

The Controller and Auditor-General

Tumuaki o te Mana Arotake

Annual Plan

for the year ending 30 June 2003

Prepared pursuant to the requirements of section 36
of the Public Audit Act 2001

ISSN 1175–8258



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Speaker's Foreword

I am pleased to introduce the Controller and Auditor-General's *Annual Plan* for the 2002-03 financial year.¹

The Public Audit Act, enacted in April 2001, makes the Controller and Auditor-General an Officer of Parliament on a similar basis to the Ombudsmen and the Parliamentary Commissioner for the Environment. It also clarifies which entities the Controller and Auditor-General is appointed to audit, and how the audit mandate applies to each of these entities. This is the first *Annual Plan* prepared under the Act.

In April 2001, the House also recommended additional funds for the Controller and Auditor-General to carry out an extended mandate under the Act, and to cope with increases in demand which he has experienced in recent years.

The Controller and Auditor-General's role is to act on behalf of Parliament by assisting it to strengthen the effectiveness, efficiency, and accountability of public sector organisations. The *Annual Plan* 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. It gives Parliament an appropriate basis for holding the Controller and Auditor-General to account for his Office's performance during 2002-03.



Rt Hon Jonathan Hunt
Speaker of the House of Representatives

29 April 2002

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

Introduction by the Controller and Auditor-General²

This *Annual Plan* is designed to provide a comprehensive description of the projected performance of the Audit Office³ for 2002-03. Information is also provided about the role and goals of the Office so the Office's 2002-03 plans can be seen in context. The Plan is in five parts:

- Part 1 provides a brief explanation of the organisation, purpose, outcomes, and outputs (products and services) of the Audit Office. Information is included to show how the Office's 2002-03 plans relate to its role.
- 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 2002-03 plans relate to longer-term goals, and is based on the Office's 2001-2004 Strategic Business Plan, which was presented to the Officers of Parliament and Finance and Expenditure Committees in November 2000.
- Part 3 summarises the Audit Office's proposed work programme for 2002-03. It sets out the Strategic Audit Planning process which underpins the programme, and then describes the outputs that will be provided by the Office. Included in this Part are brief descriptions of performance audits which are high on our priority list.
- Part 4 summarises plans in relation to stewardship of the resources entrusted to the Audit Office. It describes plans for organisational management and development, and summarises the expected financial results for 2002-03.
- Part 5 contains the forecast financial statements of the Audit Office for 2002-03, and includes detailed forecast statements of service performance for each output to be provided by the Office.

2 The Controller and Auditor-General, in his personal role, is usually referred to simply as "the Auditor-General" in the rest of this report.

3 "The Audit Office" is the term used in this report to refer to all of the resources used by the Controller and Auditor-General in pursuit of his role (see also page 11).

Highlights of the 2002-03 year will be:

- Completing implementation of the Public Audit Act, which extends the Auditor-General's portfolio and mandate. Audits will be completed of entities newly added to the portfolio, and new funding will be used to continue and complete performance audits in the wider Crown sector.
- Building relationships with Select Committees in a new Parliament, and continuing to develop a relationship with the sub-committee of the Finance and Expenditure Committee which has taken on the task of reviewing our reports.
- Continuing to work on improving the use made of our public reports.
- Contributing to the work being done by others to make public entity reporting more understandable and more relevant to Parliament and the public, and improving our own measurement and reporting of Office outcomes, capabilities and risk.
- Considering future options for the contestability of annual audits, in the light of our current review of the impact of the regime, which will be completed before June 2002.
- Managing the transition to the new Auditor-General.



D J D Macdonald
Controller and Auditor-General

23 April 2002



Statement of Responsibility

This Plan, including the forecast financial statements in Part 5, for the year ending 30 June 2003 have been prepared as required by section 36 of the Public Audit Act 2001.

As Controller and Auditor-General, I acknowledge, in signing this statement, that I am responsible for the forecast output information and financial statements contained in this Plan.

The forecast financial statements, which include objectives for output and financial performance, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House) the 2002-03 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 Plan is consistent with the appropriations contained in the *Estimates* for the year ending 30 June 2003 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



D E Atkin
Finance Manager

23 April 2002

23 April 2002



Part One

Organisation, Purpose, Outcomes and Outputs

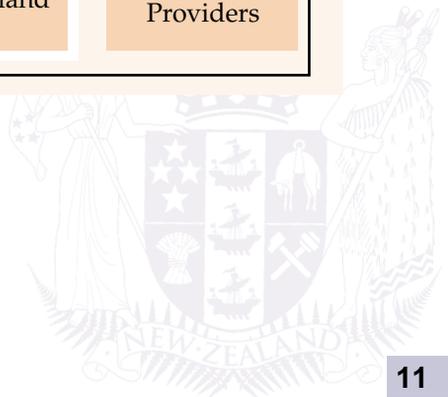
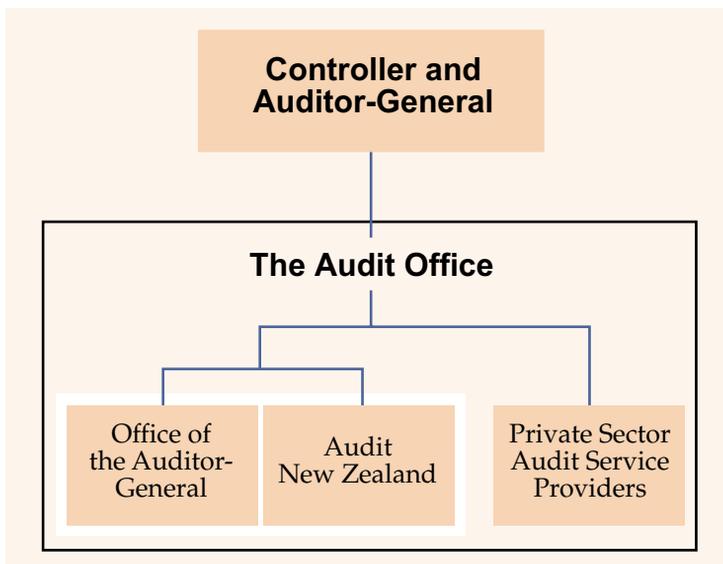


Organisational Arrangements

The Controller and Auditor-General is an Officer of Parliament, and a corporation sole established by section 10 (1) of the Public Audit Act 2001.

To plan, conduct and report on the results of over 3,900 audits each year, the Controller and Auditor-General has three major sources of assistance: two internal business units (the Office of the Auditor-General and Audit New Zealand) and private sector auditing firms.

“The Audit Office” is the term used in this report to refer to the whole of these resources and activities. It includes the Controller and Auditor-General as a person, and all those authorised by the Controller and Auditor-General to carry out any particular function, duty or power.



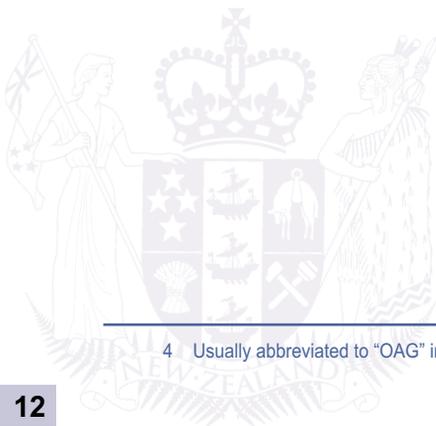
The roles of the two internal business units are as follows:

The Office of the Auditor-General⁴ –

Is responsible for strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out performance audits and special studies, and parliamentary reporting and advice.

Audit New Zealand –

Carries out audits that it has won the right to conduct on behalf of the Auditor-General in competition with private sector auditors, as well as those audits not awarded under the contestable audit arrangements, and offers additional assurance services to public entities.



⁴ Usually abbreviated to “OAG” in the rest of this report.

Purpose and Outcomes

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 plays a key part in the system of checks and balances between Parliament and public entities:

- Public entities are *accountable* to Parliament and to other constituencies for their use of the resources and powers conferred by Parliament.
- The Audit Office provides *assurance* to Parliament and to other constituencies that the entities are operating, and accounting for their performance, in a manner consistent with Parliament's intentions. We also seek to foster *improvement* in their performance and accountability.

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



Key Concerns

The key concerns of the Office, which are central to the way in which all our auditors undertake any work, are:

- **Performance:** Have public entities undertaken activities in accordance with Parliament's intentions, and in an effective and efficient manner?
- **Authority:** Have activities, resourcing and accountability requirements been undertaken within the authority granted by Parliament?
- **Waste:** Have resources been obtained and applied in an economical manner? That is, are taxpayers' dollars being wasted?
- **Probity and Financial Prudence:** Are entities meeting parliamentary and public expectations of an appropriate standard of behaviour in the public sector?
- **Accountability:** Have entities given full and accurate accounts of their activities, and of their compliance with Parliament's intentions, through the annual reporting cycle? Are governance and management arrangements suitable to address the preceding concerns?



Desired Outcomes

If the Audit Office has done a good job:

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



Outputs of the Audit Office

The Audit Office provides assurance through:

Parliamentary and Public Reports –

Which contain those matters arising from audits that warrant the attention of Parliament or other constituencies.

Controller Certifications –

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

Audit and Assurance Reports –

Which express opinions on the financial statements and results of the audit of over 3,900 public entities and also provide further assurance on aspects of management performance at the request of the 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

Further information on planned output performance is given on pages 33 to 52.

Full details of objectives for outputs are given on pages 73 to 87.

A summary of entities subject to audit by the Audit Office is given on page 17.

