

The Audit Office
Te Tari Whakamatau, Arotake

Forecast Report
for the year ending 30 June 2000

Prepared pursuant to the requirements of section 34A
of the Public Finance Act 1989

ISSN 1173–4876



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Contents

	<i>Page</i>
Speaker's Foreword	5
Introduction by the Controller and Auditor-General	6
Statement of Responsibility	7
Part One	
Role, Outcomes, Outputs and Organisation	9
Part Two	
Goals and Strategies	15
Part Three	
Planned Performance for 1999-2000	21
Part Four	
Forecast Financial Statements for 1999-2000	49



Speaker's Foreword

I am pleased to introduce the Audit Office's Forecast Report for the 1999-2000 financial year.¹

The Audit Office is an independent Office of Parliament and is accountable for its performance to Parliament. The Office's role is to act on behalf of Parliament by assisting it to strengthen the effectiveness, efficiency, and accountability of public sector organisations. This report indicates how the Controller and Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year.

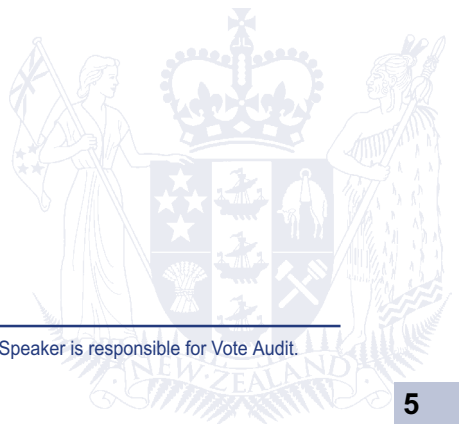
This Forecast Report provides information which is more extensive than that required by the Public Finance Act 1989. It gives Parliament an appropriate basis for holding the Controller and Auditor-General to account for the performance of the Audit Office during 1999-2000.



Hon Doug Kidd
Speaker of the House of Representatives

29 April 1999

¹ Pursuant to the Public Finance Act 1989, the Speaker is responsible for Vote Audit.



Introduction by the Controller and Auditor-General²

This report is designed to provide a comprehensive description of the projected performance of the Audit Office for 1999-2000. Information is also provided about the role and goals of the Office so the Office's 1999-2000 plans can be seen in context. The report is in four parts:

- Part 1 provides a brief explanation of the role, outcomes, outputs (products and services) and organisation of the Audit Office. Information is included to show how the Office's 1999-2000 plans relate to the role of the Office.
- Part 2 provides information about the goals of the Audit Office and key strategies to discharge its statutory duties. This information is included to show how the Office's 1999-2000 plans relate to longer-term goals.
- Part 3 details the Audit Office's planned performance for 1999-2000. Plans are presented in relation to:
 - The outputs that will be provided by the Office. These plans show how I intend to discharge my responsibilities as Controller and Auditor-General.
 - The stewardship (organisational management and development) of the resources entrusted to the Office. These plans demonstrate how I intend to discharge my responsibilities as Chief Executive.
- Part 4 contains the forecast financial statements of the Audit Office for 1999-2000.



D J D Macdonald

Controller and Auditor-General

12 April 1999

² The Controller and Auditor-General is sometimes referred to simply as "the Auditor-General" in the rest of this report.

Statement of Responsibility

The forecast financial and other statements for the Audit Office for the year ending 30 June 2000 contained in this report have been prepared in accordance with section 34A of the Public Finance Act 1989.

As Chief Executive of the Audit Department, I acknowledge, in signing this statement, that I am responsible for the forecast financial statements contained in this report. As Controller and Auditor-General, I am also responsible for the forecast output information contained in this report.

The objectives for output and financial performance, and the forecast financial statements, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House) the 1999-2000 budgetary estimates for the Audit Office submitted pursuant to section 17 of the Public Finance Act 1989.

I certify that the information contained in this report is consistent with the appropriations contained in the Estimates for the year ending 30 June 2000 that are to be laid before the House of Representatives under section 9 of the Public Finance Act 1989.



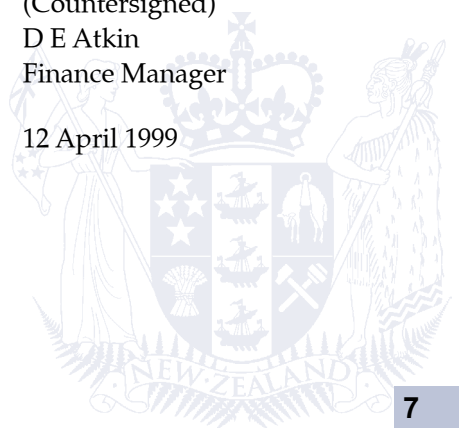
D J D Macdonald
Controller and Auditor-General

12 April 1999



(Countersigned)
D E Atkin
Finance Manager

12 April 1999



Part One

Role, Outcomes, Outputs
and Organisation



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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.

This 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 3,800 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 Auditor-General and Deputy Auditor-General. But, of course, they need assistance to plan, conduct and report on the results of over 3,800 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.

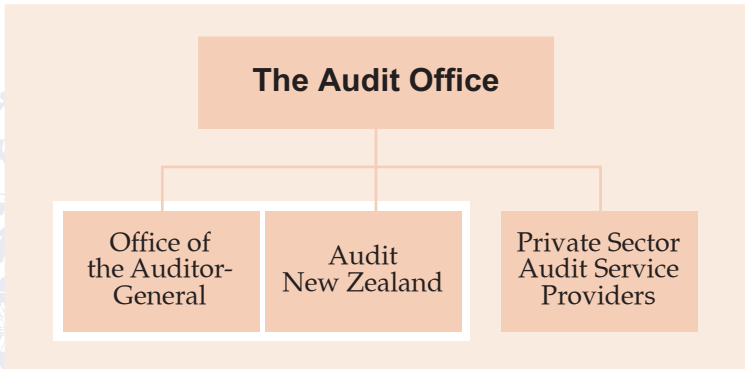
The staff directly employed by the Auditor-General are organised into two business units:

The Office of the Auditor-General³ –

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 that it has won the right to conduct on behalf of the Audit Office in competition with private sector auditors, as well as those audits not awarded under the contestable audit arrangements.



