

# Annual Report



2003-04

**The Controller and  
Auditor-General**

*Tumuaki o te Mana Arotake*

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# The Controller and Auditor-General

*Tumuaki o te Mana Arotake*

# Annual Report

for the Year Ended 30 June 2004

Presented to the House of Representatives  
as required by section 37 of the Public Audit Act 2001





Rt Hon Jonathan Hunt  
Speaker  
House of Representatives  
WELLINGTON

Mr Speaker

In accordance with section 37 of the Public Audit Act 2001, I submit my Annual Report for the year ended 30 June 2004.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Kevin Brady', written over a faint dotted line.

Kevin Brady  
Controller and Auditor-General

30 September 2004

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## Auditor-General's overview

“Over the 2003-04 year, the Office has continued to deliver its core outputs amid an environment of significant and continual change and challenge. In addition, we have done much work to define our Strategy for the next five years and start making it happen.”



It is a pleasure to present my Annual Report for the year ended 30 June 2004.

This report is intended to provide a comprehensive understanding of the performance of my Office – from both financial and non-financial perspectives. I view it as being a critical component in my accountability as an Officer of Parliament, as it enables me to be held to account for the outputs produced by my Office and the stewardship of the public resources which are under my control.

In preparing this report, I have sought to demonstrate good practice in the reporting of information, particularly in the areas of outcomes, governance, risk and capability. I see this as part of my role to set a model of desired improvements that I would expect to see in public entity reporting.



### **The year in review**

The Office faced a range of significant challenges in the 2003-04 year. We produced a number of high-interest reports, we introduced a major change to the way auditors are chosen for annual audits, and we developed our Strategic Plan for the remainder of my term as Auditor-General – all this amid an environment of significant legislative and professional change and with no additional in-house capability.

I am proud of the achievements of the Office over the past twelve months. Over the next few pages, I would like to refer to some of these successes, as I review progress against my key objectives for 2003-04 which were set out on page 5 of my *Annual Plan 2003-04*.

### **Preparing our Strategic Business Plan**

Significant work has been undertaken to develop a clear and accepted Strategy for the remainder of my term as Auditor-General (i.e. to 2009). This work formed the basis for the development of a five-year Strategic Plan together with a three-year Business Plan. Both documents were endorsed by the Officers of Parliament Committee.

We have decided on a strategy of “product leadership” – where the Office will strive to make more of a difference through the continual re-shaping of our products/services and the ways we deliver them to meet the changing environment and the needs of our stakeholders. Our Strategy relies on the Office continuing to be operationally excellent, and maintaining strong relationships with our key stakeholders.

On the basis of the strength of the work undertaken, together with the standing of the Office, Parliament has approved increased funding over the next three years.

### **Planning to provide the required capability for changes in our operating environment, particularly in local government**

A key focus area in our five-year Strategic Plan is the restoration and enhancement of the Office's capability to better respond to the changes in our environment and deliver on our Strategy.

Under the previous contestable audit model for selecting auditors to carry out annual audits, the responsibility for developing audit approaches fell primarily



on Audit Service Providers (ASPs). Given the constraints of pricing and the limited coverage some ASPs had in relation to our key sectors, this did not occur to the desired or appropriate level. In addition, there have been significant increases in operating costs which the Office has largely absorbed through the deferral of recruitment/replacement of staff and a reduction in staff development.

A result of the contestable audit model has been a depletion of the Office's capability over the past few years. This is particularly evident at senior staff levels, where workloads have increased significantly and there is continual drain on the same individuals to carry out demand-driven work (inquiries), and to maintain the currency of our assurance products/services (research and development, and product development) in addition to delivering the Office's agreed outputs. A consequence of this has been timeliness issues for the delivery of inquiries and performance audits.

Our three-year Business Plan acknowledged the investment needed to attract, develop and retain key staff. This included, as a priority area, additional capability to respond to the changes arising from the Local Government Act 2002, specifically in relation to the requirements to audit Long-Term Council Community Plans.

### **Implementing changes for the appointment of audit service providers resulting from the review of the contestability of annual audits**

During the 2003-04 year, we introduced our "audit resourcing model" for selecting auditors to carry out annual audits of public entities. This model replaces the previous contestable audit model, and allows for the "allocation" of annual audits.