Public Sector Entities Subject to Audit by The Audit Office

AT 31 MARCH 2002

(based on our mandate preceding the Public Audit Act 2001)

Central Government

The Crown Financial Statements	1	
Government Departments	44	
Offices of Parliament	2	47

Crown Entities and Other Public Bodies

Education

Colleges of Education and subsidiaries	4	
Technical Institutes and subsidiaries	42	
Universities and subsidiaries	29	
Schools	2,610	
Rural Education Activity Programmes	2	
Miscellaneous Education Bodies	20	2,707

Health

District Health Boards and subsidiaries	53	
Miscellaneous Health Bodies	13	66

Reserve Boards	46	
State-Owned Enterprises and subsidiaries	85	
Maori Trust Boards		
<i>(and subsidiaries – audits by arrangement)</i>	33	
Patriotic Councils and War Funds	14	
Primary Producer Boards and subsidiaries	8	
Crown Research Institutes and subsidiaries	28	
Fish and Game Councils	14	
Other Crown Entities and Public Bodies	140	368

Local Government

Regional Councils	12	
City Councils	15	
District Councils	59	86

Airport Authorities (to cease)	17	
Energy Companies and subsidiaries	62	
Licensing Trusts and related audits	42	
Local Authority Trading Enterprises	125	
Port Companies and subsidiaries	38	
Sinking Fund Commissioners	36	
Cemetery Trustees	104	
Miscellaneous	45	469

Pacific Island audits

TOTAL AS AT 31 MARCH 2002		
(based on our preceding mandate)		3,753

Changes under the Public Audit Act 2001

Reserve Bank of New Zealand and Air New Zealand	2	
Other entities, mostly Trusts (estimated net additions)	200	202

EXPECTED TOTAL AS AT 30 JUNE 2002		3,955
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Part Two

Operating Goals and Strategies



The Audit Office's Strategic Business Plan

The Audit Office presented a new Strategic Business Plan to the Officers of Parliament and Finance and Expenditure Committees in November 2000. The Plan covers the period to 30 June 2004, and emphasises:

- for the *OAG*, use of the additional funding provided to meet increased demand and the requirements of the Public Audit Act; and
- for *Audit New Zealand*, consolidation of its sound performance over the last three years, by maintaining its capability and improving its methods.

This section of the *Annual Plan* consists mainly of excerpts from the Strategic Business Plan, updated to reflect subsequent events and trends.



Factors Affecting the Goals and Strategies of the Audit Office

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

- *Ongoing changes in the parliamentary environment, and in community expectations about public sector performance and accountability.*

The nature of Select Committee scrutiny has changed in an MMP and coalition environment. A review of services to Select Committees currently being undertaken by the Standing Orders Committee may have a significant influence on our relationship with them.

There is also continual growth in public and media interest in Select Committee inquiries – both the routine aspects (financial reviews and *Estimates* examinations) and special inquiries initiated by the committees. The Audit Office has traditionally acted as adviser on the routine work, and is now more often being invited to assist on inquiries and other activities as well.

The Finance and Expenditure Committee has set up a sub-committee to consider Audit Office reports. This will have a positive effect on the use and uptake of our reports by the Government and public entities.

- *Continuing change in ways of doing business in and with the public sector, as reform processes and information technology innovations continue.*

Government activities are in a state of continuous reform. Known changes and reforms which will be significant for us include:

- the recently completed “Review of the Centre”;
- tertiary education sector reform;
- passage and implementation of new legislation for local government;
- development of “E-Government”;
- greater emphasis on evaluation of impacts and outcomes (including recent interest in development of triple bottom line reporting);
- progress on improving the capability of the core public sector; and
- flow-on effects from 11 September 2001, such as changes to arrangements for national security.

As the public sector auditor, the Audit Office needs the capacity to assess the effects of these changes and reforms, and contribute to the financial management and accountability aspects of them.

Information and communication changes are accelerating, as the internet and E-commerce develop in parallel. What E-Government is, and what it might be, will be significant developments over the life of the Strategic Business Plan. No one knows how revolutionary these changes will be, but some clear trends are:

- Internal and external transactions, workflows and data storage are increasingly being computerised.
- Public entities are looking to share information more frequently as they need to co-operate more closely on difficult social issues.
- More information which can be used for accountability purposes is becoming available on web sites.

- Innovation is a constant factor in development of systems.
- Internationalisation of accounting standards is being assisted by the development of “common” accounting frameworks such as XBRL.

The Audit Office needs to do more to keep up with these developments in the public sector, and also in the audit and assurance tools available to deal with them. We see information and communication technology in government as a key area, and have now developed a coherent strategic approach to it.

- *Managing the consequences of passage of the Public Audit Act 2001; in particular, the addition of new audited entities, and the extension of our full mandate to almost all public entities.*

The Public Audit Act 2001 makes the Auditor-General an Officer of Parliament, and clarifies the scope of the Audit Office’s mandate. The key changes that affect our planning, resourcing and skill requirements are:

- *Managing changes to the audit portfolio:* The Reserve Bank of New Zealand, Air New Zealand Limited, numerous trusts operated by public entities, and miscellaneous other bodies are added to our audit portfolio. At March 2002, work was still under way to determine the exact status of many of the trusts and other bodies, and establish whether we are indeed their auditor.
- *Extension of the full mandate across the Crown sector:* The Auditor-General’s ability to review issues of effectiveness and efficiency now extends beyond “core” central and local government to the whole public sector (except the Reserve Bank and registered

banks). This means that sectors such as Health, Education and Science, and SOEs are now subject to performance audits and inquiries as well as audits of financial reports. Additional funding has been made available, and we have begun our first performance audits in some of these sectors.

- *Providing a draft “Annual Plan” to the House:* We will engage more with Committees on our proposed work programme, particularly the performance audit programme.
- *Challenges to the credibility of the accounting/auditing profession.*
 - The events occurring related to the bankruptcy of Enron Corporation in the United States are raising broad challenges to current accounting and auditing standards and behaviour. While we believe our current independence standards are appropriate for our circumstances, international events may have implications for both the New Zealand profession and the Audit Office.
- *Appointment of a new Auditor-General.*

The incoming Auditor-General begins his seven-year term in May 2002. Two key areas he is concerned with are the quality of public sector reporting, and the future of the contestability regime for annual audits. The outgoing Auditor-General commissioned a review of the costs and benefits of the contestability regime, the results of which will inform the new Auditor-General’s view of how best to demonstrate that the Office operates effectively and efficiently.

Risks and uncertainties to 2004:

There are a number of key risks and uncertainties which the Office needs to manage over the period of the current Strategic Business Plan (2001-2004):

Performance risks:

- failing to adequately assess changes in our operating environment;
- failing to develop products and services which meet current professional standards and client needs;
- not maintaining the quality of annual audits; and
- not maintaining the quality of major reports and other support and advisory activities.

Capability risks:

- not keeping pace with changes in information and communications technology;
- not maintaining critical mass in Audit New Zealand; and
- not developing and maintaining core skills and attributes in the OAG.

These risks and uncertainties are discussed in more detail in the Strategic Business Plan, which is available on our web site (www.oag.govt.nz). The broad strategies we have adopted to mitigate them are described below, and we believe that they are sufficient to effectively manage our business risks.

The most significant change in our risk environment in the past year has been the effect of the Enron bankruptcy and associated events on the ongoing debate about independence in the auditing profession. We will keep a close watching brief on this, to ensure any challenges are properly met.

Key assumptions and broad performance strategies:

Our Strategic Business Plan is predicated on four key assumptions about our scale of activity and product range.

- Our *portfolio of entities* will increase in size and scope as defined in the Public Audit Act, but will then remain substantially the same over the planning period. Our prior portfolio earned fees of \$31 million. This will increase by up to \$2 million.
- We will continue to deliver the *range of products* we currently provide, and we will also position ourselves to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of our *annual audits* will remain substantially the same, but the *assurance work* we undertake at the request of public entities will continue to grow, from approximately \$3 million to \$5 million over the next three years.
- The scale of our activity associated with *performance audits, advice to Parliament and others, and inquiries* will continue to increase because of increases in demand and the effects of the Public Audit Act. The cost to the Crown will increase from \$4.0 million in 2000-01 to \$4.9 million in 2002-03 and subsequent years. The quality of the work will remain at least as high as it currently is.



We will use a series of broad strategies to maintain Audit Office capability and manage the efficiency and effectiveness of our performance.

To ensure that all *audit reports and advice* are soundly based:

- We will continue to use a pool of expertise sourced from both the private sector and in-house, and carry out effective quality assurance reviews on this work.

To ensure that we retain a sound *public sector auditing capability*:

- We will maintain an in-house, professionally competent, and financially viable, operations capacity to conduct both financial audits and special studies.

To ensure that we deliver *audit services* effectively and efficiently:

- We will consider the results of the 2002 review of the contestable allocation process for annual audits.

To ensure that we are properly responsive to the *needs of Parliament and other constituencies*:

- We will maintain a strong in-house research, planning, reporting and advisory capacity.

To maximise the *value we add* to our system of government:

- We will continue to encourage audit service providers to perform additional assurance work which helps public entities improve their performance and accountability, without compromising independence.

Strategies for the OAG and Audit New Zealand are set out in detail in the Strategic Business Plan.

Specific Goals and Strategies

Informed by all the factors above, our operating goals and strategies for 2002-03 will continue to be primarily directed towards:

- ensuring that we continue to deliver excellent audit services;
- adjusting the emphasis of our audit work, our organisation, and our methods, to reflect our changing environment; and
- being a leading example of a public entity in terms of performance, financial management and accountability.