³ Usually abbreviated to “OAG” in the rest of this report.

Part Two

Goals and Strategies



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Factors Affecting the Goals and Strategies of the Audit Office

Key factors that are likely to influence our performance over the next 5 years are:

- Ongoing changes in the parliamentary environment, and in community expectations about public sector performance and accountability.
- Continuing change in ways of doing business in and with the public sector, as reform processes and information technology innovations continue.
- Enactment of a Public Audit Bill, applying the Auditor-General's full mandate to all sectors except State-owned Enterprises.

Our goals and strategies will reflect a particular emphasis on:

- Ensuring that the Audit Office is the primary provider of independent assurance to Parliament on the performance of public bodies, by:
 - Positioning the Office to meet the expectations of Parliament and select committees as they develop over time.
 - Targeting work to ensure best value is obtained from the resources available.
- Continuing to meet the needs of local communities as auditor of locally accountable public bodies.
- Continuously improving the performance of the Office and its agents.



Goals and Strategies of the Audit Office

Goal 1:

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

Strategy:

We will continue to:

Regularly review our auditing standards to ensure that they reflect all current professional and legislative requirements.

Place appropriate emphasis on matters of legislative compliance, performance, accountability and probity when planning and conducting audits.

Train and support our auditors in understanding audit requirements in the public sector.

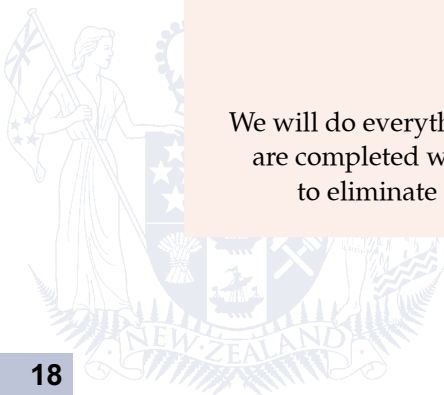
Use appropriate quality assurance mechanisms to ensure that audits are conducted according to our requirements, and take remedial action where necessary.

Goal 2:

That we complete all audits that we are required to perform.

Strategy:

We will do everything feasible to ensure that all audits are completed within their statutory deadline, and to eliminate any existing backlog of audits.



Goal 3:

That we are effective in targeting our audits at critical areas of performance and accountability in the public sector.

Strategy:

We will perform discretionary audits and studies in areas of the public sector where we assess there will be the greatest benefit from us doing so, after consulting widely with key stakeholders.

We will place additional emphasis on encouraging those who receive our reports to make constructive use of them.

We will ensure that we have the competence, either in-house or by contracting in the requisite skills, to conduct the audits and studies we have identified.

Goal 4:

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

Strategy:

We will continue to place emphasis on:

Managing our working relationship with Parliament by understanding its interests, securing its support and encouraging its follow-up of our reports.

Enhancing how we relate and report to the constituents in each of the local government sectors.

Dealing with audited entities in a professional and honorable manner, which includes operating on a “no surprises” basis.



Goal 5:

That we have legislation that provides an appropriate mandate for the Office, and we are suitably prepared for its coming into force.

Strategy:

We will actively encourage early introduction of a Public Audit Bill which incorporates the recommendations of the Finance and Expenditure Committee’s 1998 report on legislation for the Audit Office.

On introduction of the Bill into the House of Representatives, we will assess the likely implications of its passage for the operations of the Audit Office.

Goal 6:

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

Strategy:

We will practise what we preach to others.

We will place additional emphasis on measuring and reporting the achievement of our goals and desired outcomes.

We will continue to pursue improved effectiveness and efficiency in audit services by maintaining a contestable process for annual audits.



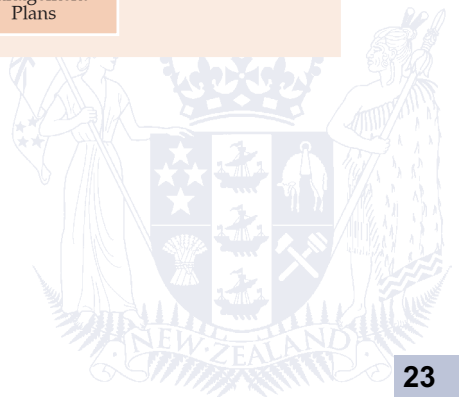
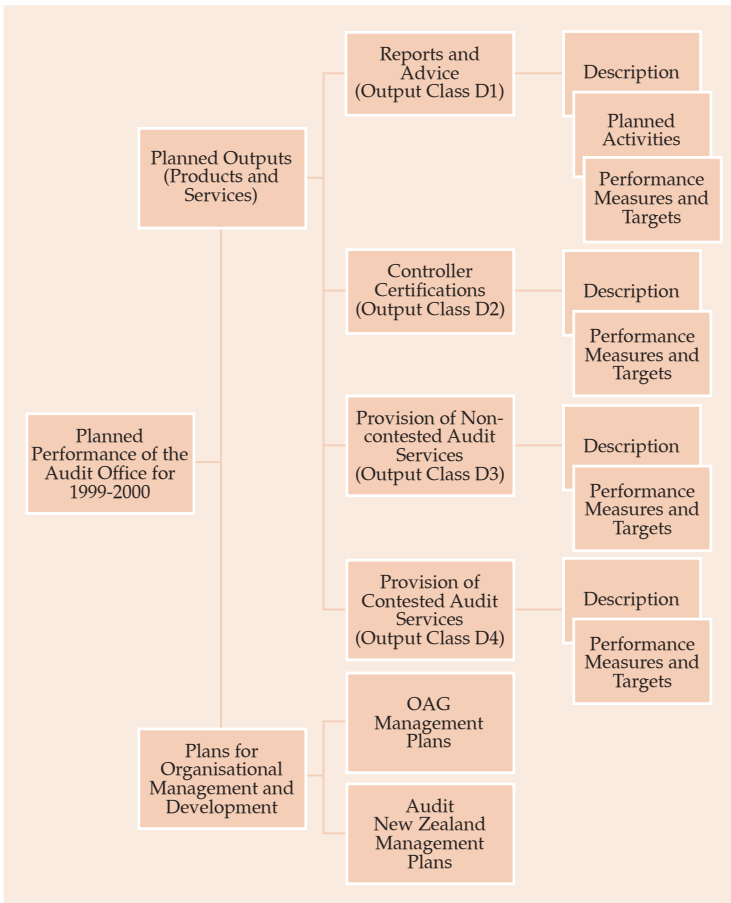
Part Three

Planned Performance for 1999-2000



Overview

Elements of the Planned Performance of the Audit Office for 1999-2000



Our 1999-2000 plans reflect two types of interest in the Audit Office's performance:

An Output Interest

This is concerned with what products and services the Office will deliver in 1999-2000.