Introducing this new way of working required a high level of communication and consultation both with ASPs and with the audited entities. The outcome I was seeking from this was greater breadth and depth of ASPs in our key sectors. We now have up to three ASPs with sufficient audits in each of our key sectors (Central Government, Local Government, Health and Tertiary) and, where possible, these audits are located within geographical proximity. With this greater concentration of audits in sectors and locations, these ASPs should have more ability to invest in, and contribute to, the development and knowledge of sectoral issues and audit approaches.



### Implementing our governance and risk management framework

Arising from our work on the five-year Strategic Plan and introduction of the audit resourcing model, we have reviewed and realigned our governance arrangements across the Office. Specific changes have occurred in the way we manage the Office; i.e. our leadership model, which includes how Audit New Zealand is led and managed in relation to the Office of the Auditor-General, and which considers the relationship with other ASPs (private sector auditing firms). Our supporting governance infrastructure of an Audit Committee, other Review Committees and our internal Code of Conduct remain unchanged. These complete arrangements are outlined in detail on pages 39-57.

We now have an internal structure which frees us up to collaborate better – i.e. to share information and resources to achieve enhanced outcomes for our stakeholders – and which ensures appropriate accountability for the management of our operations.

We also substantially completed the implementation of our risk identification and management framework. This is a comprehensive framework which ensures a dynamic and ongoing reassessment of our key strategic, operational and professional risks, and ensures that there is appropriate management ownership of risk mitigation actions. We have integrated our risk management framework within our annual and business planning processes. Our Risk Report on pages 59-66 details this framework.

### The year ahead

Parliament's confidence and support in the Office – as evidenced through its provision of increased baseline funding for the Office – means that the year ahead is one of opportunity for the Office.

We now need to translate the increased funding into tangible development of our core assurance services, and into the growth and development of our staff.

In 2004-05, we intend to deliver on our research and development, and product development plan, and, at the same time, establish the “building blocks” for our Strategy – things such as the bedding in of our Project Office approach, the review and alignment of our corporate policies and systems, the implementation of initiatives for greater collaboration among ASPs, the development of better mechanisms to capture stakeholder feedback, and the implementation of enhancements to our Strategic Audit Planning process. We also intend to invest in the development of our staff through targeted focus on professional and personal development.



## Summary

I believe we can “make more of a difference” to our stakeholders. The work we have done in 2003-04 has positioned us to better understand and better meet our stakeholders’ needs and adapt to the changes in our environment.

I would like to thank my staff and all our ASPs who work with the Office for their contributions and efforts over the past year. I am fortunate to have such highly competent and professional people working for and with the Office.



**Kevin Brady**  
Controller and Auditor-General  
30 September 2004





# Part One

## INTRODUCTION



### Report outline

“One of my major objectives as Auditor-General is to help improve the accessibility and readability of public entity annual reports”

**Kevin Brady, Auditor-General**



### **What this Annual Report is about**

The purpose of this Annual Report is to provide Parliament and the public with a complete and accurate picture of the performance of the Office of the Auditor-General for the year ended 30 June 2004.

“Performance” covers both financial and non-financial performance. Financial performance includes the financial statements and parts of the statements of objectives and service performance. Non-financial performance includes the extent of the Office’s delivery against our outcomes, outputs, business strategies and risk mitigation actions, and is measured against a range of dimensions; including quantity, cost and timeliness, and – increasingly – quality, effectiveness and adequacy.

The Annual Report is our key accountability document. As such, we have presented it so that Parliament and the public will be able to clearly see the link between what we set out to achieve in our *Annual Plan 2003-04* and what we actually achieved over the year. We have tried to make the information understandable, relevant, and a model of good practice reporting in the areas of outcomes, governance, risk, and capability.



### Structure of this Annual Report

We have set out this Annual Report in seven main parts:

- Part One:** Introduction
- Part Two:** Outcomes Report
- Part Three:** Governance Report
- Part Four:** Risk Report
- Part Five:** Capability Report
- Part Six:** Work Programme Report
- Part Seven:** Financial Statements

Parts Two to Five report on:

- the key objectives we had set out for 2003-04 for the respective Part topics;
- the framework we use to guide our development and implementation;
- the measures we use and the results of those measures as at 30 June 2004; and
- our assessment of whether or not we have met our key objectives for 2003-04.

Part Six provides a summary of the work of the Office and the reports we produced during the year.