Goal 1:

To ensure that we continue to deliver excellent audit services.

Strategies:

We will continue to:

Plan and conduct all audits *professionally* and having regard to the *full mandate* of the Office.

Target our audits at critical areas of performance and accountability in the public sector.

We will place particular emphasis on:

Making effective arrangements for audits and public reporting on new entities in our portfolio, and the use of our powers to conduct performance audits in new sectors under the *Public Audit Act*.

Completing all audits that we are required to perform, and reporting on the results in a timely way.

Communicating effectively with those who have a key interest in the results of our work.

Goal 2:

To adjust the emphasis of our audit work, our organisation, and our methods, to reflect our changing environment.

Strategies:

We will:

Maintain sound *awareness* of developments and changes in the public sector.

Improve *the ways we learn* as an organisation.

Undertake projects targeted at *increasing our understanding* of specific areas or issues in the public sector, and at *developing suitable audit products* for the changing needs of the sector.



Goal 3:

To be a leading example of a public entity in terms of performance, financial management and accountability.

Strategies:

We will continue to:

Fulfil a *leadership role* where it is appropriate to do so, particularly in the development of accountability arrangements and performance reporting.

Practise what we preach to others.

Operate under a philosophy of *continuous improvement*.

Maintain a *capability* which delivers excellent *administrative, corporate and technical support* to the Office.

We will:

Place additional emphasis on *measuring and reporting achievement* of our goals and desired outcomes.

Successfully respond to the findings of a *review of the impact of contestability* conducted late in the 2001-02 year.

Successfully manage the transition to the new Auditor-General.



Part Three

Proposed Work Programme for 2002-03

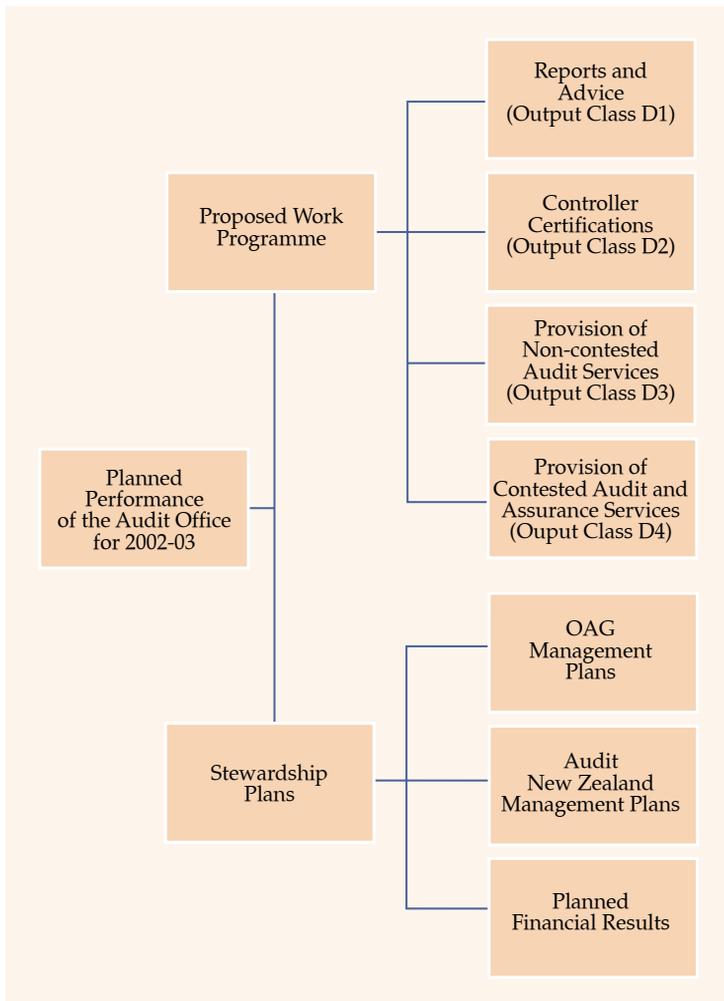


Overview

Part 3 of this Plan describes the top section of the overview below, “Proposed Work Programme”.

Part 4 describes the bottom section, “Stewardship Plans”.

Elements of the Planned Performance of the Audit Office for 2002-03



Planning the Work Programme – The “Strategic Audit Planning” Process

The products and services the Audit Office delivers are supported by a “Strategic Audit Planning” process which is described below. This description is followed by highlights of planned performance for each of our four output classes.

Our mandate covers a wide range of public entities, across the whole of government (including local government). All these entities are required to prepare an annual report which contains audited financial and non-financial statements – 85% of our effort goes into these “financial report audits”.

At any given time, these entities may be subject to different pressures and circumstances. It is not useful, and would be prohibitively expensive, to subject all of them to an additional level of detailed scrutiny at all times. We try to achieve an efficient focus by using *Strategic Audit Planning* to identify and give priority to the most important issues, both for financial report audit work and for performance audits and other work.

The Process of Strategic Audit Planning

To initiate the Strategic Audit Planning process, small groups in the OAG prepare a series of overview documents, at six-monthly intervals:

- a *General Environmental Scan*, which reviews changes and trends in government (both central and local), in accountability requirements, and in the accounting/auditing profession;
- an *E-Government Update*, which reviews current developments in E-Government and information and communications technology generally; and

- an *Environmental Update*, which reviews current developments in the environmental area (such as environmental auditing and progress on triple bottom line reporting).

These overview documents help set the scene for the preparation of Strategic Audit Plans, which examine a range of issues at a number of levels, from individual entities to the whole of government. All entities are grouped into “sectors”, using the same general grouping as Select Committees. Each sector is the responsibility of a *Sector Manager* who has ongoing responsibility for consulting with stakeholders and monitoring all significant activities within the sector. Each sector has its own sector plan, and these are aggregated into the Office’s overall Strategic Audit Plan.

Preparing the Strategic Audit Plan involves:

- surveying current and forecast activities by all the entities within the sectors;
- analysing these activities for issues and risks, and the causes of these;
- identifying what other relevant work is being done by other agencies, and what we have already done in respect of that issue or related issues;
- identifying possible audit actions that will address the issue or mitigate the risk;
- subjecting the possible actions to a thorough process of peer review;
- comparing and ranking the proposed actions; and
- selecting the most appropriate actions, on the basis of agreed *criteria*.

The actions we might initiate include:

- conducting and following up performance audits and special studies;
- identifying areas to be given particular emphasis in the course of the financial report audit;

- commissioning additional audit-related work that is specific to a particular entity;
- gathering information and intelligence;
- conducting sector-wide surveys;
- developing and promulgating “better practice” guidelines; and
- drawing particular matters to the attention of stakeholders and decision-makers.

The Criteria We Use to Choose What We Do

All this is easier said than done. There is no universally accepted method for analysing risks and payoffs in relation to very large and complex systems such as national and local government. Nor can the exercise be entirely value-free, since we must deal with issues of risk *to whom* and payoff *for whom*.

We believe that the most the process can realistically accomplish is to produce a list of credible and useful audit actions that, in the view of most informed people, would be judged to be among the most important.

Currently, our main criteria for choosing actions are:

- the likely benefits to the community (national or local), of improvements in public sector performance, where such improvements appear possible (for example, the likely benefits of improved border biosecurity would be ranked in importance well above the likely benefits of improved parking fine enforcement); and
- the extent to which actions might be useful (for example, we would consider ourselves more likely to successfully address an issue such as schools building management than in one such as educational standards).

Because Parliament is our primary client, we may also apply a secondary criterion – our assessment of the extent of Parliamentary or community interest. If there is a choice between two possible actions that seem to have a similar payoff, we will prefer the one in which we think Parliament or the public will have the greater interest.

A recent peer review of our Office recommended a different set of criteria for assessing possible actions. It suggested we should use “more specific criteria covering a range of issues such as risk, materiality, public interest, improvement in resource management, enhancing accountability, and immediacy”. The criteria, when taken together, were not much different conceptually from the criteria that we had already been using. We applied them as part of our planning process this year and found that they provided a useful cross-check to our existing method.

Turning the Strategic Audit Plans into Actions

Once the plans have been developed, the highest priority actions are built into our work programme through:

- updating the project list for our Special Audits and Studies group, which does the bulk of the performance audits and special studies;
- writing sectoral briefs which give auditors instructions to undertake specific tasks or watching briefs (for example, our current briefs ask auditors to look at probity issues with respect to application of the Resource Management Act 1991); or
- including them in the personal plans of Sector Managers (for example, the accountability and financial provisions of draft or new legislation must be considered, and advice might be given to the drafters, Select Committees, or auditors).

We also sometimes have to respond to current issues that could not have been foreseen in any plan, but must be dealt with immediately – for example, matters raised by Parliamentarians. Decisions about whether and when to proceed with planned actions are subject to continuous review in the light of these current events, and of other considerations such as changes in the level of Parliamentary or public concern, the availability of suitable staff, and funding constraints.

Consulting with Parliament on our Plans

Under Section 36 of the Public Audit Act 2001, our Plan is also subject to Parliamentary scrutiny. This year, the Finance and Expenditure Committee forwarded Part 3 of the Plan to all Select Committees for comment, and then reported back to the House. Five committees made comments, identifying which potential studies they thought were most important from their perspective.

The comments do not change our overall programme priorities, but may affect our detailed planning and scheduling of studies over the next 18 months. We will take the comments into account in scheduling studies, and report back to the House in future Annual Plans and Reports on any specific changes made.

