiries can be responded to relatively promptly, others surface more significant issues and can lead to major or ongoing investigations. Enquiries that lead to major studies clearly have an impact upon response times. Recent examples include:

- Inquiry into certain events concerning the New Zealand Tourism Board; and
- Auckland City Council – Management of Britomart project.

Other enquiries ongoing at 30 June 1999 included:

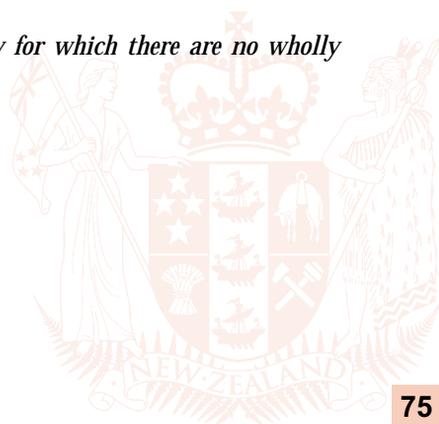
- Capital Coast Health computer system purchase;
- Health Funding Authority: Contract for Sexual Health Services, Wellington; and
- Expenditure by the New Zealand Qualifications Authority.

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

Performance Results

Actual 1997-98		Actual 1998-99	Estimate 1998-99
	<i>Quantity</i>		
*	<ul style="list-style-type: none"> • Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including: <ul style="list-style-type: none"> • Central agencies. • Government departments, local authorities and other public sector entities. • Professional bodies such as the Institute of Chartered Accountants of New Zealand. • Sector organisations such as Local Government New Zealand and the Society of Local Government Managers. • Foreign delegations. • Other audit institutions and related organisations, such as INTOSAI. 	*	*
	<i>Quality</i>		
All	<ul style="list-style-type: none"> • All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to internal peer review. 	All	All
	<i>Timeliness</i>		
	<ul style="list-style-type: none"> • As requested 		
\$000		\$000	\$000
517	<i>Value of resources applied</i>	535	700

* *This is a demand-driven activity for which there are no wholly satisfactory quantity measures.*



Commentary on Performance

We continue to provide a wide range of high-quality advice on financial management and accountability issues. A breakdown of the quantity of advice given reveals that 38% (51% in 1997-98) was directed to governmental or sector organisations, 29% (15% in 1997-98) to professional bodies in New Zealand, and 33% (31% in 1997-98) to our involvement with international audit agencies. In addition, 5% of OAG resource time was applied to receiving international delegations.

The advice given to professional bodies relates mainly to:

- the 5 (6 in 1997-98) submissions made to the Institute of Chartered Accountants of New Zealand on the Auditing Standards and Guidance Statements and Financial Reporting Standards; and
- our participation in the activities of the Public Sector Committee of the International Federation of Accountants.

Our ongoing involvement with international audit agencies relates to:

- Our participation in two international working groups of the International Organisation of Supreme Audit Organisations (INTOSAI). One working group has the task of developing guidelines for the audit of privatisations, the other guidelines on environmental auditing.
- Our regular contact with our Australian colleagues through a forum known as the Australasian Council of Auditors-General (ACAG).
- Our role as Secretary to the South Pacific Organisation of Supreme Audit Organisations (SPASAI).

The Office continues to receive many delegations from other countries (e.g., Thailand, Korea, Japan, Fiji), not all of which are confined to audit-related matters. The international reputation of New Zealand's public sector reforms undoubtedly contributes significantly to this sustained high level of international interest.

V *Administering the provisions of the Local Authorities (Members' Interests) Act 1968.*

Performance Results

Actual 1997-98		Actual 1998-99	Estimate 1998-99
	<i>Quantity</i>		
102	<ul style="list-style-type: none"> Responding to specific requests in relation to the Audit Office's powers to: <ul style="list-style-type: none"> Approve increased limits for contract payments. Grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest. Consider alleged breaches of the Act. 	105	90
	<i>Quality</i>		
All	<ul style="list-style-type: none"> All reports and advice will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to internal peer review. 	All	All
	<i>Timeliness</i>		
62%	<ul style="list-style-type: none"> Initial response within seven days. 	95%	100%
89%	<ul style="list-style-type: none"> Cleared within six weeks, unless otherwise advised. 	99%	100%
\$000		\$000	\$000
32	<i>Value of resources applied</i>	44	50

Commentary on Performance

The number of enquiries this year continues to remain high.

It is pleasing to report that the slippage in responding to enquiries experienced last year has been significantly improved this year.



Financial Performance of Output Class D1

<i>Actual</i> 1997-98 \$000		<i>Actual</i> 1998-99 \$000	<i>Estimate</i> 1998-99 \$000
4,062	Revenue - Crown	3,990	4,054
6	- Other	11	-
(3,948)	Expenditure	(4,051)	(4,054)
120	Surplus/(Deficit)	(50)	Nil

*Commentary on Financial Outturn
of Output Class D1*

The deficit in producing the outputs in this output class resulted from less Crown revenue received this year.



Output Class D2 – *Certification of Authority to Release Funds from the Crown Bank Account*

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

Desired Outcome

Legal disbursement of public funds.