Part Seven is set out in a format consistent with the requirements of the Public Finance Act 1989, and is in accordance with generally accepted accounting practice.

## Key facts about the Office

### Our guiding legislation

- The Public Audit Act 2001 defines the mandate and responsibilities of the Auditor-General.

### The role of Auditor-General

- The office of Auditor-General is a statutory office continued by Parliament in the Public Audit Act 2001.
- The Auditor-General is an Officer of Parliament, and in that capacity is independent of executive government and Parliament in discharging the functions of the office, but is answerable to Parliament for his stewardship of the public resources entrusted to him.

### Size and scale of our operations

- The Office has a statutory duty to conduct an audit of the financial reports of approximately 4000 public entities.
- The Office has undertaken approximately 10 performance audits per year increasing to 17 in 2004-05.
- In addition, the Office responds to between 150 and 300 enquiries each year from taxpayers, ratepayers and members of Parliament. Of these, approximately 6-10 result in the Office undertaking major inquiries.
- The Office also provides reports and advice to Select Committees and portfolio Ministers. There are more than 140 reports prepared for financial reviews of entities and *Estimates* examinations, and approximately 120 reports on the results of annual financial report audits.
- The Office also administers the provisions of the Local Authorities (Members' Interests) Act 1968. There are approximately 80 enquiries each year in relation to the Act.



## INTRODUCTION

### Key facts about the Office

#### PART 1

### Our current capability

- The Office employs approximately 250 staff based in 9 locations throughout New Zealand (see Appendix 2 on pages 166-167).
- In addition, the Office engages 81 external Audit Service Providers to carry out annual audits of public entities.
- In 2003-04, the Office received revenue of \$40.8 million made up of \$5.6 million from Crown revenue, and \$35.2 million from audited entities.

## Key objectives and achievements for 2003-04

WHAT WE SET OUT TO ACHIEVE	WHAT WE ACHIEVED
<b>Business as usual</b>	
<ul style="list-style-type: none"> <li>Continue delivering our outputs to the agreed standards set out in our <i>Annual Plan 2003-04</i></li> </ul>	<p><b>Largely met.</b> Some timeliness issues remain, particularly with inquiries. Key Results:</p> <ul style="list-style-type: none"> <li>18 reports produced against a target of 12</li> <li>4070 audit opinions issued</li> </ul>
<b>Auditor-General's key objectives</b>	
<ul style="list-style-type: none"> <li>Prepare our Strategic Business Plan</li> </ul>	<p><b>Met.</b></p> <ul style="list-style-type: none"> <li>Our five-year Strategic Plan and three-year Business Plan were completed, and endorsed by Parliament</li> </ul>
<ul style="list-style-type: none"> <li>Plan to provide the required capability for changes in our operating environment, particularly in local government</li> </ul>	<p><b>Met.</b></p> <ul style="list-style-type: none"> <li>We identified our future capability needs and received additional funding to address these needs</li> </ul>
<ul style="list-style-type: none"> <li>Implement changes for the appointment of Audit Service Providers resulting from the review of the contestability of annual audits</li> </ul>	<p><b>Met.</b></p> <ul style="list-style-type: none"> <li>We implemented our "audit resourcing model"</li> </ul>
<ul style="list-style-type: none"> <li>Implement our governance and risk framework</li> </ul>	<p><b>Met.</b></p> <ul style="list-style-type: none"> <li>We reviewed and implemented a new "leadership model" for the Office</li> <li>Our risk management framework is fully integrated into our business planning process</li> </ul>



# INTRODUCTION

## Key objectives and achievements for 2003-04

PART 1

WHAT WE SET OUT TO ACHIEVE	WHAT WE ACHIEVED
<b>Financial performance</b>	
<ul style="list-style-type: none"> <li>Financial Performance</li> </ul>	<p><b>Met.</b></p> <ul style="list-style-type: none"> <li>The Office returned a surplus of \$158,000 to the Crown</li> </ul>
<b>Other</b>	
<ul style="list-style-type: none"> <li>Improve our development, measurement and reporting of outcomes, governance, risks and capability</li> </ul>	<p><b>Significant progress made.</b></p> <ul style="list-style-type: none"> <li>In this Annual Report, we trial an example of good practice in outcomes, governance, risk and capability reporting</li> </ul>
<ul style="list-style-type: none"> <li>Commence alignment of processes across the Office consistent with our Strategy</li> </ul>	<p><b>Good progress made.</b></p> <ul style="list-style-type: none"> <li>Business planning processes were aligned across the Office</li> <li>We completed development work on an Office-wide Information Systems Strategic Plan</li> <li>A draft Communications Strategy for the Office was developed</li> </ul>