Improving Our Strategic Audit Planning Method

We have been developing and refining our Strategic Audit Planning process over a number of years. In the past, for central government entities, we have used a computer-assisted approach to making rough estimates of risk and payoff. A related but somewhat different approach has been adopted for local government entities. In 2001-02 we have applied two methods, as described at the top of page 39.

We are currently investigating an alternative computer-assisted method for risk and payoff assessment that uses a different, and less quantitative, analytical approach. Our objective in developing new methods is to remain comprehensive (in that we cover all the entities within our mandate) and steadily become more:

- systematic – in that all entities, risks and audit action payoffs are assessed using the same processes and criteria;
- technically robust; and
- transparent – in that the basis of our decisions is clear.

Highlights of Planned Output Performance

The products and services the Office will deliver in 2002-03 are reflected in four classes of output. Highlights of planned performance for each of these are outlined below.

Output Class D1 –

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

- This Output Class is appropriated \$4.9 million, funded directly by the Crown.
- It incorporates a number of important and highly visible activities of the Auditor-General, of which the major ones are:
 - Reporting to and *advising parliamentarians* – either in Select Committees, or as Ministers or individual MPs – on the results of audits and investigations. The bulk of this is done through Financial Reviews and Estimates Examinations, mainly by Sector Managers in the OAG, and costs up to \$0.6 million.
 - *Responding to enquiries* from taxpayers, ratepayers or individual Members of Parliament on matters which the Auditor-General thinks it appropriate to investigate. Between 250 and 300 enquiries are received each year, and the work costs up to \$0.4 million.
 - Undertaking and reporting on *performance audits* of public entity activities. These audits examine questions such as entity performance, the quality of accountability to Parliament, and the probity of activities. Subjects for the audits are chosen using the Strategic Audit Planning process described previously.

Under the Public Audit Act 2001, this activity now covers almost all of the public sector – and Parliament is providing additional funds to do more audits, particularly in Crown entities. This will enable us to issue 10-14 reports each year from 2002-03 on. The next few pages describe the performance audits and special studies (generically called “studies”) which are currently in progress, and at the top of our priority list for 2002-03.

- The quality of this work is ensured by rigorous internal procedures, including peer review and substantiation of major reports. Principles of natural justice are applied in the clearance of published reports, so that public entities *and affected individuals* have an opportunity to check the factual accuracy *of the findings* and comment on the conclusions drawn.
- More detail on this Output Class is provided in the Forecast Financial Statements, on pages 73-79.

1. Studies in progress at 31 March 2002

Road Safety – Speed Cameras (likely publication date April 2002)

This is a study of how the Police manage and operate the speed camera programme. The study is looking at camera placement, asset management, and enforcement; and benchmarks the New Zealand programme against best practice from overseas programmes.

Relationships between Local Authority Elected Members and Chief Executives (likely publication date May 2002)

This is a study of the critical elements that have an impact on the relationship between Chief Executives and their councils, along with guidance to councils on how best to manage issues surrounding the employment processes.

Preparedness for the Deployment in East Timor – Implications for the New Zealand Defence Force (NZDF) – Part II (tentative publication date May 2002)

Part I reviewed the planning and operational performance of the NZDF during the first phase of deployment (June 1999 to March/April 2000), and lessons learned by the NZDF in the course of that phase. Part II is examining the planning for, deployment and operations of two selected force elements – helicopters and health support services. It is considering sustainability issues in relation to these two force elements, and NZDF's responses to those issues.

Biosecurity Risk Management (tentative publication date May 2002)

This study is auditing the biosecurity risk management arrangements in place in New Zealand and will complement other reviews recently undertaken in this area. It is taking a broader look at biosecurity as it affects the Ministry of Agriculture and Forestry and also covers the involvement of other agencies. It is examining some specific cases and risks; e.g. the salt marsh mosquito, and foot and mouth disease.

Local Government Economic Development Initiatives (tentative publication date June 2002)

This is a study of the processes adopted by local authorities to ensure that appropriate management and risk procedures are put in place when deciding to get involved in economic development initiatives.

Accuracy of Benefit Payments (tentative publication date June 2002)

This study is examining the accuracy with which the Ministry of Social Development processes claims for social security benefits. It is also reviewing the methods that the Ministry uses to measure and report processing accuracy.

Infection Control in Publicly Owned Hospitals (tentative publication date August 2002)

This study will report on the systems in use to minimise hospital-acquired infection. It is auditing against infection control standards in use, and takes account of the changing regulatory environment in relation to infection control.

The State Services Commission's Effectiveness for Maori

This study involves the application to the State Service Commission of our model for assessing the capability of departments to deliver effective outcomes for Maori. Although the review was initiated in 1999-2000, it was postponed. We intend to complete and report on the study in 2002-03.

2. Studies being scoped at 31 March 2002

Co-ordination in the Justice Sector

The proposed study would examine the effectiveness and efficiency of the arrangements that have been put in place to facilitate co-ordination within the Justice sector, including the information systems that support both co-ordination and the operations of individual agencies.

Inland Revenue – Taxpayer Audit

The proposed study would examine how the Inland Revenue Department uses taxpayer audit as part of its overall compliance improvement strategy.

Housing New Zealand

The proposed study would examine the way in which Housing New Zealand manages applications for rental accommodation. It would focus in particular on the dissemination of information about eligibility, and the application of the social allocation model in determining allocation priorities.

3. Other Studies Signalled in our 2001-02 Forecast Report and Reaffirmed

ACC Case Management

The proposed study would review the effectiveness and efficiency of ACC's case management processes and procedures. It will look at ACC's rehabilitation policy and practice, claims streaming, claims payment accuracy, and dispute resolution.

Costing and Pricing of Student Fees in Tertiary Education Institutions (TEIs)

TEIs are large, complex organisations that derive a significant proportion of their revenue from student tuition fees. This study would examine the fee-setting methods and policies in selected TEIs.

4. Follow-Up Studies Planned

Civil Aviation Authority

In 1997 and 2000 we studied CAA's safety audit function. Both studies identified weaknesses in the way in which the CAA applied risk management principles to its safety audit function. We propose to follow up to see if our previous recommendations have been implemented. Depending on our findings, we may also examine other aspects of CAA's aviation safety programmes.

Information Requirements for the Sustainable Management of Fisheries

In our *Fifth Report for 1999*, we reported to Parliament on the adequacy of the arrangements for sustaining New Zealand's fisheries. We propose to re-visit this study to examine what response the Ministry of Fisheries has made to our recommendations.

Student Loan Scheme – Publicly Available Information

In June 2000, we reported to the Education and Science Committee on how the information requirements of the stakeholders of the Student Loan Scheme were being met. We propose to carry out a follow-up study to give Parliament assurance as to the quality of the information now available.

5. Other High-Ranking Studies Arising out of our 2001-02 Strategic Audit Planning

Maori Trustee and the Maori Land Court

The proposed study would examine the effectiveness of the Maori Trustee and the Maori Land Court in assisting the administration and management of Maori land by its owners. Given that a variety of issues can affect Maori land administration, selected key functions of the two agencies would be examined.

Health Care Waste Management in Hospitals

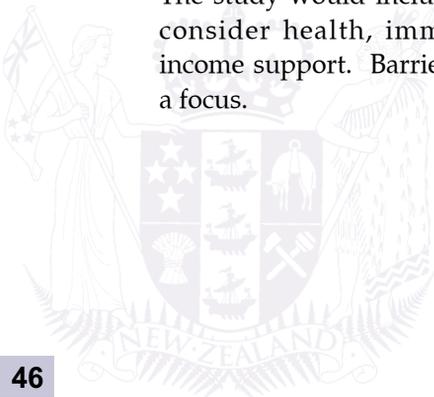
The proposed study would examine the management and disposal of waste from publicly owned hospitals, with a particular emphasis on the management and disposal of hazardous materials. The issues would be used as an illustration from one sector of the broader issues associated with management of hazardous products and waste within the current legislative and regulatory framework.

Shared Services in Local Authorities

Sharing services can bring about significant efficiency gains, and Councils in the Auckland region and others are currently embarking on major initiatives in this area. The proposed study would focus on three or four case studies and draw out some of the potential benefits and lessons to be learned by local authorities.

Infectious Diseases in At-risk Communities

The proposed study would examine the effectiveness and efficiency of a publicly funded health programme aimed at reducing or eliminating a specific illness or disease (e.g. meningococcal disease, hepatitis, tuberculosis or diabetes). The study would include central and local government, and consider health, immigration, housing, education and income support. Barriers to effective collaboration would be a focus.



Immigration Policies and Practices

The proposed study would look at how the various government departments and government agencies co-ordinate their policies and practices to ensure that desired immigration outcomes are achieved. Specifically, the study would examine the effectiveness of enforcement under the Immigration Act 1987 (i.e. removals and deportations), border management to ensure legal entry of persons into New Zealand, and the specific refugee services the Immigration Service provides.

Managing Threats to National Security

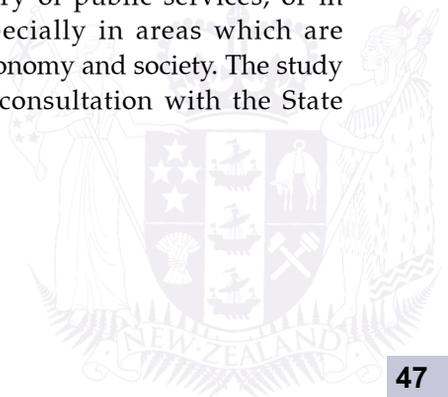
The proposed study would examine the management of threats to national security, especially from organised terrorist activity. There is a wide range of agencies involved in assessing and managing such threats, including: the Security Intelligence Service; the Government Communications Security Bureau; the External Assessments Bureau (within the Department of the Prime Minister and Cabinet); Police; Foreign Affairs; Defence; the Immigration Service; and Customs.