Performance Results

<i>Actual 1997-98</i>		<i>Actual 1998-99</i>	<i>Estimate 1998-99</i>
	<i>Quantity</i>		
13	• Warrants issued	16	15
247	• Controller statements issued	246	240
	<i>Quality</i>		
All	• Authorities will be issued once correct documentation is received.	All	All
All	• Issues from the Crown Bank Account will be within the appropriations and other lawful authorities granted by Parliament.	All	All
No payments made without authority	• All payments not within a warrant from the Governor-General will be refused.	No payments made without authority	No payments made without authority
	<i>Timeliness</i>		
98%	• Controller statements signed before 12 noon on day of submission.	99%	100%
\$000		\$000	\$000
210	<i>Value of resources applied</i>	224	230

Commentary on Performance

The volume of statements issued is similar to that of previous years. A fluctuation in the quality of statements presented for certification during the year led to our concerns being referred to the Treasury for their attention.

Financial Performance of Output Class D2

<i>Actual</i> 1997-98 \$000		<i>Actual</i> 1998-99 \$000	<i>Estimate</i> 1998-99 \$000
210	Revenue – Crown	224	230
(210)	Expenditure	(224)	(230)
<u>Nil</u>	<u>Surplus</u>	<u>Nil</u>	<u>Nil</u>

Commentary on Financial Outturn of Output Class D2

This small but important constitutional function has been effectively carried out within the funding provided by the Crown.



Output Class D3 – *Provision of Non-contested Audit Services*

The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,900 public sector organisations. The Office of the Auditor-General establishes the standards by which audits will be carried out.

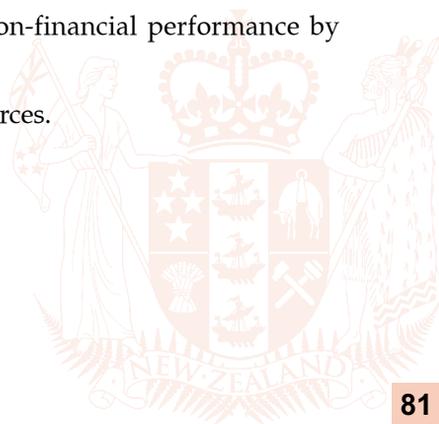
This class of outputs relates to the provision of those audits which have not been allocated to audit service providers by a contestable process. These are audits of national sensitivity; or where the Auditor-General considers that subjecting particular audits to contestability at this time is potentially too disruptive to the entity; or those audits which have yet to be subject to competitive tender. The work is carried out by Audit New Zealand.

The two significant outputs in this class are:

- **Audit Reports** – on whether the financial statements fairly reflect the financial and non-financial performance of the organisation subject to audit; and
- **Management Reports** – to the management and governing bodies of these organisations, on issues arising from the audit.

Desired Outcome

- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public bodies.
- 2 Better use of public resources.



Statement of Performance for Output Class – D 3
Non-Contested Audit Services
Performance Quantity and Timeliness¹

THE AUDIT OFFICE - STATEMENTS OF ACCOUNT 1998-99
Statement of Objectives and Service Performance

Sector	Quantity			Timeliness			
	Audit Status			Timely Issue of Audit Reports		Timely Issue of Management Reports	
	Total Entities in Group	Carried Out	Audit Arrears at Year End	Target ²	Actual	Target ³	Actual
Government Departments and Offices of Parliament	22	22	-	100%	100%	100%	85%
1997-98	35	35	-	100%	100%	100%	94%
Major Statutory Bodies ⁴	77	78	13	100%	88%	100%	79%
1997-98	88	98	13	100%	70%	100%	85%
Regional, City and District Councils	1	1	-	100%	100%	100%	100%
1997-98	12	12	-	100%	100%	100%	100%
Other Local Authorities ⁵	213	214	422	100%	28%	100%	83%
1997-98	255	239	419	100%	36%	100%	59%
Miscellaneous Public Bodies ⁶	263	240	253	75%	48%	100%	74%
1997-98	257	170	264	75%	44%	100%	75%
TOTALS	576	555	688		48%		78%
1997-98	647	554	696		48%		72%

1 Figures may vary from those presented in the *Forecast Report* because of in-year changes and corrections.

2 Audits will be completed and audited financial statements available within statutory deadline 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, Hospital and Health Services, Crown Research Institutes and major Crown Entities.

5 Comprising Licensing Trusts, Airports, Cemetery Trustees, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

6 Comprising mainly Maori Trust Boards, smaller Crown Entities, and subsidiaries of Major Statutory Bodies.

Performance Quality

<i>Standard</i>	<i>Achievement</i>
1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.	Done
2 A quality assurance programme will be carried out on audit arrangements and work undertaken.	Programme undertaken, the results of which are reported on pages 29-30.

Commentary on Performance

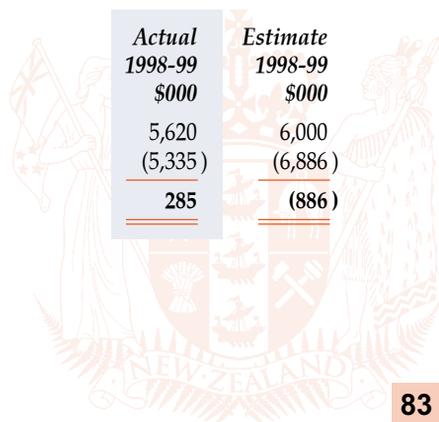
An additional goal set in 1998-99 to reduce audit arrears by 10% was met for the whole portfolio (11%), but not for this output class (1%).