## Our role and purpose

The office of Controller and Auditor-General is a statutory office constituted by Parliament in the Public Audit Act 2001. The office (abbreviated from here on to “Auditor-General”) exists as a **constitutional safeguard to maintain the financial integrity of New Zealand’s parliamentary system of government**. The Auditor-General acts on behalf of Parliament by assisting it to strengthen the effectiveness, efficiency and accountability of public sector organisations.

The Auditor-General is an Officer of Parliament, and in that capacity is independent of executive government and Parliament in discharging the functions of the office, but answerable to Parliament for his stewardship of the public resources entrusted to him.

In New Zealand’s system of government, Parliament is supreme – all authority for governmental activity ultimately stems from Parliament. Public sector organisations (except local authorities) are therefore accountable to Parliament for their use of public resources and powers it has conferred on them.

Parliament seeks independent assurance that those organisations are operating, and accounting for their performance in accordance with Parliament’s intentions. There is also a need for independent assurance in local government – local authorities are accountable to the public for the activities they fund through locally raised revenue. As an Officer of Parliament, the Auditor-General provides this independent assurance to both Parliament and the public.

The **Auditor-General’s key concerns** are a reflection of his mandate under the Public Audit Act 2001. His key concerns 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, taxpayers’ dollars are not 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 concerns identified above?*



## Organisation of resources

The Auditor-General employs staff and engages private sector auditing firms to carry out his statutory functions in relation to public entities. The Auditor-General has recently introduced an “audit resourcing model” which replaces the previous contestable audit model for selecting auditors to carry out annual audits of public entities.

### The audit resourcing model

For the majority of public entities, the Auditor-General now allocates auditors to carry out the annual audit. He chooses from a pool of Audit Service Providers (ASPs) – which includes Audit New Zealand, the four major CA firms and a range of smaller audit firms. In total, 81 private accounting firms act as ASPs. Some audits of public entities with a strong commercial focus remain subject to the contestable regime.

The audit resourcing model allows the Auditor-General greater choice and flexibility in the allocation of his work to the auditors who carry out annual audits. The introduction of this new way of working has created opportunities for greater collaboration within his own office and between the organisations that support the Auditor-General.

The functions of these organisations in relation to the work of the Office are described on the next page.

## INTRODUCTION

## Organisation of resources



Office of the Auditor-General	Audit New Zealand	Audit Service Providers (ASPs)
<p><b>The Office of the Auditor-General (OAG)</b> undertakes:</p> <ul style="list-style-type: none"> <li>• Strategic audit planning</li> <li>• Policy development and standard setting</li> <li>• Appointing auditors and overseeing their performance</li> <li>• Carrying out performance audits</li> <li>• Parliamentary reporting and advice</li> <li>• Inquiries and other special studies.</li> </ul>	<p><b>Audit New Zealand</b> is the Auditor-General's operating arm and carries out audits allocated to it under the audit resourcing model.</p> <p>Audit New Zealand also provides other assurance services to public entities, within the Auditor-General's mandate and the Auditor-General's Auditing Standard relating to independence of auditors.</p>	<p><b>Audit Service Providers</b> are private sector accounting firms which carry out annual audits allocated to them under the audit resourcing model.</p> <p>ASPs also offer wider assurance services to public entities within the limits of the Auditor-General's Auditing Standard relating to independence of auditors.</p>





# Part Two OUTCOMES REPORT

# 2

## What we set out to achieve in 2003-04



**Our key objectives for 2003-04 in relation to our Statement of Intent** (as set out on pages 26-30 of our *Annual Plan 2003-04*) were:

1. As a result of our work, to maintain and/or improve our desired impacts.  
Our desired impacts are:
  - improved public entity operations;
  - public entities that act legally, ethically and with probity; and
  - parliamentary control of expenditure.
2. To improve our own development, measurement and reporting of outcomes; specifically:
  - better define our outcomes; and
  - determine how we can collect reliable and relevant data and information to truly measure our outcomes.