Department of Conservation's Land Holding and Purchasing Policies

The proposed study would evaluate the Department's objectives in holding and purchasing land. It would assess the state of the Department's information on its land holdings, and how spending on land is determined.

Human Resource Management in the Public Sector

The proposed study would examine in some depth how well departments individually – and the public sector generally – are performing a strategic human resource management function. Failures of strategic human resource planning can result in the inefficient delivery of public services, or in serious service failures – especially in areas which are potentially of high cost to the economy and society. The study would be conducted in close consultation with the State Services Commission.



Training in the New Zealand Defence Force

Training is the main activity by which the NZDF maintains its levels of capability to respond to varying levels of deployment. The proposed study would examine the main systems of training in the NZDF to determine how they contribute to defence capability.

Economic Development Initiatives

The proposed study would examine how the Government's economic development initiatives are being co-ordinated and delivered across the whole of the public sector. It would look at the roles of specific organisations (Ministry of Economic Development and Industry New Zealand), whether accountabilities are properly defined, and whether processes and policies are in place to allocate funding and measure performance.

Effectiveness of Compensatory Funding Mechanisms in Education

Various compensatory funding mechanisms are used in the school and tertiary sectors of education, with the aim of decreasing the disparities for particularly vulnerable groups. The proposed study would examine the effectiveness of compensatory funding mechanisms.

Funding Secondary and Tertiary Healthcare

The proposed study would examine the arrangements for the funding of secondary and tertiary services, and audit how District Health Boards determine hospital funding allocations and how they monitor the services provided and associated outcomes. It may also consider the relationship between primary and secondary services.

Fines Collections by Courts

The proposed study would examine the efficiency and effectiveness of the fines collections operations of the Department for Courts. To the extent that fines and reparation orders remain uncollected, there is a fiscal loss to the Crown. In addition, a failure to collect fines bears directly on the credibility of the fine as a deterrent sentence and imposes pressure on courts to impose more costly and potentially more damaging non-monetary penalties (with the additional associated social and economic costs). The study

would be conducted following the Department's implementation of the new COLLECT information technology system, now substantially completed.

Prevention and Detection of Illegal Drugs

The proposed study would examine the effectiveness of interdepartmental initiatives to reduce the likelihood of successful importation of hard drugs into New Zealand. It would focus on the effectiveness of drug intelligence and also look at the operations of drug detection and control at the border.

Information on Site Risks

Regional Councils have raised with us concerns about areas of significant environmental risk (such as flood plains and areas prone to liquefaction) not being identified to prospective purchasers. This study would focus on determining what is legally required to be notified to prospective purchasers, determining the extent of problems occurring, and looking at ways to remedy or mitigate these risks.



Output Class D2 –

Certification of Authority to Release Funds from the Crown Bank Account

- 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 Parliamentary appropriations and are for lawful purposes. A key part of this activity is checking that warrants issued by the Governor-General for the release of funds, and daily amounts released to Departments to fund their activities, are supported by appropriations.
- This Output Class is appropriated \$0.3 million, funded directly by the Crown. More detail on this Output Class is provided in the Forecast Financial Statements (pages 80-81).



Output Class D3 –

Provision of Non-contested Audit Services

Output Class D4 –

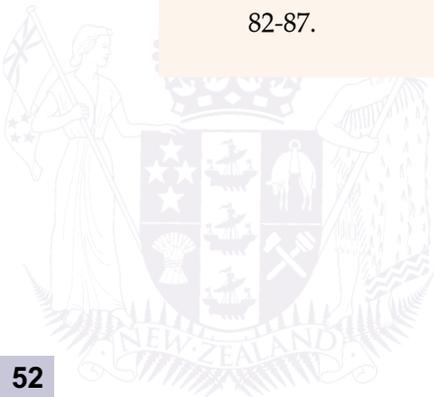
Provision of Contested Audit and Other Assurance Services

- These two output classes relate to the conduct of the annual audits of public entities' financial reports. The Auditor-General has a statutory duty to conduct an audit of the financial reports of more than 3,900 public entities. These audits are undertaken either by Audit New Zealand or by private sector auditors.
- Annual audits result in:
 - **Audit Reports** – On whether the financial reports fairly reflect the financial and non-financial performance of these entities.
 - **Management Reports** – To the management and governing bodies of these entities, on issues arising from the audit.
- Audit service providers also provide **other assurance services** to public entities, at their request.
- Both output classes are mainly funded by fees paid by the public entities being audited. The difference in output classes relates to the method by which the audit service provider has been selected:
 - Output Class D3 includes only those audits which have not been allocated to audit service providers by a contestable process, while
 - Output Class D4 includes all audits or audit-related services awarded through a competitive tender process or under the threat of competition.

- The quality of audit and assurance work done in these two output classes is maintained by:
 - publication of our *Auditing Standards* and provision of detailed guidance on audit risks and issues;
 - training of auditors;
 - OAG involvement when there are difficulties in deciding whether to issue an unqualified or a qualified opinion; and
 - a post-audit quality control process which evaluates auditors' work at no more than three-yearly intervals.

This quality assurance work is led by the Accounting and Auditing Policy group in the OAG.

- Output Class D3 comprises the audits of approximately 400 public entities, for which \$6.0 million is appropriated.
- Output Class D4 covers the remaining 3,500 entities (of which 2,600 are schools), and the appropriation is \$28.0 million. This output class – because it is, effectively, a trading operation – is appropriated on a Mode B net basis, which means that the output class may incur costs up to but not exceeding the amount of revenue generated, without further appropriation.
- More detail on these Output Classes is provided in the Forecast Financial Statements, on pages 82-87.



Part Four

Stewardship Plans for 2002-03



Highlights of Planned Stewardship Performance

The “stewardship” of the Office is concerned with 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 strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out performance audits and special 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 Auditor-General in competition with private sector auditors, as well as those audits not awarded under the contestable audit arrangements.

We supplement these plans by identifying *key indicators of financial performance* which will demonstrate effective stewardship of our financial resources.

Plans for each of these three areas of stewardship are presented on the following pages.

We are also required to publish an *equal employment opportunities* programme, under Schedule 3 of the Public Audit Act 2001. This programme is available on our web sites www.oag.govt.nz and www.auditnz.govt.nz and is reflected in the business unit plans in this Part to the extent that it is significant to them. It is accompanied by a programme to improve our *effectiveness for Maori*.

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

The OAG comprises approximately 50 people with an operating budget of \$7.75 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 \$34 million of audit and assurance 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 performance audits and special studies, inquiries, and the Controller function.

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 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.

The key capability issues the OAG currently faces are:

- managing the storage, retrieval and analysis of the high volume of information provided as the result of audits of over 3,900 public entities; and
- improving our ability to innovate, to cope with the rapidly changing environment.

Key Objectives for 2002-03

Key objectives in managing the OAG during 2002-03 are to:

- Respond effectively to Parliamentary developments, in particular to:
 - build sound relationships with new Select Committees after the 2003 general election; and
 - be ready to respond if the current review of services to Select Committees proposes significant changes.
- Continue to implement the Public Audit Act, paying particular attention to the need to:
 - clearly identify all entities which are now subject to the Act, and make audit arrangements for them;
 - develop our performance audit and inquiry role in new sectors effectively, to give full effect to Parliament's intentions in extending the Office's coverage; and
 - make the Annual Plan process work, through a higher level of engagement with relevant Select Committees.
- Continue to work on improving the use made of the Office's published reports, by:
 - working with the FEC sub-committee, Select Committees and senior public servants;
 - exposing the reports in suitable forums; and



- improving our measurement and reporting of the impacts of the reports.
- Continue to work on improving the timeliness of the audit reports and management reports provided to public entities by our auditors.
- Contribute to improvements in entity reporting to Parliament and the public, by working with relevant groups on:
 - making reports more *understandable* – through methods such as summary financial statements, and plain language financial reporting; and
 - making reports more *relevant* – by reporting on matters such as outcomes (including the triple bottom line), capability, strategy and risk.
- Continue to develop our internal management and capability, in particular by:
 - extending our use of electronic facilities for interacting with auditors;
 - continuing implementation of a capability action plan developed over the last two years, focusing in particular on developing a better environment for learning and for innovation;
 - implementing a plan to improve our effectiveness for Maori;
 - responding effectively to our evaluation of the impact of contestability;
 - improving our own measurement and reporting of outcomes, capability, and risk; and
 - effectively managing the transition to the new Auditor-General.

Improving Measurement and Reporting of Outcomes, Capability, and Risk

One of our objectives is to develop our management, measurement and reporting of outcomes, capability, and risk. Over the last three years, we have done considerable development work on the measurement of outcomes and capability, and some work on risk. We have also developed the planning and reporting of these activities in keeping with the “Statement of Intent” model currently being implemented by 16 government departments.

Outcomes

We will continue to work and report on the following possibilities for better outcome measurement for the Audit Office:

- measuring trends in Office credibility and stakeholder understanding, assurance and confidence;
- measuring the use of Office briefing material and recommendations by stakeholders – in particular Select Committee examinations and reports;
- recording implementation of audit recommendations by public entities; and
- recording changes in financial systems and practices, and in public entity outcomes, which were the result of (or influenced by) Audit Office recommendations.