These plans are reflected in four classes of output:

Output Class D1 –

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

Output Class D2 –

Certification of Authority to Release Funds from the Crown Bank Account

Output Class D3 –

Provision of Non-contested Audit Services

Output Class D4 –

Provision of Contested Audit Services

An Ownership Interest

This is concerned with the stewardship of the Office; i.e. how we plan to ensure that we are a progressive, viable and well-managed public sector organisation.

To achieve this, we prepare management and development plans for each of the two business units of the Office:

The Office of the Auditor-General –

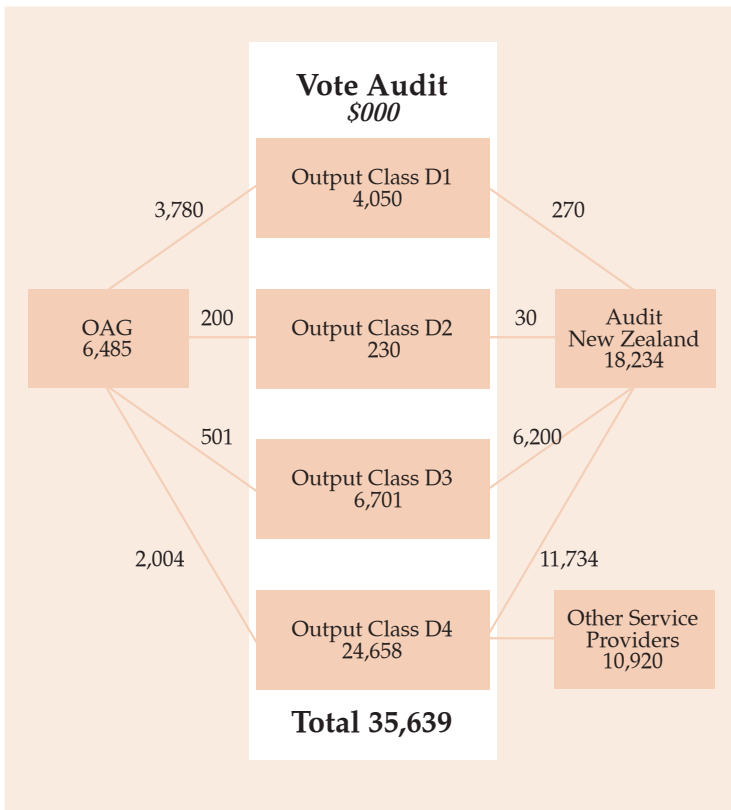
Which is responsible for assisting the Audit Office in strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out special audits and studies, and parliamentary reporting and advice.

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 not awarded under the contestable audit arrangements.

The relationship between these two business units, private sector auditors, and the output classes is shown below.

Costs of Production of the Audit Office's Output Classes⁴



4 All figures are GST-exclusive in Part 3 Planned Performance for 1999-2000.

Funding of the Audit Office

In 1999-2000 the Audit Office expects to fund the costs of producing its outputs by receiving \$36.189 million, comprising:

\$4.265 million in revenue from the Crown, and \$0.015 million from other sources, which will be used to fund the costs incurred in the production and delivery of Output Classes D1 and D2.

\$31.909 million in revenue from audited entities, which will be used to fund the costs incurred in the production and delivery of Output Classes D3 and D4.



Statement of Objectives for Output Class D1–

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

Description

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

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

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

Reports to portfolio ministers on the results of annual audits.

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

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

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

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). Given the discretionary element in this class of outputs, we have provided additional detail about our planned activities (see pages 28 to 34).

Statement of Objectives for Output Class D1–

Planned Activities and Costs

Reports to Parliament and Other Constituencies

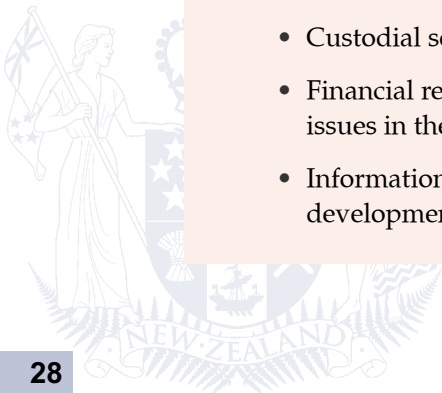
\$000

Results of annual audits:

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

Results of programmed special audits and studies:

- Major audits and studies in progress at 1 July 1999 in the areas of –
 - Contracting out of regulatory functions in local government
 - Long-term financial strategies in local government
 - Police clearance of property crime
 - Management of student loan debt
 - Custodial sentence administration
 - Financial reporting and management issues in the NZ Fire Service
 - Information for oversight of IT developments



- Major audits and studies under consideration for 1999-2000 in the areas of –
 - Governance and risk issues in Crown entities
 - Governance and risk issues in local government
 - Funding and accountability arrangements in the education sector
 - Capability in the public sector
 - Development of performance reporting in the public sector
 - Robustness of forecasts for demand-driven output classes
 - Contracting arrangements in the Health Funding Authority
 - Management of risk in the conservation estate
 - Monitoring of effectiveness for Maori
 - Licensing and enforcement of the commercial transport industry
 - Customs Crown revenue

Matters arising from special investigations⁵ initiated in response to particular concerns brought to the attention of the Audit Office during 1999-2000

2,360

5 Spare capacity is not held for such investigations. The extent of the resource usage on unprogrammed enquiries will directly impact on the resource availability for other planned activities.