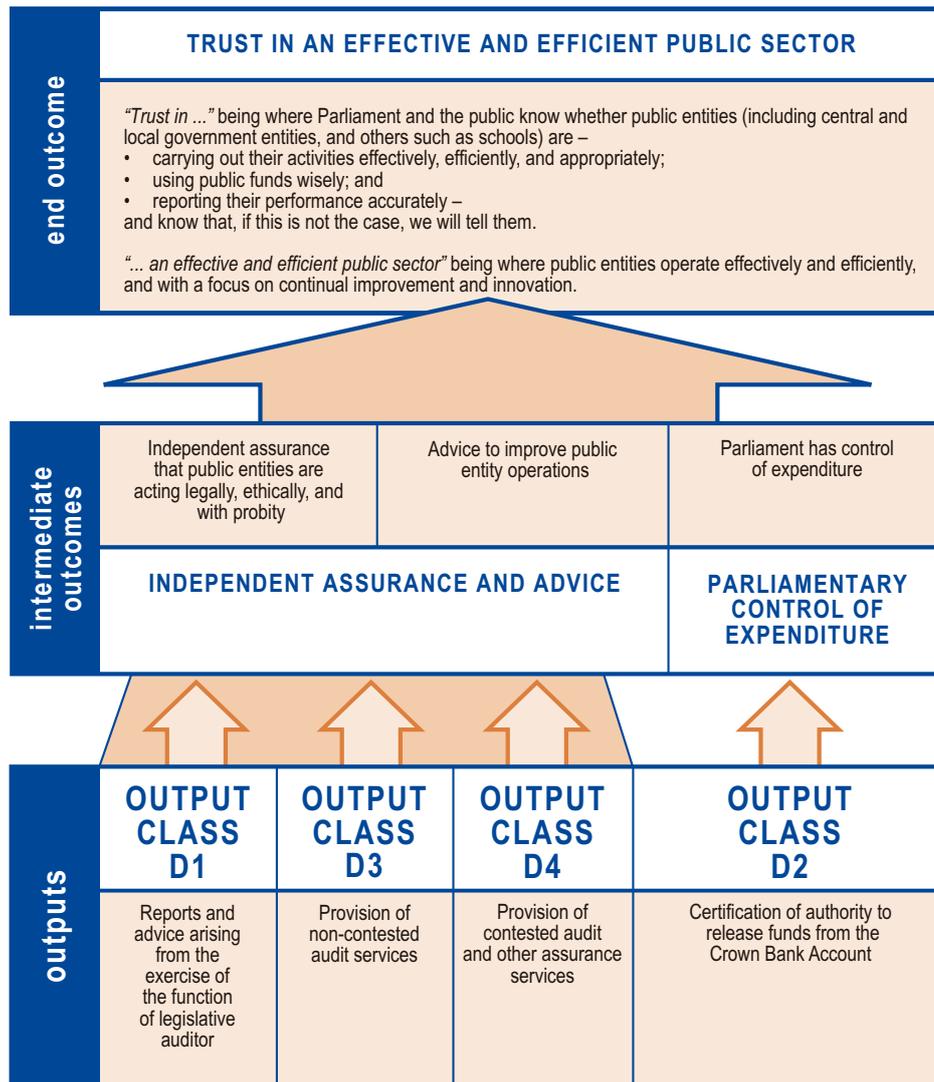


## Our outcome framework

We prepared our *Annual Plan 2003-04* in keeping with the “Statement of Intent” model. We acknowledged, however, that

*... the formulation of our Annual Plan is ongoing and we expect to achieve a steady increase in its quality over the coming year. We will be putting more work and effort into defining our impacts, and into how we can collect reliable and relevant data and information so that we can truly measure the difference we make.*

During the development of our *Annual Plan 2004-05*, we reviewed our outcome framework. As a result, the outcome framework detailed below differs slightly from that contained in our *Annual Plan 2003-04*. However, our outputs remain unaltered.



## Our measurement framework

As part of the development of our *Annual Plan 2004-05*, we also reviewed our measurement framework. This considered the measures we need to assess the extent of our progress with, and our performance, in the following areas:

- Outcomes
- Outputs
- Governance
- Risk
- Capability
- Strategic Plan implementation.

In addition, Parliament requested that we develop, in consultation with the Treasury:

- an evaluation framework for measuring the impacts of our performance audits, and
- a three-year evaluation framework for measuring the success of our Strategy (this is not due until 2007).