Capability

We have adopted as a definition of capability:

Having (or having access to) a combination of resources and systems which are fit for the purposes of:

- *delivering outputs and results to current specification and customer satisfaction; and*
- *maintaining the capacity to cope with likely future demands.*

We will continue to work and report on a number of possibilities for better capability measurement for the Office. The core measures which have emerged, and which we will partially report on for the first time in our 2001-02 Annual Report, are:

- levels of relevant formal qualification in key roles;
- length of time in the job, or in directly relevant jobs;
- level of investment in training and development;
- level of backup for critical functions and roles;
- levels of delivery over time, for both products and support functions;
- level of understanding and commitment to Office vision and role; and
- current and required changes in the Office's skill base.



Risk

The audit role is fundamentally based on the concept of risk, and auditors automatically think in terms of risk. However, we are more used to applying these concepts to audited entities than to ourselves. During 2000-01, we formally considered how we use risk concepts in managing and measuring our own activities. During 2001-02, we analysed our risk management activities and agreed that the key steps we need to take in 2002-03 are to:

- develop an overarching policy statement about our risk management activities; and
- finalise, test, and refresh our Business Continuity Plan.

Reporting on this activity in the Annual Plan and the Annual Report

We are developing the Office's *Annual Plan* in keeping with the "Statement of Intent" alternative to the forecast report. We expect that, next year, the *Annual Plan* will be improved by containing:

- more quantified information on the Office's expectations with respect to outcomes and capability;
- clearer statements of the linkages between outcomes, capability, strategies, and outputs; and
- clearer statements of highlights, key indicators, and trends in our performance.

The Office's Annual Reports will continue to report on the previous year's "work in progress and completed" in all these areas.

Objectives for the Management and Development of Audit New Zealand

Description

Audit New Zealand comprises approximately 230 staff operating from nine locations. It has an operating budget of \$19.99 million.

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

An operational capability,
to carry out audit and other assurance services on behalf of the Auditor-General.

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 and assurance approaches and decisions in sectors where Audit New Zealand is a major player.

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 the Auditor-General's and professional standards.

The key capability issues currently facing Audit New Zealand are:

- managing recruitment and retention of audit staff in a highly competitive and high-turnover national and international environment; and
- managing our knowledge and sharing our learning more efficiently, to better support the audit and other assurance services that we provide.

Key Objectives for 2002-03

Key objectives in managing Audit New Zealand during 2002-03 are to:

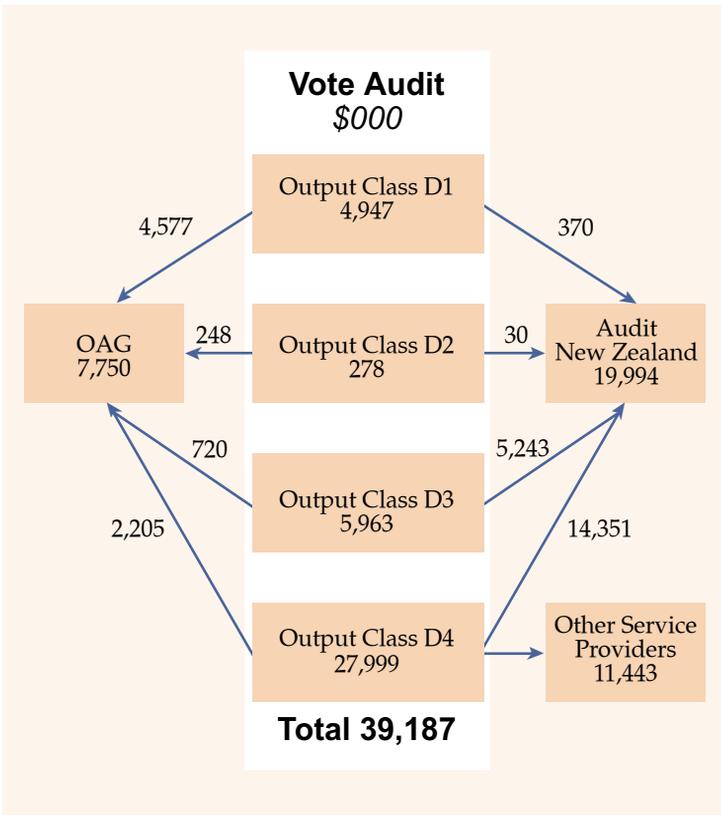
- Grow the business by:
 - retaining audit clients and extending assurance services which add real value;
 - efficient business processes that are aligned to and support our strategic direction;
 - continuing to improve the capability of the organisation through targeted recruitment, retention and development strategies; and
 - implementing our new Leadership/Governance and Accountability Frameworks.
- Deliver seamless services to our clients by:
 - operating as “one team” of audit, assurance and tax experts working together across the country;
 - completing implementation of our refocused audit approach; and
 - extending client service planning to ensure we are providing the best team from Audit New Zealand no matter where the client is located.

- Share learning through:
 - sharing knowledge and experience across the organisation by the appropriate use of staff training sessions and knowledge management technologies;
 - implementing a plan to improve our effectiveness for Maori; and
 - strengthening the role of our Sector Groups in facilitating knowledge sharing.
- Celebrate our success by:
 - implementing a new remuneration and reward system that recognises achievement and excellence in our staff;
 - recognising our staff every day for their contributions and achievements, no matter how small; and
 - completing implementation of a Talent Management System to retain and attract the skills and talents required to be a successful business.



Overview of Appropriations

Costs of Production of the Audit Office's Output Classes



In 2002-03 the Audit Office expects to fund the costs of producing its outputs by receiving \$39.454 million, comprising:

\$5.220 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.

\$34.119 million in revenue from audited entities and \$0.100 million from the Crown, which will be used to fund the costs incurred in the production and delivery of Output Classes D3 and D4.

In addition, the Audit Office has access to a borrowing facility of \$0.500 million to cope with the seasonal nature of its cashflows. Repayments of any borrowing are charged against a separate appropriation, while interest costs are included in the output class expenses detailed above.



Key Forecast Financial Indicators

For the year ending 30 June 2003

	2001-02		2002-03
	<i>Budgeted</i> <i>(after Supplementary Estimates)</i> \$000	<i>Estimated</i> <i>Actual</i> \$000	<i>Forecast</i> \$000
Operating Results			
Total revenue	38,963	38,963	39,454
Comprising:			
Crown revenue	5,153	5,153	5,320
Other revenue	22,767	22,767	22,691
Contract audit fees	11,043	11,043	11,443
Total expenses	38,693	38,693	39,187
Comprising:			
Personnel	18,224	18,224	18,349
Other	9,426	9,426	9,395
Contract auditors	11,043	11,043	11,443
Working Capital			
Net current assets ⁶	1,910	1,910	2,032
<i>Current ratio</i> ⁷	<i>170%</i>	<i>170%</i>	<i>176%</i>
<i>Average receivables and work in progress</i>	<i>43 days</i>	<i>43 days</i>	<i>41 days</i>
<i>Average payables outstanding</i>	<i>30 days</i>	<i>30 days</i>	<i>28 days</i>
Cash Flows			
Closing cash balance	422	422	563
Surplus on operating activities	468	468	1,496
Net increase/(decrease) in cash held	(1,063)	(1,063)	141

6 Current assets minus current liabilities.

7 Current assets as a proportion of current liabilities.

Part Five

Forecast Financial Statements for 2002-03

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Introduction

These 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 73-101 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 *portfolio of entities* will increase in size and scope as defined in the Public Audit Act 2001, but will then remain substantially the same over the planning period.
- The Audit Office will continue to deliver the *range of products* currently provided and will also position itself to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of *annual audits* will remain substantially the same, but the *assurance work* undertaken at the request of public entities will continue to grow.
- The scale of activity associated with *performance audits, advice to Parliament and others, and inquiries* will continue to increase because of increases in demand and the effects of the Public Audit Act.
- The Auditor-General will continue to utilise audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 23 April 2002.



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 performance audits and special studies, and unprogrammed inquiries.

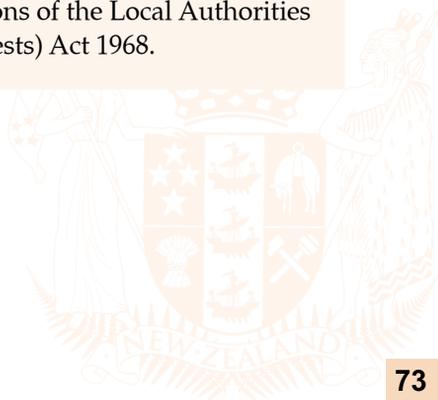
Reports and advice to Select Committees – to assist in their reviews of performance, estimates examinations, or other inquiries for which our assistance is sought.

Reports to portfolio ministers on the results of annual financial report audits.

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

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

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



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. performance audits). Given the discretionary element in this class of outputs, we have provided additional detail about our planned activities (see pages 41-49).

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 performance audits and special studies
(see pages 42-49 for more detail)

Matters arising from unprogrammed inquiries⁸ initiated in response to particular concerns brought to the attention of the Audit Office during 2002-03

3,287

⁸ Spare capacity is not held for such investigations. The extent of the resource usage on unprogrammed enquiries will directly affect the resource availability for other planned activities.