A full commentary on quantitative performance is set out on pages 31-32.

Commentary on the quality of audits performed is set out on pages 27-30.

Financial Performance of Output Class D3

<i>Actual</i> 1997-98 \$000		<i>Actual</i> 1998-99 \$000	<i>Estimate</i> 1998-99 \$000
N/A	Revenue – Other	5,620	6,000
N/A	Expenditure	(5,335)	(6,886)
<u>N/A</u>	<u>Surplus/(Deficit)</u>	<u>285</u>	<u>(886)</u>



*Commentary on Financial Outturn
of Output Class D3*

The financial outturn for this output class for the year is within estimate. While revenue was below forecast, output costs were contained because less audits of last resort were undertaken by Audit New Zealand and the lower hours spent auditing the output class clients meant less costs allocated.

Comparatives are not available for 1997-98 as output classes D3 and D4 were combined for that year.



Output Class D4 – *Provision of Contested Audit Services*

The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,900 public sector organisations. The Office of the Auditor-General establishes the standards by which audits will be carried out.

This class of outputs relates to the provision of audits or audit-related services awarded through a competitive tender process or under the threat of competition. This class of output is appropriated on a Mode B net basis and the work is carried out by Audit New Zealand and chartered accounting firms on contract to the Auditor-General.

The two significant outputs in this class are:

- **Audit Reports** – on whether the financial statements fairly reflect the financial and non-financial performance of the organisation subject to audit; and
- **Management Reports** – to the management and governing bodies of these organisations, on issues arising from the audit.

Desired Outcome

- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public bodies.
- 2 Better use of public resources.



Statement of Performance for Output Class – D 4 Contested Audit Services
Performance Quantity and Timeliness¹

THE AUDIT OFFICE - STATEMENTS OF ACCOUNT 1998-99

Statement of Objectives and Service Performance

Sector	Quantity				Timeliness			
	Audit Status		Audit Arrears at Year End	Timely Issue of Audit Reports		Timely Issue of Management Reports		
	Total Entities in Group	Carried Out		Target ²	Actual	Target ³	Actual	
Government Departments and Offices of Parliament	29	29	-	100%	97%	100%	86%	
	1997-98	15	-	100%	100%	100%	94%	
Major Statutory Bodies ⁴	70	72	6	100%	81%	100%	65%	
	1997-98	53	5	100%	77%	100%	85%	
Regional, City and District Councils	85	85	-	100%	100%	100%	73%	
	1997-98	74	74	100%	100%	100%	76%	
Other Local Authorities ⁵	346	325	104	100%	67%	100%	67%	
	1997-98	294	233	74	100%	100%	59%	
Schools	2,670	2,750	255	50%	37%	100%	91%	
	1997-98	2,673	2,674	376	50%	34%	89%	
Miscellaneous Public Bodies ⁶	150	144	67	75%	45%	100%	72%	
	1997-98	148	152	106	75%	100%	75%	
TOTALS	3,350	3,405	432		43%		87%	
	1997-98	3,257	3,202	561	39%		84%	

1 Figures may vary from those presented in the Forecast Report because of in-year changes and corrections.

2 Audits will be completed and audited financial statements available within statutory deadline 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 and major Crown Entities.

5 Comprising Licensing Trusts, Airports, Cemetery Trustees, LATs, Energy Companies, Port Companies and Sinking Fund Commissioners.

6 Comprising mainly Maori Trust Boards, Reserve Boards, other smaller Crown Entities, and subsidiaries of Major Statutory Bodies.

Performance Quality

<i>Standard</i>	<i>Achievement</i>
1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.	Done
2 A quality assurance programme will be carried out on audit arrangements and work undertaken.	Programme undertaken, the results of which are reported on pages 29-30.

Commentary on Performance

An additional goal set in 1998-99, to reduce audit arrears by 10%, was met for the portfolio as a whole (11%), and for this output class (23%).

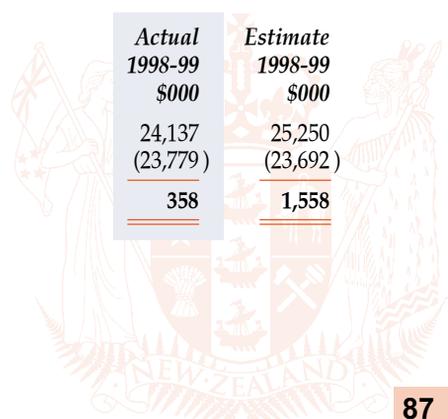
A full commentary on quantitative performance is set out on pages 31-32.

Commentary on the quality of audits performed is set out on pages 27-30.

Financial Performance of Output Class D4

<i>Actual</i>	
1997-98	
\$000	
N/A	Revenue – Other
N/A	Expenditure
<u>776</u>	Surplus

<i>Actual</i>	<i>Estimate</i>
1998-99	1998-99
\$000	\$000
24,137	25,250
(23,779)	(23,692)
<u>358</u>	<u>1,558</u>



*Commentary on Financial Outturn
of Output Class D4*

The financial outturn for this output class for the year is within estimate and the result is a surplus. While revenue did not increase as much as forecast, the costs relating to the conduct of audits were managed effectively. The reduction in the output surplus arose because more audit hours were charged to the clients within this output class than forecast. This resulted in more costs allocated to the output class.