Statement of Objectives for Output Class D1 –

Planned Activities and Costs (continued)

Reports and Advice to Select Committees⁶

\$000

Advice to select committees to assist their financial reviews of:

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

Advice to select committees to assist their examination of estimates

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

600

Reports to Ministers

\$000

Reporting the results of audits to portfolio ministers

40

⁶ The extent and cost of these activities is largely determined by the demands made by select committees.

Statement of Objectives for Output Class D1 –

Planned Activities and Costs (continued)

Responses to Enquiries from Taxpayers, Ratepayers and Members of Parliament

\$000

Acknowledgement, investigation⁷ and reporting the results of enquiries directed to the Audit Office by:

- Taxpayers
- Ratepayers
- Members of Parliament

300

Advice to Government Bodies and Other Agencies

\$000

Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including:⁸

- Central agencies
- Government departments, local authorities and other public sector entities

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

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

- 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

700

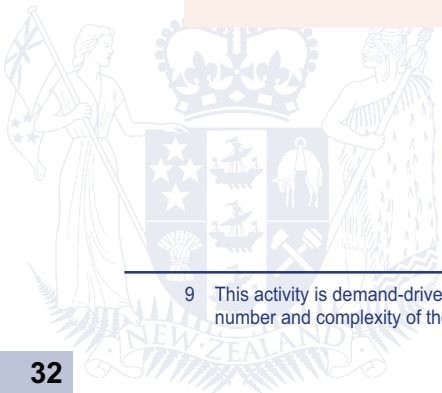
Administration of the Provisions of the Local Authorities (Members' Interests) Act 1968

\$000

Responding to specific requests in relation to the Audit Office's powers to:⁹

- 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

50



⁹ This activity is demand-driven. The nature and extent of the activity is determined by the number and complexity of the requests made to the Audit Office.

Statement of Objectives for Output Class D1 –

Performance Measures and Targets

Output	Quantity ¹⁰	Cost ¹⁰ \$000	Timeliness	Quality
1. Reports to Parliament and other constituencies, comprising: <ul style="list-style-type: none"> • results of annual audits • results of programmed special audits and studies • results of unprogrammed special investigations 	At least 3 reports	2,360	Reports to Parliament will be completed in a manner which ensures the subjects being reported are timely and relevant.	All reports will be prepared with due professional care and be subject to: <ul style="list-style-type: none"> • internal peer review • substantiation • entity confirmation of factual accuracy.
2. Reports and advice to select committees, comprising: <ul style="list-style-type: none"> • financial reviews • estimates examinations • other reports 	110 reports 40 reports 20 reports	600	Reports presented at least 2 days before an examination, unless otherwise agreed with the committee.	All select committees will be surveyed as to their satisfaction with the quality of our reports and advice.
3. Reports to Ministers on the results of annual audits	90 reports		Reports to portfolio ministers before select committee scrutiny of departmental and Crown entity performance.	All reports and advice (Outputs 2-6) will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, be subject to:

PLANNED PERFORMANCE FOR 1999-2000

Output Class D1

Part Three

Output	Quantity ¹⁰	Cost ¹⁰ \$000	Timeliness	Quality
4. Responses to enquiries from: <ul style="list-style-type: none"> • taxpayers • ratepayers • Members of Parliament 	60 enquiries 150 enquiries 40 enquiries	300	An initial response within 7 days. Cleared within 6 weeks, unless otherwise advised.	<ul style="list-style-type: none"> • internal peer review • substantiation • entity confirmation of factual accuracy.
5. Advice to government bodies and other agencies	On demand	700	As requested.	
6. Administration of provisions of the Local Authorities (Members' Interests) Act 1968	90 enquiries	50	An initial response within 7 days. Cleared within 6 weeks, unless otherwise advised.	
TOTAL		4,050		

¹⁰ The quantity of reports and enquiries handled, and their consequent cost are largely demand-driven. Accordingly, these figures have been estimated based on past experience.



Statement of Objectives for Output Class D2 –

Certification of Authority to Release Funds from the Crown Bank Account

Description

Output Class D2 relates to the Controller function under section 22 of the Public Finance Act 1989. The function is to act as a monitor, on behalf of Parliament, to control the issue of funds from the Crown Bank Account.

Operationally, this includes monitoring departmental and Crown financial reporting systems to ensure that releases of funds are supported by appropriations and are for lawful purposes.

Performance Measures and Targets

Quality

The Controller and Auditor-General will ensure that:

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



Quantity

Number of warrants and controller statements expected to be certified:

- 15 warrants
- 240 controller statements.

Timeliness

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

Cost

- The cost will not exceed \$230,000.



Statement of Objectives for Output Classes D3 and D4 –

Provision of Audit Services

Description

These two output classes relate to the provision of audit services to public sector organisations. The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,800 public sector organisations.

Annual audits result in:

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

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

The nature of the outputs are identical for both classes. The difference in output classes relates to the method by which the audit service provider has been selected:

Output Class D3 – Non-contested Audit Services

Non-contested audit services relates to 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.

Output Class D4 – Contested Audit Services

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



Statement of Objectives for Output Class D3 – Non-contested Audit Services Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/1999	Planned Audit Completions in 1999-2000	Expected Number of Audits in Arrears as at 30/6/2000	Timely Issue of Audit Reports Target ¹¹	Timely Issue of Management Reports Target ¹²
Government Departments and Offices of Parliament	20	–	20	–	100%	100%
Major Statutory Bodies ¹³	95	23	100	18	100%	100%
Other Local Authorities ¹⁴	107	50	117	40	100%	100%
Miscellaneous Public Bodies ¹⁵	122	60	127	55	75%	100%
Audits for which fees will not be charged ¹⁶	180	522	232	470	75%	100%
Totals	524	655¹⁷	596	583		

Goal: To reduce the level of audit arrears by 11% by 30 June 2000.

¹¹ Audits will be completed and audited financial statements available within statutory deadline or within 5 months of balance date.