Reports and Advice to Select Committees⁹

\$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 the *Estimates*

Advice or assistance (as requested) for other inquiries conducted by Select Committees

560

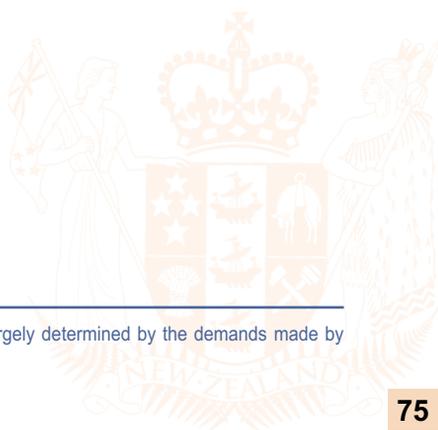
Reports to Ministers

\$000

Reporting the results of annual financial report audits to portfolio Ministers

40

⁹ The extent and cost of these activities is largely determined by the demands made by Select Committees.



Responses to Enquiries from Taxpayers, Ratepayers, and Members of Parliament

\$000

Acknowledgement, investigation¹⁰ and reporting the results of enquiries directed to the Audit Office by:

- Taxpayers
- Ratepayers
- Members of Parliament

400

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:¹¹

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

600

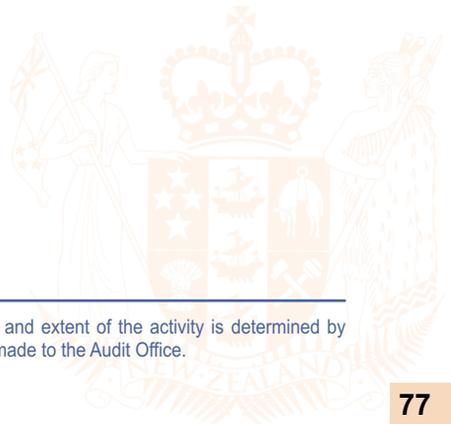
10 Not all enquiries will result in an investigation. Enquiries assessed as warranting investigation may be considered either at the time of the next annual audit or by way of an immediate, specific enquiry.

11 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.

**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:¹²

- 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

60

¹² 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.

FORECAST FINANCIAL STATEMENTS FOR 2002-03

Objectives for Output Class D1

Performance Measures and Targets

Output	Quantity ¹³	Cost \$'000	Timeliness	Quality
1. Reports to Parliament and other constituencies, comprising results of: <ul style="list-style-type: none"> • annual audits • programmed performance audits and special studies • unprogrammed enquiries. 	At least 2 reports At least 10 reports	3,287	Reports to Parliament will be completed in a manner which ensures that the subjects being reported are timely and relevant.	All reports will be prepared with due professional care by an appropriately qualified person and, where the circumstances require it, 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. 	100 reports 40 reports 20 reports	560	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 portfolio Ministers on the results of annual financial report audits.	120 reports	40	Reports to portfolio Ministers before Select Committee scrutiny of departmental and Crown entity performance.	All reports and advice will be prepared with due professional care by an appropriately qualified person and, ... continued on next page.

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Output	Quantity ¹³	Cost \$000	Timeliness	Quality
4. Responses to enquiries from: <ul style="list-style-type: none"> • taxpayers • ratepayers • Members of Parliament. 	60 enquiries 180 enquiries 60 enquiries	400	An initial response within 5 working days. 80% cleared and 100% advised within 30 working days.	where the circumstances require it, be subject to: <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	600	As requested.	
6. Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.	80 enquiries	60	An initial response within 5 working days. 80% cleared and 100% advised within 30 working days.	
		4,947		

¹³ 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:

- 6 warrants
- 245 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 \$278,000.



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 entities. The Audit Office has a statutory duty to conduct an audit of the financial reports of more than 3,900 public entities.

Annual audits result in:

Audit Reports –

On whether the financial reports fairly reflect the financial and non-financial performance of these entities.

Management Reports –

To the management and governing bodies of these entities, on issues arising from the audit.

The difference between the output classes relates to the method by which the audit service provider has been selected:

Output Class D3 – Non-contested Audit Services

This includes only 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 and Other Assurance Services

This includes 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 30/6/02	Planned Audit Completions in 2002-03	Expected Number of Audits in Arrears as at 30/6/03	Timely Issue of Audit Reports Target ¹⁴	Timely Issue of Management Reports Target ¹⁵
Government Departments and Offices of Parliament	15	–	15	–	100%	100%
Major Statutory Bodies ¹⁶	38	10	38	10	100%	100%
Other Local Authorities ¹⁷	25	10	25	10	100%	100%
Miscellaneous Public Bodies ¹⁸	132	60	132	60	75%	100%
Audits for which fees are not directly charged ¹⁹	161	120	161	120	75%	100%
Totals	371	200²⁰	371	200		

Goal: To maintain arrears at no higher than the level attained at 30 June 2002.

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

15 Management reports will be issued within 6 weeks of the date of the audit report.

16 State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

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

18 Mainly Maori Trust Boards, smaller Crown Entities, and subsidiaries of major statutory bodies.

19 Those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities include Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees and Patriotic Funds. (From 2001-02, the Crown is funding up to \$100,000 of the cost of these audits.)

20 An estimated 130 bodies have audits in arrears, some for a number of years, and the 120 audits in the final category represent only 80 bodies. Most have not prepared financial statements for the periods involved.

Statement of Objectives for Output Class D4 – Contested Audit and Other Assurance Services

Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears at 30/6/02	Planned Audit Completions in 2002-03	Expected Number of Audits in Arrears as at 30/6/03	Timely Issue of Audit Reports Target ²¹	Timely Issue of Management Reports Target ²²
Government Departments and Offices of Parliament	34	–	34	–	100%	100%
Major Statutory Bodies ²³	83	–	83	–	100%	100%
Regional, City and District Councils	86	–	86	–	100%	100%
Other Local Authorities ²⁴	349	15	349	15	100%	100%
School Boards of Trustees	2,623	140	2,623	140	50%	100%
Miscellaneous Public Bodies ²⁵	241	5	241	5	75%	100%
Totals	3,416	160²⁶	3,416	160		

Goal: To maintain arrears at no higher than the level attained at 30 June 2002.

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

22 Management reports will be issued within 6 weeks of the date of the audit report.

23 State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

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

25 Mainly Maori Trust Boards, smaller Crown entities, and subsidiaries of major statutory bodies.

26 An estimated 150 bodies have audits in arrears, some for more than one year. Most of the arrears are schools whose audits for the 31 December 2001 year will not have been completed at 30 June 2002.

Performance Measures and Standards (continued)

Audits in Arrears

The number of audits to be completed during the year will fluctuate according to the readiness of each entity to present its financial report for audit. The number of audits actually finished during the year will relate mainly to those financial reports due in the year, plus some not presented for audit in earlier years. Where entities have not presented their financial reports 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 entities with arrears is lower than the arrears numbers shown.

The Audit Office measures and reports the number of 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 Audit Office 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 OAG. The programme seeks to review every auditor at least once during their 3-year contract period. The OAG intends to review the work of 45 auditors during the year, the results of which will be reported in our Annual Report for the year ending 30 June 2003.

Performance Measures of Timeliness

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

The Audit 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 performance standards 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; and
 - 50% for school boards of trustees.
- The number (and percentage) of management reports issued within 6 weeks of issuing the audit report. The performance standard for this measure is 100%.



Performance Measures of Effectiveness

The Audit Office will report on the trend in types of non-standard audit reports issued up to and including the current year.²⁷

Cost

	<i>\$000</i>
• Cost of services for Output Class D3 – Non-contested Audit Services	5,963
• Cost of services for Output Class D4 – Contested Audit and Other Assurance Services	27,999

27 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 Accounting Policies

Reporting Entity

These are the forecast financial statements of the Auditor-General prepared pursuant to section 34A of the Public Finance Act 1989.

The Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an Office of Parliament for the purposes of the Public Finance Act 1989.

The Auditor-General's activities include the work undertaken by private sector auditors appointed by the Auditor-General.

In this report, the activities of the Auditor-General are referred to as those of "the Audit Office", consistent with the meaning of that term in section 52 of the Public Audit Act 2001.

Measurement Base

Generally accepted accounting practice (GAAP) 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 other assurance work undertaken by Audit New Zealand at the request of audited entities.

Expenses

The salaries of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of clause 5 of the Third Schedule of the Public Audit Act 2001, 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 on a systematic basis over the period of the lease.

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

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 recognised at the New Zealand dollar exchange rate at the date of the transaction.

Financial Instruments

Financial instruments primarily comprise bank balances, receivables and payables which are recognised in the Statement of Prospective Financial Position. 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 the 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 is exempt from the payment of income tax in terms of section 43 of the Public Audit Act 2001. 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 2001 as laid before the House of Representatives under section 39 of the Public Finance Act 1989.



Statement of Prospective Financial Performance²⁸

For the Year Ending 30 June 2003

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 100.

	2001-02 <i>Budgeted</i> ²⁹	<i>Estimated Actual</i> ³⁰	2002-03 <i>Forecast</i>
	\$000	\$000	\$000
<i>Continuing Activities</i>			
Revenue			
Crown	5,153	5,153	5,320
Departments	6,952	6,952	6,947
Other	26,858	26,858	27,187
Total Revenue	38,963	38,963	39,454
Expenses			
Personnel costs	18,224	18,224	18,349
Operating costs	18,885	18,885	19,269
Depreciation	1,261	1,261	1,264
Capital charge	323	323	305
Total Expenses	38,693	38,693	39,187
Surplus	270	270	267

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

29 Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 2001-02.

30 The amounts in this column reflect actual results to 28 February 2002 and the forecast results for the remaining four months to 30 June 2002.

Statement of Prospective Movements in Taxpayers' Funds (Equity)

For the Year Ending 30 June 2003

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.