Comparatives are not available for 1997-98 as output classes D3 and D4 were combined for that year. The surplus shown for 1997-98 is the total for both output classes.



Financial Performance Indicators For the Year Ended 30 June 1999

Description of Statement

This statement details the actual performance of the Audit Office against performance measures established in the *Estimates of Expenditure* approved by Parliament.

<i>Actual 1997-98</i>		<i>Actual 1998-99</i>	<i>Final Estimates 1998-99</i>	<i>Forecast Report 1998-99</i>
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
	Operating Results			
6,871	Revenue: departments	6,574	6,977	6,977
23,562	Revenue: other	23,194	24,288	24,288
22	Revenue: interest	-	50	50
33,809	Output expenses	33,389	34,862	34,909
	Surplus before capital charge			
1,232		441	566	992
918	Surplus	127	252	678
	Working Capital Management			
1,336	Net current assets	1,816	1,369	1,193
131%	<i>Current ratio</i>	142%	135%	131%
	<i>Average receivables and work in progress</i>			
53 days		56 days	46 days	46 days
	<i>Average payables outstanding</i>			
36 days		51 days	38 days	38 days
	Resource Utilisation			
	<i>Physical assets:</i>			
	Total physical assets at year end			
1,516		1,437	1,483	1,659
	<i>Additions as % of physical assets</i>			
54%		57%	63%	56%
	<i>Taxpayers' funds:</i>			
2,852	Level at year-end	2,386	2,382	2,852
	Net Cash Flows			
	Surplus on operating activities			
2,054		1,643	1,599	1,500
	(Deficit) on investing activities			
(641)		(575)	(725)	(725)
	(Deficit) on financing activities			
(1,798)		(918)	(918)	(1,386)
	Net increase/(decrease) in cash held			
(385)		150	(44)	(611)
1,043	Closing cash balance	1,193	999	779

Statement of Accounting Policies For the Year Ended 30 June 1999

Reporting Entity

These are the financial statements of the Audit Office prepared pursuant to section 35 of the Public Finance Act 1989.

The Audit Office comprises the Auditor-General, the Deputy Auditor-General, and those resources provided by the Audit Department.

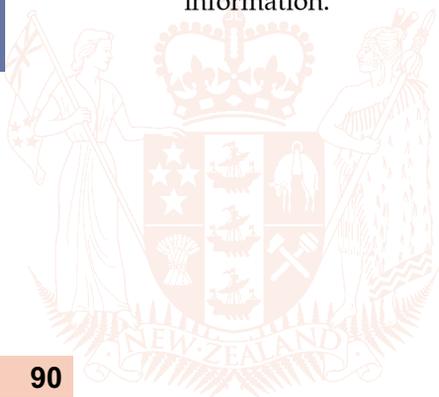
The Audit Department is a department of state established by section 15 of the Public Finance Act 1977 to provide resources to the Audit Office to enable it to perform its functions and duties. The Auditor-General is the Chief Executive of the Audit Department. Departmental activities include the work undertaken by chartered accounting firms on contract to the Auditor-General.

The activities of the Audit Office and the Audit Department are reported here as one entity, referred to as “the Audit Office”, consistent with the definition of that term in section 2 of the Public Finance Act 1989.

Measurement Base

Generally accepted accounting practice is used to measure and report the activities and financial position of the Audit Office on an historical cost basis.

Non-financial information, in the form of objectives and performance measures, is prepared from internal management information.



Accounting Policies

Revenue

The Audit Office derives revenue from the Crown for outputs provided to Parliament, from audit fees for services to third parties, and from interest on its bank deposits with the New Zealand Debt Management Office of the Treasury.

Expenses

The salaries of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of sections 18 and 21 of the Public Finance Act 1977, are recognised as expenses of the Audit Office.

Output Cost Allocation

Definitions

Direct costs are those costs which are directly attributable to a single output.

Indirect costs are all other costs. These costs include: payroll costs; variable costs such as travel; and operating overheads such as property costs, depreciation and capital charges.

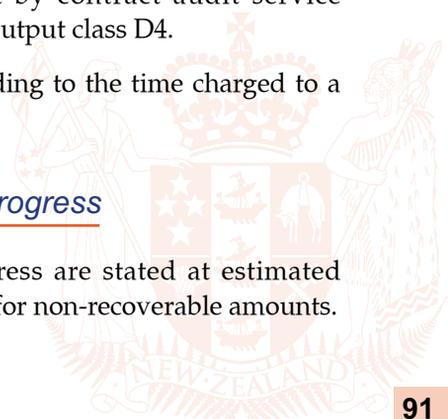
Method of Assigning Costs to Output Classes

Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contract audit service providers is charged directly to output class D4.

Indirect costs are allocated according to the time charged to a particular activity.

Receivables and Work in Progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.



Leases

The Audit Office leases office premises and office equipment. As all risks and ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

Physical Assets

The initial cost of a physical asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

All physical assets costing more than \$500 are capitalised.

Depreciation

Depreciation of physical assets is provided on a straight-line basis so as to allocate the cost of the assets, less their residual value, over their expected useful lives. The estimated useful lives are:

Furniture and fittings	4 years
Office equipment –	
Computer hardware and software	2.5 years
Other office equipment	4 years
Motor vehicles	5–7.5 years

The cost of leasehold improvements is capitalised and amortised over the estimated remaining useful lives of the improvements.