¹² Management reports and letters will be issued within 6 weeks of the date of the audit report.

¹³ State-owned Enterprises, Tertiary Education Institutions, Producer Boards, Hospitals and Health Services, Crown Research Institutes and major Crown Entities.

¹⁴ Licensing Trusts, Airports, LATES, Energy Companies, Port Companies and Sinking Fund Commissioners.

¹⁵ Mainly other smaller Crown Entities and Business Development Boards.

¹⁶ Those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities are Reserve Boards, Cemetery Trustees and Provincial Patriotic Societies.

¹⁷ An estimated 204 bodies have audits in arrears, mostly for a number of years; and the 522 audits in the final category represent only 124 bodies. Most have not prepared statements of account for the periods involved.

Statement of Objectives for Output Class D4 – Contested Audit Services

Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears at at 30/6/1999	Planned Audit Completions in 1999-2000	Expected Number of Audits in Arrears as at 30/6/2000	Timely Issue of Audit Reports Target ¹⁸	Timely Issue of Management Reports Target ¹⁹
Government Departments and Offices of Parliament	27	–	27	–	100%	100%
Major Statutory Bodies ²⁰	107	5	108	4	100%	100%
Regional, City and District Councils	86	–	86	–	100%	100%
Other Local Authorities ²¹	322	50	332	40	100%	100%
School Boards of Trustees	2,645	600	2,665	580	50%	100%
Miscellaneous Public Bodies ²²	121	35	131	25	75%	100%
Totals	3,308	690²³	3,349	649		

Goal: To reduce the level of audit arrears by 6% by 30 June 2000.

¹⁸ Audits will be completed and audited financial statements available within statutory deadline or within 5 months of balance date.

¹⁹ Management reports and letters will be issued within 6 weeks of the date of the audit report.

²⁰ State-owned Enterprises, Tertiary Education Institutions, Producer Boards, Hospitals and Health Services, Crown Research Institutes and major Crown Entities.

²¹ Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

²² Mainly other smaller Crown Entities and Maori Trust Boards.

²³ An estimated 640 bodies have audits in arrears, mostly schools whose audits for the 31 December 1998 year are not expected to be completed at 30 June 1999.

Statement of Objectives for Output Classes D3 and D4

Performance Measures and Targets (continued)

Outstanding Audits

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

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

Performance Measures of Quality

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

Compliance with these standards is tested by a programme of quality assurance reviews conducted by the Office of the Auditor-General. The programme seeks to review every approved auditor at least once during their 3-year contract period. The Office intends to review the work of 60 auditors during the year, the results of which will be reported in our Annual Report for the year ending 30 June 2000.

Performance Measures of Timeliness

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

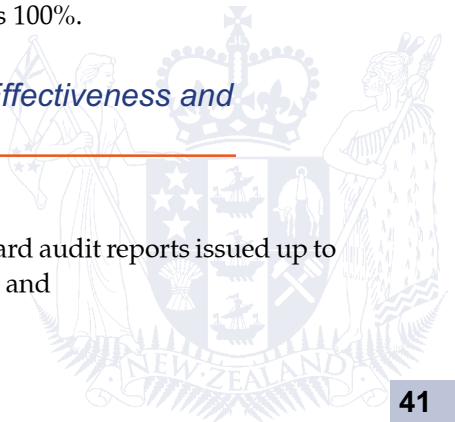
The Office therefore measures:

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

Performance Measures of Effectiveness and Efficiency

The Office will report on:

- the trend in types of non-standard audit reports issued up to and including the current year; and



PLANNED PERFORMANCE FOR 1999-2000

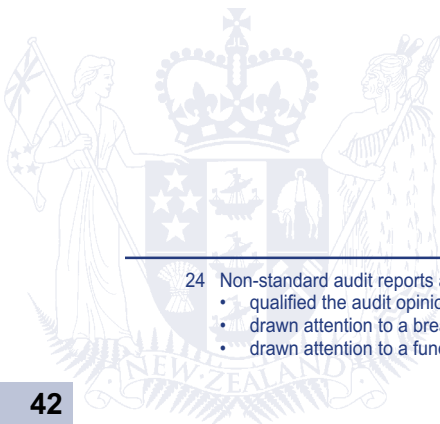
Output Classes D3 and D4

- the nature of opinions issued in the year to 30 June 2000²⁴.

During 1999-2000 the Office will explore possible ways of reporting trends in audit fees – for example, as against operating expenditure audited or some alternative measure.

Cost

	<i>\$000</i>
• Cost of services for Output Class D3	
– Non-contested Audit Services	6,701
• Cost of services for Output Class D4	
– Contested Audit Services	24,658



²⁴ Non-standard audit reports are those where the auditor has:

- qualified the audit opinion due to a disagreement or a limitation on scope;
- drawn attention to a breach of law; or
- drawn attention to a fundamental uncertainty.

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

Description

The OAG is responsible for assisting the Audit Office in developing overall strategy, audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out special audits and studies, and parliamentary reporting and advice.

The OAG comprises approximately 50 people with an operating budget of \$6.485 million. It is located in Wellington.

To perform its functions, the OAG has:

A research and planning capability,
to ensure that the focus of around \$31 million of annual audit effort is well-targeted and meets the needs of Parliament and other constituencies.

A purchasing and quality assurance capability,
to give effect to the strategy for the supply of annual audit services and to ensure the quality of these services.

An operational capability,
to carry out special audits and studies separate from, or additional to, the annual audits.

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

These capabilities are supported by:

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

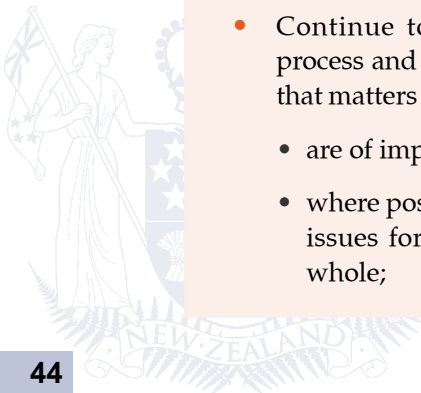
Administrative and corporate services,
which effectively underpin the business of the organisation and fulfil the accountability requirements of the Audit Office.