	2001-02 <i>Budgeted</i>	<i>Estimated Actual</i>	2002-03 <i>Forecast</i>
	\$000	\$000	\$000
Taxpayers' Funds brought forward at 1 July	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Movements during the year			
Surplus	<u>270</u>	<u>270</u>	<u>267</u>
Total Recognised Revenues and Expenses for the Year	<u>270</u>	<u>270</u>	<u>267</u>
Flows to and from the Crown			
Provision for payment to the Crown	<u>(270)</u>	<u>(270)</u>	<u>(267)</u>
Taxpayers' Funds at 30 June	<u><u>3,586</u></u>	<u><u>3,586</u></u>	<u><u>3,586</u></u>

Statement of Prospective Financial Position

As at 30 June 2003

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 30/6/02 \$000</i>	<i>Estimated Actual Financial Position as at 30/6/02 \$000</i>	<i>Forecast Financial Position as at 30/6/03 \$000</i>
Taxpayers' Funds			
General funds	3,586	3,586	3,586
Total Taxpayers' Funds	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Represented by:			
Current Assets			
Cash and bank balances	422	422	563
Prepayments	290	290	290
Work in progress	1,171	1,171	1,118
Receivables	2,766	2,766	2,721
Total Current Assets	<u>4,649</u>	<u>4,649</u>	<u>4,692</u>
Non-current Assets			
Physical assets	2,950	2,950	2,771
Total Non-current Assets	<u>2,950</u>	<u>2,950</u>	<u>2,771</u>
Total Assets	<u>7,599</u>	<u>7,599</u>	<u>7,463</u>
Current Liabilities			
Payables and provisions	1,569	1,569	1,493
Provision for payment to the Crown	270	270	267
Provision for employee entitlements	900	900	900
Total Current Liabilities	<u>2,739</u>	<u>2,739</u>	<u>2,660</u>
Term Liabilities			
Provision for employee entitlements	960	960	960
Property lease liabilities	314	314	257
Total Term Liabilities	<u>1,274</u>	<u>1,274</u>	<u>1,217</u>
Total Liabilities	<u>4,013</u>	<u>4,013</u>	<u>3,877</u>
Net Assets	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>

Statement of Prospective Cash Flows

For the Year Ending 30 June 2003

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.

	2001-02		2002-03
	Budgeted	Estimated	Forecast
	\$000	Actual	\$000
		\$000	
Operating Activities			
Cash received from:			
The Crown	5,135	5,135	5,320
Departments	6,952	6,952	6,947
Others	16,087	16,087	15,842
Cash disbursed on:			
Production of outputs	(27,383)	(27,383)	(26,308)
Capital charge	(323)	(323)	(305)
Net Cash Flow from Operating Activities	<u>468</u>	<u>468</u>	<u>1,496</u>
Investing Activities			
Cash received from:			
Sale of physical assets	180	180	160
Cash disbursed on:			
Purchase of physical assets	(1,360)	(1,360)	(1,245)
Net Cash Flow from Investing Activities	<u>(1,180)</u>	<u>(1,180)</u>	<u>(1,085)</u>
Financing Activities			
Cash disbursed on:			
Payment to the Crown	(351)	(351)	(270)
Net Cash Flow from Financing Activities	<u>(351)</u>	<u>(351)</u>	<u>(270)</u>
Total net increase/(decrease) in cash held	(1,063)	(1,063)	141
Add Opening cash balance at 1 July	1,485	1,485	422
Closing cash balance at 30 June	<u>422</u>	<u>422</u>	<u>563</u>

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

For the Year Ending 30 June 2003

Description of Statement

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Prospective Financial Performance on page 93 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 96.

	2001-02		2002-03
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Surplus	<u>270</u>	<u>270</u>	<u>267</u>
Non-cash Items			
Depreciation	1,261	1,261	1,264
Total Non-cash Items	<u>1,261</u>	<u>1,261</u>	<u>1,264</u>
Working Capital Movements			
(Increase)/decrease in prepayments	(63)	(63)	-
(Increase)/decrease in receivables	(25)	(25)	45
(Increase)/decrease in work in progress	297	297	53
Increase/(decrease) in payables	(422)	(422)	(76)
Increase/(decrease) in current employee entitlements	<u>(985)</u>	<u>(985)</u>	-
Total Net Working Capital Movements	<u>(1,198)</u>	<u>(1,198)</u>	<u>(22)</u>
Other Items			
Increase/(decrease) in property lease liabilities	135	135	(57)
Total Other Items	<u>135</u>	<u>135</u>	<u>(57)</u>
Net Cash Flow from Operating Activities	<u><u>468</u></u>	<u><u>468</u></u>	<u><u>1,496</u></u>

Forecast Details of Physical Assets by Category

As at 30 June 2003

	<i>As at 30 June 2002</i>		<i>Forecast Position as at 30 June 2003</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	187	187	3,348	3,072	276
Office equipment	2,248	2,248	5,296	3,583	1,713
Motor vehicles	515	515	1,043	261	782
Totals	<u>2,950</u>	<u>2,950</u>	<u>9,687</u>	<u>6,916</u>	<u>2,771</u>



Prospective GST Status of Departmental Output Classes

For the Year Ending 30 June 2003³¹

<i>Departmental Output Classes</i>	<i>GST-Exclusive (Annual Plan)</i> \$000	<i>GST</i> \$000	<i>GST-Inclusive (Vote)</i> \$000
Mode B Gross			
D1 Reports and advice arising from the exercise of the function of legislative auditor:			
• Annual appropriation	4,452	558	5,010
• Other appropriation	495	-	495
	<u>4,947</u>	<u>558</u>	<u>5,505</u>
D2 Certification of authority to release funds from the Crown Bank Account	278	35	313
D3 Provision of non-contested audit services	<u>5,963</u>	<u>755</u>	<u>6,718</u>
Total Mode B Gross Output Classes	<u>11,188</u>	<u>1,348</u>	<u>12,536</u>
Mode B Net			
D4 Provision of contested audit and other assurance services	<u>27,999</u>	<u>3,522</u>	<u>31,521</u>
Total Mode B Net Output Classes	<u>27,999</u>	<u>3,522</u>	<u>31,521</u>
Total Departmental Output Classes	<u>39,187</u>	<u>4,870</u>	<u>44,057</u>
Repayment of Debt			
Net Overdraft Repayment	<u>500</u>	<u>-</u>	<u>500</u>
Total Repayment of Debt	<u>500</u>	<u>-</u>	<u>500</u>

31 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 2002-03 appearing in the Forecast Output Class Operating Statements on page 100, while the aggregate amount for all four departmental output classes corresponds to "Total Expenses" for 2002-03 in the Statement of Prospective Financial Performance on page 93 of this report.
- The GST-inclusive amounts for each departmental output class correspond to the bolded annual appropriations for 2002-03 appearing in Part B1 of Vote Audit of the 2002-03 Main Estimates (parliamentary paper B.5 Vol. I).

Forecast Output Class Operating Statements³²

For the Year Ending 30 June 2003

<i>Departmental Output Class</i>	<i>Description</i>	<i>Revenue Crown \$000</i>	<i>Revenue Depts \$000</i>	<i>Revenue Other \$000</i>	<i>Total Revenue \$000</i>	<i>Total Expenses \$000</i>	<i>Surplus \$000</i>
Mode B Gross							
D1	Reports and advice arising from the exercise of the function of legislative auditor.						
	Reports to Parliament and other constituencies on matters arising from annual audits; performance 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 and other agencies.	4,942	-	15	4,957	(4,947)	10
D2	Certification of authority to release funds from the Crown Bank Account.	278	-	-	278	(278)	-
D3	Provision of non-contested audit services.	100	1,667	4,275	6,042	(5,963)	79
Total Mode B Gross Output Classes		5,320	1,667	4,290	11,277	(11,188)	89
Mode B Net							
D4	Provision of contested audit and other assurance services.	-	5,280	22,897	28,177	(27,999)	178
Total Mode B Net Output Classes		-	5,280	22,897	28,177	27,999	178
Totals		5,320	6,947	27,187	39,454	(39,187)	267

³² Details of the forecast performance for each class of outputs are set out on pages 73-87 of this report.

Forecast Financial Indicators

For the Year Ending 30 June 2003

	2001-02		2002-03
	Budgeted	Estimated	Forecast
(after Supplementary Estimates)	\$000	Actual	\$000
Operating Results			
Revenue: other than Crown	33,810	33,810	34,134
Output expenses	38,693	38,693	39,187
Surplus before capital charge	593	593	572
Surplus	270	270	267
Working Capital			
Net current assets ³³	1,910	1,910	2,032
<i>Current ratio</i> ³⁴	<i>170%</i>	<i>170%</i>	<i>176%</i>
<i>Average receivables and work in progress</i>	<i>43 days</i>	<i>43 days</i>	<i>41 days</i>
<i>Average payables outstanding</i>	<i>30 days</i>	<i>30 days</i>	<i>28 days</i>
Resource Utilisation			
Physical assets:			
Total physical assets at year-end	2,950	2,950	2,771
<i>Additions as % of physical assets</i>	<i>46%</i>	<i>46%</i>	<i>45%</i>
Taxpayers' funds			
Level at year-end	3,586	3,586	3,586
Forecast Net Cash Flows			
Surplus on operating activities	468	468	1,496
Deficit on investing activities	(1,180)	(1,180)	(1,085)
Deficit on financing activities	(351)	(351)	(270)
Net increase/(decrease) in cash held	(1,063)	(1,063)	141

33 Current assets minus current liabilities.

34 Current assets as a proportion of current liabilities.