Provision for Employee Entitlements

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees based on current rates of pay. Long service leave and retiring/resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

Foreign Currency

Foreign currency transactions, relating primarily to subscriptions and travel, are paid for at the New Zealand dollar exchange rate at the date of the transaction.

Financial Instruments

Financial instruments primarily comprise bank balances, receivables and payables. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST, except for:

- Payables and Receivables in the Statement of Financial Position, which are GST-inclusive.
- Figures in the Statement of Appropriations, which are GST-inclusive unless noted.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).

Income Tax

The Audit Office, as an institution of the Crown, is exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

Commitments

Future payments are disclosed as commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts are not disclosed unless they had vested at balance date, in which case they are reflected in the item "Provision for employee entitlements" in the Statement of Financial Position.

Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Changes in Accounting Policies

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the last audited Statements of Account.



Statement of Financial Performance For the Year Ended 30 June 1999

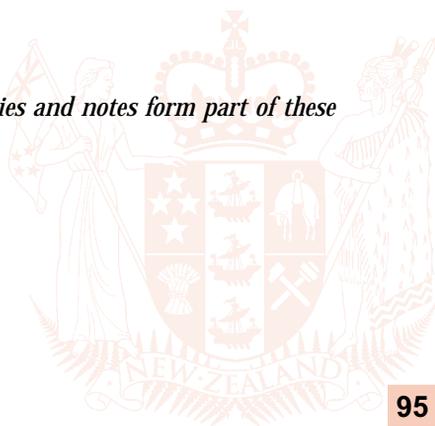
Description of Statement

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. Supporting statements showing the revenue and expenditure of each output class are on pages 78, 80, 83 and 87.

1997-98 Actual		Notes	1998-99 Actual	1998-99 Final Estimates ¹
\$000			\$000	\$000
Continuing Activities -				
Revenue				
4,272	Crown	2	4,214	4,269
30,433	Other	3	29,768	31,265
22	Interest	4	-	50
34,727	Total Revenue		33,982	35,584
Expenses				
17,407	Personnel costs		16,992	16,672
15,363	Operating costs	5	15,514	17,118
725	Depreciation		569	758
314	Capital charge	6	314	314
33,809	Total Output Expenses		33,389	34,862
918	Operating Surplus		593	722
-	Other Expenses	7	466	470
918	Surplus		127	252

¹ See Note 1 on page 102.

The accompanying accounting policies and notes form part of these statements.



Statement of Movements in Taxpayers' Funds (Equity) For the Year Ended 30 June 1999

Description of Statement

The Statement of Movements in Taxpayers' Funds combines information about the surplus with other aspects of the financial performance of the Audit Office to give a degree of measure of comprehensive income. This statement, together with the Statement of Financial Position, provides information for assessing the return on investment in the Audit Office.

1997-98 Actual \$000	Notes	1998-99 Actual \$000	1998-99 Forecast \$000
2,852		2,852	2,852
Taxpayers' Funds brought forward at 1 July			
Movements during the year			
918		593	722
-	7	(466)	(470)
<u>918</u>		<u>127</u>	<u>252</u>
Total Recognised Revenues and Expenses for the Year			
Flows To and From the Crown			
(918)	12	(593)	(722)
<u>2,852</u>		<u>2,386</u>	<u>2,382</u>
Taxpayers' Funds at 30 June			

The accompanying accounting policies and notes form part of these statements.



Statement of Financial Position As at 30 June 1999

Description of Statement

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

30/6/98 Actual \$000	Notes	30/6/99 Actual \$000	30/6/99 Forecast \$000
Taxpayers' Funds			
2,852		2,386	2,382
2,852		2,386	2,382
Represented by:			
Current Assets			
1,043		1,193	999
225		338	312
1,163	8	1,990	1,209
3,239	9	2,605	2,746
5,670		6,126	5,266
Non-current Assets			
1,516	10	1,437	1,483
1,516		1,437	1,483
7,186		7,563	6,749
Current Liabilities			
1,551	11	2,150	1,787
	12		
918		593	722
	13		
1,459		1,567	1,388
3,928		4,310	3,897
Term Liabilities			
	13		
406		867	470
406		867	470
4,334		5,177	4,367
2,852		2,386	2,382

The accompanying accounting policies and notes form part of these statements.

Supplementary Information For the Year Ended 30 June 1999

Statement of Commitments

This statement records those expenditures to which the Audit Office is contractually committed at 30 June 1999 and which will become liabilities if and when the terms of the contracts are met.

The Audit Office has long-term leases on its premises. The annual property lease payments are subject to regular reviews, ranging from 3-yearly to 6-yearly.

Operating commitments include leases of computer equipment, telephone exchange systems, facsimile machines and photocopiers.

30/6/98 Actual \$000		30/6/99 Actual \$000
	Capital Commitments	
38	Less than one year	-
<u>38</u>	Total Capital Commitments	<u>-</u>
	Operating Commitments	
	Property lease commitments	
1,775	Less than one year	1,148
1,084	One to two years	1,103
2,380	Two to five years	3,309
<u>2,211</u>	More than five years	<u>2,272</u>
<u>7,450</u>	Total Property Lease Commitments	<u>7,832</u>
	Operating lease commitments	
583	Less than one year	596
456	One to two years	588
306	Two to five years	346
<u>-</u>	More than five years	<u>-</u>
<u>1,345</u>	Total Operating Lease Commitments	<u>1,530</u>
<u>8,795</u>	Total Operating Commitments	<u>9,362</u>
<u>8,833</u>	Total Capital and Operating Commitments	<u>9,362</u>

The accompanying accounting policies and notes form part of these statements.