An organisation and management structure,
which facilitates cost-effective production of the Audit Office's products.

Key Objectives for 1999-2000

Key objectives in managing the OAG during 1999-2000 are to:

- Continue to develop the Audit Office's overall strategic processes by:
 - evaluating likely future demands on the Office, and possible responses to them;
 - dedicating some resource to research and development on these responses, to ensure that audit products and processes stay relevant in a rapidly changing environment; and
 - placing additional emphasis on the development of appropriate measurement and reporting on the Office's goals and desired outcomes.
- Continue to refine the OAG's audit planning process and liaise with key stakeholders to ensure that matters selected for special audits and studies:
 - are of importance and interest;
 - where possible, address and report on emerging issues for sectors or for the public sector as a whole;



- lead to improvement-oriented solutions; and
- upgrade the standard of internal as well as external accountability of public sector organisations.
- In the light of information provided by our strategic and planning processes, reconsider our operational priorities and, in particular, the skills required to further develop and deliver the Office's mandate.
- On introduction of the Public Audit Bill into the House of Representatives, assess the likely implications for the Office.
- Develop our knowledge management systems by:
 - successfully implementing an Intranet;
 - making progress on associated issues such as improved data management; and
 - continuing existing initiatives to develop electronic communication with audit service providers.
- Do everything feasible to eliminate the existing backlog of audits, including extending the practice of publicly naming entities which are failing to prepare their financial statements in a timely manner.



Statement of Objectives for the Management and Development of Audit New Zealand

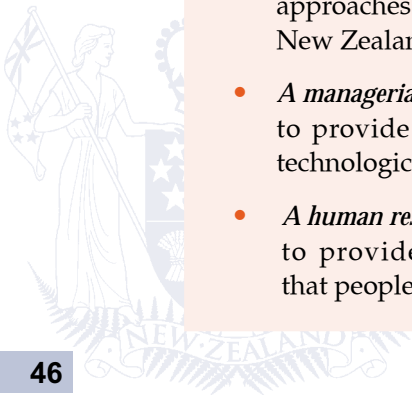
Description

Audit New Zealand 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 not awarded under the contestable audit arrangements.

Audit New Zealand comprises approximately 240 staff operating from 11 locations. It has an operating budget of \$18.234 million.

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

- *An operational capability* – to carry out audits on behalf of the Audit Office.
- *A technical capability* – to support field auditors with advice on technical accounting and auditing matters.
- *A sectoral capability* – to develop consistent and co-ordinated plans, audit approaches and decisions in sectors where Audit New Zealand is dominant.
- *A managerial capability* – to provide leadership, planning, financial and technological support to field operations.
- *A human resource capability* – to provide systems and processes to ensure that people reach their full potential.



- *A professional development capability* – to provide training to ensure that professional capability standards are met and personal development is achieved.
- *A quality assurance capability* – to ensure adherence to Audit Office and professional standards.

Key Objectives for 1999-2000

Key objectives in managing Audit New Zealand during 1999-2000 are to:

- Continue to develop and communicate our vision, values and direction to ensure that they are aligned for all staff.
- Achieve our revenue targets through client retention and expansion of our wider assurance-based services.
- Further increase the value we add to improving our clients' business through the development of new assurance-based products and services.
- Continue to improve the efficiency and cost-effectiveness of our services to clients through the appropriate investment in and use of technology.
- Further develop the leadership skills of our organisation through investment in current and future leaders in conjunction with appropriate performance management systems.
- Review our recruitment, retention and reward systems so that we are able to attract and retain the skilled staff we need to meet our clients' business needs throughout the year.



Part Four

Forecast Financial Statements for 1999-2000

The Audit Office Forecast Report 1999-2000



Introduction

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

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

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

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

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



Statement of Significant Underlying Assumptions

The forecast financial statements on pages 53-65 have been compiled on the basis of existing Government policies and after consultation by the Audit Office with the Speaker and the Officers of Parliament Committee. The main assumptions are:

- That the Audit Office's functions and duties will remain consistent with those set out in section 25 of the Public Finance Act 1977, so that the Office will continue to deliver a range of products which are substantially the same in nature as those provided in previous years.
- That the portfolio of audits for which the Audit Office is statutorily responsible will not change, and so the scale of annual audit reporting will be substantially the same as for previous years.
- That the scale of the Audit Office's activities associated with providing parliamentary reports and advice to other constituencies will be substantially the same as for previous years.
- That the Auditor-General will continue to utilise audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 12 April 1999.



Statement of Accounting Policies

Reporting Entity

These are the forecast financial statements of the Audit Office prepared pursuant to section 34A 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.

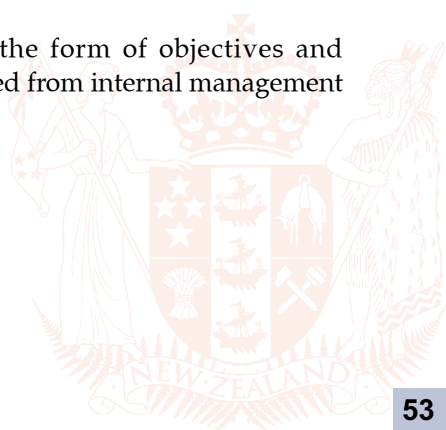
The Audit Department is a department of state established by section 15 of the Public Finance Act 1977 to provide resources to the Audit Office to enable it to perform its functions and duties. The Auditor-General is the Chief Executive of the Audit Department. Departmental activities include the work undertaken by private sector auditing 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 Prospective Financial Performance.

Goods and Services Tax (GST)

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

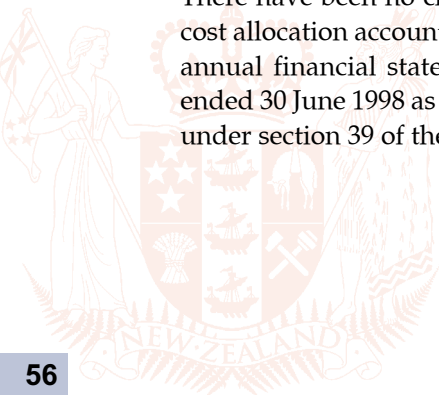
The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).