As a result, we now have a comprehensive measurement framework which is being integrated into our monitoring and reporting framework. In this Annual Report, we start to use parts of our new measurement framework to provide you with better information about the performance of the Office. In next year's Annual Report, we will fully report using our new measurement framework.



## Measuring our impacts

Our *Annual Plan 2003-04* set out the impacts of our work as contributions to:

- improved public entity operations;
- public entities that act legally, ethically and with probity; and
- parliamentary control of expenditure.

It also set out our proposed measures and indicators, noting that these were:

*... our first attempt at defining how our impacts will be identified. We will continue to refine the measures and indicators over the coming years to determine those that are the most appropriate and useful.*

For the purposes of this Annual Report, we report against the measures set out in our *Annual Plan 2003-04*. These measures were refined during the development of our five-year Strategic Plan and *Annual Plan 2004-05*.

## Impact 1: Improved public entity operations (Output Classes D1, D3 and D4)

INTERVENTION LOGIC	MEASURES
<p><i>If we assess entity operations, and then tell relevant stakeholders, then there is a greater likelihood that we will continuously improve the:</i></p> <ul style="list-style-type: none"> <li>• sufficiency and appropriateness of public entity information systems;</li> <li>• effectiveness and efficiency of entity operations; and</li> <li>• accuracy and adequacy of entity reporting.</li> </ul>	1. Improvements in aspects of entity management, as measured through our assessments (including local government in the future)
	2. The level of uptake of formal recommendations we make in our reports
	3. Others taking action as a result of our work (including adoption of our advice by Select Committees in their own reports)
	4. Fewer non-standard audit reports being issued over time

### **Measure One:** Improvements in aspects of entity management, as measured through our assessments

Since 1994, we have analysed trends in the assessments our auditors make each year for five particular aspects of financial management and service performance management. These are known as “the five management aspects”, and are assessed as being either Excellent, Good, Satisfactory, Just Adequate or Not Adequate. The five aspects which are assessed are:

- Financial control systems
- Financial management information systems
- Financial management control environment
- Service performance information systems, and
- Service performance management control environment.

The purpose of these assessments is to identify specific areas of management where there are weaknesses, and to make recommendations to eliminate those weaknesses. For each entity, we report these assessments to the Chief Executive and Responsible Minister, and also to the Select Committee which conducts the financial review of the entity. If our recommendations are adopted, then we would expect to see an eventual overall improvement in entity management.

Until the 1999-2000 financial year, these assessments related only to government departments. They were then extended to include District Health Boards, Crown Research Institutes and State-owned Enterprises.

It was our intention to review the five management aspects in 2003-04 and to assess their applicability for local government. This review was deferred and has now been incorporated in our proposed Research and Development Plan. It is likely to take place in 2005-06.

## Results

The table below summarises the results of this analysis by comparing changes in assessments of the five management aspects between 2001-02 and 2002-03. For comparison, the results reported last year are also included.

<b>CHANGES IN MANAGEMENT ASPECT ASSESSMENTS 2002-03 COMPARED WITH 2001-02</b>					
<b>Entity type</b>	<b>Unit of measure</b>	<b>Higher</b>	<b>Same</b>	<b>Lower</b>	<b>Total</b>
Government Departments	Number	13	199	3	215
	%	6.0	92.6	1.4	100.0
District Health Boards	Number	8	89	8	105
	%	7.6	84.8	7.6	100.0
Crown Research Institutes	Number	0	43	1	44
	%	0.0	97.7	2.3	100.0
State-owned Enterprises	Number	3	57	3	63
	%	4.8	90.5	4.8	100.0
<b>TOTALS</b>	<b>Number</b>	<b>24</b>	<b>388</b>	<b>15</b>	<b>427</b>
	<b>%</b>	<b>5.6</b>	<b>90.9</b>	<b>3.5</b>	<b>100.0</b>