Statement of Contingent Liabilities

This statement discloses situations which exist at 30 June 1999, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the Statements of Account.

The Audit Office did not have any contingent liabilities as at 30 June 1999 (1998 – nil), nor did it have any contingent assets at the same dates.

Statement of Appropriations¹

	1998-99 Output Expenses \$000	1998-99 Appropriations \$000
Annual Appropriations		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament	4,097	4,106
D2 Controller function	252	259
D3 Non-contested audit services	6,038	7,636
Total Annual Appropriations	10,387	12,001
<i>Less GST</i>	1,181	1,235
Total Annual Appropriations GST-exclusive	9,206	10,766
Other Appropriations		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament ²	404	404
<i>Mode B Net</i>		
D4 Contested audit services ³	26,796	26,848
<i>Less GST</i>	3,017	3,156
Total Mode B Net Annual Appropriations GST-exclusive	23,779	23,692
Total Other Appropriations GST-exclusive	24,183	24,096
Total Output Expenses as reported in the Statement of Financial Performance	33,389	34,862

¹ Amounts in the Statement of Appropriations are GST-inclusive, except for Other Appropriations (Mode B Gross) which are exempt from GST.

² Costs incurred pursuant to sections 18 and 21 of the Public Finance Act 1977.

³ Costs incurred pursuant to section 10 of the Public Finance Act 1989.

The accompanying accounting policies and notes form part of these statements.

Statement of Unappropriated Expenditure

The Audit Office incurred no unappropriated expenditure during the year ended 30 June 1999 (1998 – nil).

Statement of Trust Money

On 1 November 1996 the Audit Office was appointed Secretary-General of the South Pacific Association of Supreme Audit Institutions (SPASAI). SPASAI exists to encourage, promote and advance cooperation among its members in the field of public audit.

A trust account has been established to record the financial transactions undertaken by the Audit Office on behalf of SPASAI. All trust money transactions are recorded on a cash basis.

1997-98		1998-99	Actual
Actual		\$	\$
706	Opening balance at 1 July	2,108	1,402
Receipts	800,525		
2,108		802,633	–
Payments	551,372		
2,108	Closing balance at 30 June	251,261	

The accompanying accounting policies and notes form part of these statements.



Notes to the Financial Statements For the Year Ended 30 June 1999

Note 1: Budget Estimates

The table below shows the main budget for the year as reflected in the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the aggregate budget estimates.

	1998-99 <i>Main Budget Estimates</i> \$000	1998-99 <i>Supplementary Estimates Changes</i> \$000	1998-99 <i>Final Estimates</i> \$000
Revenue			
Crown	4,272	(3)	4,269
Other	31,265	-	31,265
Interest	50	-	50
Total Revenue	<u>35,587</u>	<u>(3)</u>	<u>35,584</u>
Expenses			
Personnel costs	16,680	(8)	16,672
Operating costs	17,157	(39)	17,118
Depreciation	758	-	758
Capital charge	314	-	314
Total Output Expenses	<u>34,909</u>	<u>(47)</u>	<u>34,862</u>
Other expenses	-	470	470
Total Expenses	<u>34,909</u>	<u>423</u>	<u>35,332</u>
Surplus	<u>678</u>	<u>(426)</u>	<u>252</u>

Note 2: Crown Revenue

Revenue is provided by the Crown to meet the costs of the Audit Office in assisting Parliament in its role of ensuring accountability for public resources. The services provided to Parliament include reports to Parliament and other constituencies, reports and advice to select committees, responding to taxpayer and ratepayer enquiries, advice to government bodies and other agencies, and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

Note 3: Other Revenue

1997-98 Actual \$000		1998-99 Actual \$000	1998-99 Estimate \$000
6,871	Audit fees - departments	6,574	6,977
23,556	Audit fees - other	23,183	24,273
6	Miscellaneous	11	15
<u>30,433</u>	Total Other Revenue	<u>29,768</u>	<u>31,265</u>

Note 4: Interest Revenue

The Audit Office can earn interest at variable rates on deposits with the New Zealand Debt Management Office of the Treasury. No deposits were made during the financial year.

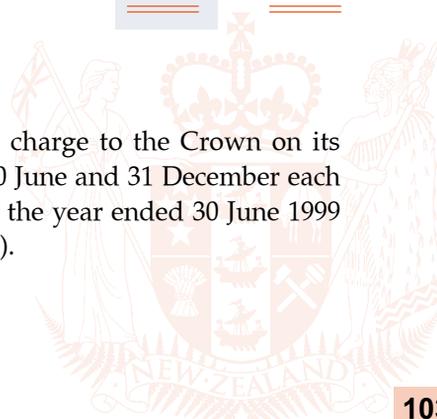
Note 5: Operating Costs

Operating costs include the following:

1997-98 Actual \$000		1998-99 Actual \$000	1998-99 Estimate \$000
4	Asset write-offs	50	-
22	Loss on sale of physical assets	35	-
33	Movement in provision for doubtful receivables	22	-
51	Fees to auditors for audits of the Statements of Account	55	51
-	Fees to auditors for other services provided	7	-
322	Operating lease rentals	354	349
1,858	Property lease costs	1,870	1,870
8,272	Fees paid to contracted auditors	8,044	9,589
4,801	Other operating costs	5,077	5,259
<u>15,363</u>	Total Operating Costs	<u>15,514</u>	<u>17,118</u>

Note 6: Capital Charge

The Audit Office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 1999 was 11 percent (1998 – 11 percent).