Income Tax

The Audit Office, 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.

Changes In Accounting Policies

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the annual financial statements of the Audit Office for the year ended 30 June 1998 as laid before the House of Representatives under section 39 of the Public Finance Act 1989.



Statement of Prospective Financial Performance²⁵

For the Year Ending 30 June 2000

Description of Statement

The Statement of Prospective Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. A statement showing the revenue and expenses of each output class appears on page 64.

	1998-99		1999-2000
	Budgeted ²⁶	Estimated Actual ²⁷	Forecast
	\$000	\$000	\$000
Continuing Activities			
Revenue			
Crown	4,269	4,269	4,265
Departments	6,977	6,977	6,947
Other	24,288	24,288	24,977
Interest	50	50	50
Total Revenue	<u>35,584</u>	<u>35,584</u>	<u>36,239</u>
Expenses			
Personnel costs	16,672	16,672	16,279
Operating costs	17,118	17,118	18,303
Depreciation	758	758	795
Capital charge	314	314	262
Total Output Expenses	<u>34,862</u>	<u>34,862</u>	<u>35,639</u>
Operating Surplus	722	722	600
Other expenses	470	470	-
Surplus	<u>252</u>	<u>252</u>	<u>600</u>

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

26 Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 1998-99.

27 The amounts in this column reflect actual results to 28 February 1999 and the forecast results for the remaining four months to 30 June 1999.

Statement of Prospective Financial Position

As at 30 June 2000

Description of Statement

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

	<i>Budgeted Financial Position as at 30/6/99 \$000</i>	<i>Estimated Actual Financial Position as at 30/6/99 \$000</i>	<i>Forecast Financial Position as at 30/6/2000 \$000</i>
Taxpayers' Funds			
General funds	2,382	2,382	2,382
Total Taxpayers' Funds	<u>2,382</u>	<u>2,382</u>	<u>2,382</u>
Represented by:			
Current Assets			
Cash and bank balances	999	999	568
Prepayments	312	312	312
Work in progress	1,209	1,209	1,163
Receivables	2,746	2,746	2,647
Total Current Assets	<u>5,266</u>	<u>5,266</u>	<u>4,690</u>
Non-current Assets			
Physical assets	1,483	1,483	1,857
Total Non-current Assets	<u>1,483</u>	<u>1,483</u>	<u>1,857</u>
Total Assets	<u>6,749</u>	<u>6,749</u>	<u>6,547</u>
Current Liabilities			
Payables and provisions	1,787	1,787	1,757
Provision for payment to the Crown	722	722	600
Provision for employee entitlements	1,388	1,388	1,388
Total Current Liabilities	<u>3,897</u>	<u>3,897</u>	<u>3,695</u>
Term Liabilities			
Provision for employee entitlements	470	470	470
Total Term Liabilities	<u>470</u>	<u>470</u>	<u>470</u>
Total Liabilities	<u>4,367</u>	<u>4,367</u>	<u>4,165</u>
Net Assets	<u>2,382</u>	<u>2,382</u>	<u>2,382</u>

Statement of Prospective Cash Flows

For the Year Ending 30 June 2000

Description of Statement

The Statement of Prospective Cash Flows summarises the cash movements in and out of the Audit Office during the year. It takes no account of money owed to the Office or owing by the Office, and therefore differs from the Statement of Prospective Financial Performance.

	1998-99		1999-2000
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Operating Activities			
Cash received from:			
The Crown	4,269	4,269	4,265
Departments	6,977	6,977	6,947
Others	15,146	15,146	14,201
Interest	50	50	50
Cash disbursed on:			
Production of outputs	(24,529)	(24,529)	(23,741)
Capital charge	(314)	(314)	(262)
Net Cash Flow from Operating Activities	1,599	1,599	1,460
Investing Activities			
Cash received from:			
Sale of physical assets	203	203	217
Cash disbursed on:			
Purchase of physical assets	(928)	(928)	(1,386)
Net Cash Flow from Investing Activities	(725)	(725)	(1,169)
Financing Activities			
Cash disbursed on:			
Payment to the Crown	(918)	(918)	(722)
Net Cash Flow from Financing Activities	(918)	(918)	(722)
Total net increase/(decrease) in cash held	(44)	(44)	(431)
Add Opening cash balance at 1 July	1,043	1,043	999
Closing cash balance at 30 June	999	999	568

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

For the Year Ending 30 June 2000

Description of Statement

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Prospective Financial Performance on page 57 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 59.

	1998-99		1999-2000
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Surplus	<u>252</u>	<u>252</u>	<u>600</u>
Non-cash Items			
Depreciation	<u>758</u>	<u>758</u>	<u>795</u>
Total Non-cash Items	<u>758</u>	<u>758</u>	<u>795</u>
Working Capital Movements			
(Increase)/decrease in prepayments	(87)	(87)	-
(Increase)/decrease in receivables	493	493	99
(Increase)/decrease in work in progress	(46)	(46)	46
Increase/(decrease) in payables	236	236	(30)
Increase/(decrease) in current employee entitlements	<u>(7)</u>	<u>(7)</u>	<u>(50)</u>
Total Net Working Capital Movements	<u>589</u>	<u>589</u>	<u>65</u>
Net Cash Flow from Operating Activities	<u><u>1,599</u></u>	<u><u>1,599</u></u>	<u><u>1,460</u></u>

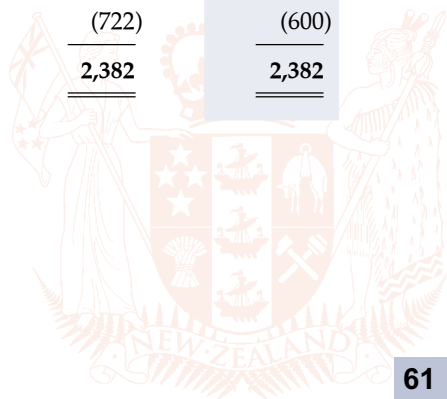
Statement of Prospective Movements in Taxpayers' Funds (Equity)