<b>CHANGES IN MANAGEMENT ASPECT ASSESSMENTS 2001-02 COMPARED WITH 2000-01</b>					
<b>Entity type</b>	<b>Unit of measure</b>	<b>Higher</b>	<b>Same</b>	<b>Lower</b>	<b>Total</b>
Government Departments	Number	14	187	9	210
	%	6.7	89.0	4.3	100.0
District Health Boards	Number	5	86	14	105
	%	4.8	81.9	13.3	100.0
Crown Research Institutes	Number	2	41	2	45
	%	4.4	91.1	4.4	100.0
State-owned Enterprises	Number	6	51	6	63
	%	9.5	81.0	9.5	100.0
<b>TOTALS</b>	<b>Number</b>	<b>27</b>	<b>365</b>	<b>31</b>	<b>423</b>
	<b>%</b>	<b>6.4</b>	<b>86.3</b>	<b>7.3</b>	<b>100.0</b>

## Commentary on results

Overall, there has been a net improvement in the assessments of the five management aspects from 2001-02 to 2002-03 (i.e. there are 24 higher assessments and 15 lower). This would tend to indicate that the quality of management in public sector entities has improved – albeit marginally.

Within each class of entity, we observe:

- Government Departments continue to have a net improvement, with fewer assessments being lower than in the previous year's analysis.
- District Health Boards appear to have stabilised, with no net change. This compares favourably with the previous two year's analyses (where a net worsening of assessments had occurred in relation to the two service performance aspects).
- Crown Research Institutes remain at similar levels to the previous year's analysis, with negligible change.
- State-owned Enterprises have no net change, which repeats last year's analysis and indicates that the quite significant improvements made in 2000-01 continue to be sustained.



### Measure Two: The level of uptake of formal recommendations we make in our reports

Measuring the extent to which entities “take up” the recommendations we make in our reports as part of annual audits provides an indication of the effect we are having on improving entity management practice.

We have assessed this by:

- sampling Audit New Zealand’s top 30 entities by fee and by region.

Note: We did not report on the level of uptake of formal recommendations made in our reports of annual audits for 2002-03. The results for 2003-04 therefore establish a benchmark.

### Results

LEVEL OF UPTAKE OF OUR FORMAL RECOMMENDATIONS (Annual Audits)	Number	%
Total number of recommendations (from sample of 30 entities)	228	100
Number of recommendations accepted	110	48
Number of recommendations rejected	17	8
Number noted or under consideration by management	60	26
Number where client has made no response	41	18

### Commentary on results

This suggests that, based on a sample, almost half of the recommendations we made in our management reports on annual audits over the 2003-04 year were accepted, with a further quarter either noted or under active consideration by management. Less than 10% of our recommendations have been rejected by management.

We expect to further develop this measure over the 2004-05 year, and include data from our other ASPs. We may also consider relevant benchmark data from our Australian counterparts, if available.

### Measure Three: Others taking action as a result of our work (including adoption of our advice by Select Committees in their own reports)

We measure the “take-up”; i.e. the extent to which Select Committees use the advice we provide in the briefing materials we give them – not only to review public entities, but also to report and make recommendations to the Government on issues – by reviewing a sample of reports provided to Select Committees and identifying the number of issues we suggested which are referred to in the Committees’ reports to the House.

#### Results

The following table indicates the rate of “take-up” for the 2003-04 year. The previous year’s take-up rate is also included for comparison.

TAKE-UP RATES IN 2003-04 COMPARED TO 2002-03	2003-04	2002-03
Number of reports reviewed	19	33
Proportion of suggested issues taken up	74%	72%
Range of take-up rates	33-100%	33-100%

#### Commentary on results

We consider a take-up rate of 74% to be satisfactory. The briefing reports reviewed relate to briefings on Annual Financial Reviews and on *Estimates* across a range of entities and a range of Select Committees. Our briefings, in addition to advice on subject areas, include a series of questions that the Committee may wish to pose to the entity concerned. In general, the Committee will request the entity to respond in writing to the questions posed. This provides the Committee with valuable material in considering the entity.

## Measure Four: Fewer non-standard audit reports being issued over time

A “non-standard audit report” is one issued in accordance with the Institute of Chartered Accountants of New Zealand Auditing Standard No. 702: *The Audit Report on an Attest Audit* (AS-702). It contains:

- A **qualified audit opinion** (i.e. a “disclaimer of opinion”, an “adverse” opinion or an “except-for” opinion), and/or
- An **explanatory paragraph**

A full definition of a “non-standard audit report” is set out in our report *Central Government: Results of the 2002-03 Audits* (parliamentary paper B.29[04a], 2004, pages 35-37).