Note 7: Other Expenses

Other expenses consists of the increase in the recognition of employee entitlements (see Note 13) arising from a technical change in the measurement of the liabilities for long service, retiring and resigning leave. The liabilities are now measured on an actuarial rather than a nominal basis.

Note 8: Work in Progress

Work in progress consists of audit services provided to clients which have not been invoiced at balance date.

30/6/98 Actual \$000		30/6/99 Actual \$000
2,066	Work in progress	2,582
(903)	Provision for doubtful recovery	(592)
<u>1,163</u>	Net Work in Progress	<u>1,990</u>

Note 9: Receivables

30/6/98 Actual \$000		30/6/99 Actual \$000
3,446	Trade receivables	2,863
(243)	Provision for doubtful receivables	(265)
3,203	<i>Net Trade Receivables</i>	2,598
30	Crown debtor	-
6	Other receivables	7
<u>3,239</u>	Total Receivables	<u>2,605</u>



Note 10: Physical Assets

30/6/98 Actual \$000		30/6/99 Actual \$000
	<i>Furniture and fittings</i>	
3,260	At cost	3,258
(3,011)	Accumulated depreciation	(2,936)
249	<i>Furniture and Fittings at Net Carrying Value</i>	322
	<i>Office equipment</i>	
2,643	At cost	2,778
(2,023)	Accumulated depreciation	(2,281)
620	<i>Office Equipment at Net Carrying Value</i>	497
	<i>Motor vehicles</i>	
841	At cost	739
(194)	Accumulated depreciation	(121)
647	<i>Motor Vehicles at Net Carrying Value</i>	618
1,516	Total Physical Assets at Net Carrying Value	1,437

Note 11: Payables and Provisions

30/6/98 Actual \$000		30/6/99 Actual \$000
1,427	Trade payables	1,713
124	Provisions	437
1,551	Total Payables and Provisions	2,150

Note 12: Provision for Payment to the Crown

Departments are not permitted to retain operating surpluses. Thus, the operating surplus for this year of \$593,000 is fully repayable to the Crown.

If there is an operating deficit, any interest received and any profit made on the sale of a physical asset are both returned to the Crown.

30/6/98 Actual \$000		30/6/99 Actual \$000
918	Operating surplus	593
918	Total Provision for Payment to the Crown	593

Note 13: Provision for Employee Entitlements

30/6/98 Actual \$000		30/6/99 Actual \$000
	Current Liabilities	
888	Annual leave	925
38	Long service leave	44
74	Time off in lieu of overtime worked	90
459	Salary and other accruals	508
<u>1,459</u>	Total Current Liabilities	<u>1,567</u>
	Term Liabilities	
-	Long service leave	111
406	Retiring/resigning leave	756
<u>406</u>	Total Term Liabilities	<u>867</u>
<u>1,865</u>	Total Provision for Employee Entitlements	<u>2,434</u>

Note 14: Reconciliation of Surplus to Net Cash Flow from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Financial Performance on page 95 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Cash Flows on page 98.

1997-98 Actual \$000		1998-99 Actual \$000	1998-99 Estimate \$000
918	Surplus	127	252
	Non-cash items		
725	Depreciation	569	758
<u>725</u>	Total Non-cash Items	<u>569</u>	<u>758</u>
	Working capital movements		
68	(Increase)/Decrease in prepayments	(113)	(87)
(313)	(Increase)/Decrease in receivables	634	493
23	(Increase)/Decrease in work in progress	(827)	(46)
123	(Decrease)/Increase in payables	599	236
484	(Decrease)/Increase in employee entitlements	569	(7)
<u>385</u>	Total Net Working Capital Movements	<u>862</u>	<u>589</u>

1997-98 Actual \$000		1998-99 Actual \$000	1998-99 Estimate \$000
	<i>Continued...</i>		
	Investing activity items		
26	Loss on sale of physical assets	85	-
26	Total Investing Activity Items	85	-
2,054	Net Cash Flow from Operating Activities	1,643	1,599

Note 15: Financial Instruments

The Audit Office is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, receivables and payables.

Credit Risk

In the normal course of its business, the Audit Office incurs credit risk from receivables and from transactions with financial institutions and the New Zealand Debt Management Office of the Treasury.

The Audit Office has no significant concentrations of credit risk. No collateral or security is held or given to support financial instruments.

Interest Rate Risk

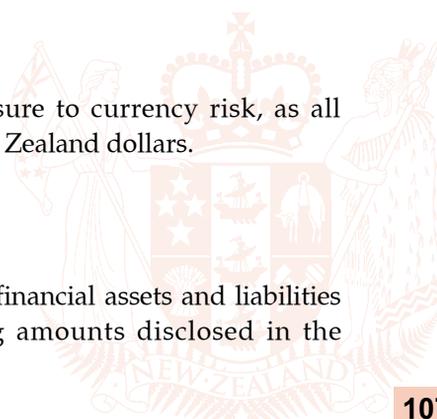
The Audit Office has no interest rate risk, as all cash funds that earn interest are managed as part of the Crown's banking arrangements.