For the Year Ending 30 June 2000

Description of Statement

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

	1998-99		1999-2000
	<i>Budgeted</i>	<i>Estimated Actual</i>	<i>Forecast</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Taxpayers' Funds brought forward at 1 July	<u>2,852</u>	<u>2,852</u>	<u>2,382</u>
Movements during the year			
Operating Surplus	722	722	600
Other expenses	(470)	(470)	-
Total Recognised Revenues and Expenses for the Year	<u>252</u>	<u>252</u>	<u>600</u>
Flows to and from the Crown			
Provision for payment to the Crown	(722)	(722)	(600)
Taxpayers' Funds at 30 June	<u><u>2,382</u></u>	<u><u>2,382</u></u>	<u><u>2,382</u></u>



Forecast Details of Physical Assets by Category

As at 30 June 2000

	<i>As at 30 June 1999</i>		<i>Forecast Position as at 30 June 2000</i>		
	<i>Budgeted Net Book Value \$000</i>	<i>Estimated Actual Net Book Value \$000</i>	<i>Cost \$000</i>	<i>Accumulated Depreciation \$000</i>	<i>Net Book Value \$000</i>
Furniture and fittings	199	199	3,878	3,351	527
Office equipment	463	463	3,503	3,104	399
Motor vehicles	821	821	1,097	166	931
Totals	<u>1,483</u>	<u>1,483</u>	<u>8,478</u>	<u>6,621</u>	<u>1,857</u>



Prospective GST Status of Departmental Output Classes

For the Year Ending 30 June 2000²⁸

<i>Departmental Output Classes</i>	<i>GST- Exclusive (DFR) \$000</i>	<i>GST \$000</i>	<i>GST- Inclusive (Vote) \$000</i>
Mode B Gross			
D1 Reports and advice arising from the exercise of the function of legislative auditor:			
• Annual appropriation	3,646	456	4,102
• Other appropriation	<u>404</u>	<u>-</u>	<u>404</u>
	4,050	456	4,506
D2 Certification of authority to release funds from the Crown Bank Account	230	29	259
D3 Provision of non-contested audit services	<u>6,701</u>	<u>709</u>	<u>7,410</u>
Total Mode B Gross Output Classes	<u>10,981</u>	<u>1,194</u>	<u>12,175</u>
Mode B Net			
D4 Provision of contested audit services	<u>24,658</u>	<u>3,280</u>	<u>27,938</u>
Total Mode B Net Output Classes	24,658	3,280	27,938
Total Departmental Output Classes	<u><u>35,639</u></u>	<u><u>4,474</u></u>	<u><u>40,113</u></u>

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

- The GST-exclusive amounts for each departmental output class correspond to "Total Expenses" for 1999-2000 appearing in the Forecast Output Class Operating Statements on page 64, while the aggregate amount for all four output classes corresponds to "Total Expenses" for 1999-2000 in the Statement of Prospective Financial Performance on page 57 of this report.
- The GST-inclusive amounts for each departmental output class correspond to the bolded annual appropriations for 1999-2000 appearing in Part B1 of Vote Audit of the 1999-2000 Main Estimates (parliamentary paper B.5 Vol. I).

Statement of Objectives²⁹ – Forecast Output Class Operating Statements

FORECAST FINANCIAL STATEMENTS FOR 1999-2000

Objectives – Output Class Operating Statements

Departmental Output Class	Description	Revenue Crown \$000	Revenue Depts \$000	Revenue Other \$000	Total Revenue \$000	Total Expenses \$000	Operating Surplus/ (Deficit) \$000
Mode B Gross							
D1	Reports to Parliament and other constituencies on matters arising from annual audits, special audits and studies, special investigations, advice to select committees, taxpayer, ratepayer, and Members of Parliament enquiries, administration of the Local Authorities (Members' Interests) Act 1968, and advice to government bodies on auditing, accountability and financial management.	4,035	-	15	4,050	4,050	-
D2	Certification of authority to release funds from the Crown Bank Account.	230	-	-	230	230	-
D3	Provision of non-contested audit services.	-	1,179	4,488	5,667	6,701	(1,034)
Total Mode B Gross Output Classes		4,265	1,179	4,503	9,947	10,981	(1,034)
Mode B Net							
D4	Provision of contested audit services	-	5,768	20,474	26,242	24,658	1,584
Total Mode B Net Output Classes		-	5,768	20,474	26,242	24,658	1,584
Totals		4,265	6,947	24,977	36,189	35,639	550

29 Details of the forecast performance for each class of outputs are set out on pages 27-42 of this report.

Statement of Objectives (continued) Forecast Financial Performance

For the Year Ending 30 June 2000

	1998-99		1999-2000
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Operating Results			
Revenue: other	24,288	24,288	24,977
Revenue: interest	50	50	50
Output expenses	34,862	34,862	35,639
Surplus before capital charge	566	566	862
Surplus	252	252	600
Working Capital			
Net current assets ³⁰	1,369	1,369	995
<i>Current ratio³¹</i>	<i>135%</i>	<i>135%</i>	<i>127%</i>
<i>Average receivables and work in progress</i>			
	<i>46 days</i>	<i>46 days</i>	<i>44 days</i>
<i>Average payables outstanding</i>			
	<i>38 days</i>	<i>38 days</i>	<i>35 days</i>
Resource Utilisation			
Physical assets:			
Total physical assets at year-end	1,483	1,483	1,857
<i>Additions as % of physical assets</i>	<i>63%</i>	<i>63%</i>	<i>75%</i>
Taxpayers' funds			
Level at year-end	2,382	2,382	2,382
Forecast Net Cash Flows			
Surplus/(deficit) on operating activities	1,599	1,599	1,460
Surplus/(deficit) on investing activities	(725)	(725)	(1,169)
Surplus/(deficit) on financing activities	(918)	(918)	(722)
Net increase/(decrease) in cash held	(44)	(44)	(431)

30 Current assets minus current liabilities.

31 Current assets as a proportion of current liabilities.