Currency Risk

The Audit Office has no exposure to currency risk, as all financial instruments are in New Zealand dollars.

Fair Values

The estimated fair values of all financial assets and liabilities are equivalent to the carrying amounts disclosed in the Statement of Financial Position.



Note 16: Related Party Information

The net assets of the Audit Office are owned by the Crown. Although the net assets belong to the Crown, the Audit Office is protected through its legislation from undue influence and significant control by the Government.

Some 12% of the Office's revenue is provided by the Crown directly (see Note 2) and a further 19% indirectly through fees for the audit of Government departments (see Note 3). These transactions are not considered to be related-party transactions, as all transactions are on an arm's-length basis with the interests of each party being completely independent.

Note 17: Office Accommodation Statistics

The following statistics for the year ended 30 June 1999 are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

30/6/98 Actual		30/6/99 Actual
6,939m ²	Area	7,000m ²
285	Number of staff	290
24m ²	Space allocation per person	24m ²
\$1,858,079	Total costs of leased office accommodation	\$1,869,959
\$5,669	Rent costs per person	\$5,327
\$305	Utility costs per person	\$274
180m ²	Vacant accommodation	180m ²

Note 18: Subsequent Events

During July 1999 the Office of the Auditor-General completed re-negotiating its accommodation lease for the next 6.5 years on considerably improved terms. The result of the re-negotiation is included in the Statement of Commitments on page 99.

Appendices

Appendix 1

Directory of Offices

Office of the Auditor-General

Level 7, Hitachi Data Systems House, 48 Mulgrave Street
Private Box 3928, Wellington
Phone (04) 917-1500 Fax (04) 917-1545
Internet address: <http://www.netlink.co.nz/~oag/home.htm>

Audit New Zealand

National Office

Level 8, St Paul's Square, 45 Pipitea Street
Private Box 99, Wellington
Phone (04) 496-3099 Fax (04) 496-3095

Whangarei

Level 2, State Insurance Building, 96 Bank Street
Private Box 395, Whangarei
Phone (09) 430-3083 Fax (09) 430-3084

Auckland

Level 10, Dynasty Pacific Building, 155 Queen Street
Private Box 1165, Auckland
Phone (09) 373-5457 Fax (09) 366-0215

Hamilton

Level 5, Peat Marwick Tower, Alexandra Street
Private Box 256, Hamilton
Phone (07) 839-3349 Fax (07) 838-0508

Tauranga

Ford Electrical Building, 34 Chapel Street
Private Box 621, Tauranga

Phone (07) 578-8400 Fax (07) 577-9321

Napier

Unit 3, Munro Court, 62 Munro Street
Private Box 224, Napier

Phone (06) 835-0663 Fax (06) 835-0348

Palmerston North

Audit Office House, 292 Featherston Street
Private Box 149, Palmerston North

Phone (06) 358-0449 Fax (06) 356-7794

Wellington

Level 8, St Paul's Square, 45 Pipitea Street
Private Box 99, Wellington

Phone (04) 496-3099 Fax (04) 496-3195

Nelson

Level 1, Income Support Service Building
22 Bridge Street, Private Box 13, Nelson

Phone (03) 546-8054 Fax (03) 546-8053

Christchurch

Level 2, Charles Luney House, 250 Oxford Street
Private Box 2, Christchurch

Phone (03) 379-8774 Fax (03) 377-0167

Dunedin

Level 5, Forsyth Barr House, 165 Stuart Street
Private Box 232, Dunedin

Phone (03) 477 0657 Fax (03) 479-0447



Appendix 2

Reports to Parliament During the Year Ended 30 June 1999

*Date Presented/
Published*

Reports to Parliament

General Reports of the Controller and Auditor-General

Second Report for 1998	B.29[98b]	13/7/98
Third Report for 1998	B.29[98c]	3/12/98
First Report for 1999	B.29[99a]	23/3/99
Second Report for 1999	B.29[99b]	22/6/99
Third Report for 1999	B.29[99c]	29/6/99

Special Reports

New Zealand Fire Service Commission: Adequacy of the Arrangements to Ensure that the Fire Service Levy is Properly and Fully Paid		8/7/98
Public Consultation and Decision-making in Local Government		23/12/98
Auckland City Council: Management of the Britomart Project		26/1/99
Inquiry into Certain Events Concerning the New Zealand Tourism Board		21/4/99

Accountability Reports of the Audit Office

Annual Report 1997-98	B.28	31/8/98
Forecast Report 1999-2000	B.28FR(99)	20/5/99

Other Reports And Publications

A Guide To The Local Authorities (Members' Interests) Act 1968 (revision of 1995 issue)	10/11/98
Local Authorities (Members' Interests) Act 1968: A Pocket Guide to the Act (reprint)	10/11/98
Statements of Corporate Intent: Are They Working? (reprint from B.29[98c])	11/12/98
Delivering Effective Outputs for Maori (reprint from B.29[98c])	11/12/98

Copies of these publications may be ordered from:

Reports Group
The Audit Office
Private Box 3928
WELLINGTON
Ph: (04) 471-6534
Fax: (04) 471-6515
E-mail: colinm@oag.govt.nz