### Results

The following table provides an analysis of all non-standard audit reports issued in 2003-04. Information for the previous year is provided for comparison.

NON-STANDARD AUDIT REPORTS ISSUED IN 2003-04			
Type of non-standard audit report	Schools	Other	Total
<b>Unqualified opinion</b>			
With explanatory paragraph or reference to a breach of law	186	24	210
<b>Qualified audit opinion</b>			
Disclaimer of opinion	2	29	31
Partial disclaimer of opinion	0	0	0
Adverse opinion	0	15	15
Except-for opinion	65	29	94
<b>TOTAL</b>	<b>253</b>	<b>97</b>	<b>350</b>
<i>Total of all audit reports</i>	<i>2682</i>	<i>1388</i>	<i>4070</i>

NON-STANDARD AUDIT REPORTS ISSUED IN 2002-03			
Type of non-standard audit report	Schools	Other	Total
<b>Unqualified opinion</b>			
With explanatory paragraph or reference to a breach of law	112	46	158
<b>Qualified audit opinion</b>			
Disclaimer of opinion	1	6	7
Partial disclaimer of opinion	2	0	2
Adverse opinion	1	21	22
Except-for opinion	99	44	143
<b>TOTAL</b>	<b>215</b>	<b>117</b>	<b>332</b>
<i>Total of all audit reports</i>	<i>2900</i>	<i>1292</i>	<i>4192</i>

## Commentary on results

There has been an increase in non-standard audit reports as a proportion of all audit reports issued during the year – from 7.9% in 2002-03 to 9.0% in 2003-04.

There were a number of reasons for this increase:

- There has been an increase in school audit reports containing explanatory paragraphs. This increase is primarily due to an increase in the number of school network reviews that were undertaken during 2003-04. As a result of these reviews, more school audit reports included references to:
  - the uncertainty over the future of the school, as this was still to be decided; or
  - the fact that a decision had been made to disestablish the school.
- There has also been an increase in the number of audit reports containing a disclaimer of opinion. This increase is due to the financial statements of a number of statutory bodies that entered the Auditor-General's mandate for the first time in 2003-04 not having been audited the year before. Because the closing position of the prior year had not been independently verified, we were unable to provide assurance about the current year's result.



On the other hand:

- There has been a decrease in the number of school audit reports containing “except-for” opinions. The decrease is due to fewer school boards than in the previous year having difficulty in complying with FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*. FRS-15 requires the inclusion of a provision in the Board’s financial report for their obligation to the Ministry of Education to maintain the properties from which they operate in “good order and repair”.
- There has been a decrease in the number of audit reports for other entities containing “except-for” opinions. At the end of 2003-04, there were a similar number of audits in arrears as there were at the end of 2002-03. However, the number of audits in arrears at the end of 2002-03 had been less than the year before. It was because a lot of “old” audits were completed in the 2002-03 year, and there were more “except-for” opinions issued for other entities in that year.

## Impact 2: Public entities that act legally, ethically and with probity

(Output Classes D1, D3 and D4)

INTERVENTION LOGIC	MEASURES
<p><i>If we are vigilant for any behaviour below expectation as part of our day-to-day activities, and highlight and fully investigate any irregularities we come across, then there is a greater likelihood that we will ensure that an effective deterrent to unlawful or unethical actions, or those undertaken without probity, exists.</i></p>	<ol style="list-style-type: none"> <li>1. Transparency International ranking</li> <li>2. Analysis of themes emerging from the inquiries we conduct</li> </ol>

### Measure One: Transparency International ranking

The Transparency International (TI) Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. As such, it provides one possible indicator of the extent to which public entities in New Zealand are perceived to act legally, ethically and with probity. (Note: It does not distinguish between administrative and political corruption.)

The TI is a composite index, drawing on 17 different polls and surveys from 13 independent institutions carried out among business people and country analysts, including surveys of residents, both local and expatriate. In 2003, the TI ranked 133 countries.

### Results

In 2003, New Zealand was ranked 3rd equal with Denmark (behind Finland and Iceland), the same ranking as in 2002. New Zealand's TI score was 9.5, on a scale where the top score was 9.7 and the lowest score 1.3.



### Commentary on results

New Zealand has sustained its international ranking on the TI Corruption Perceptions Index.

We acknowledge that this is a high-level indicator and is not solely attributable to our work. However, it may be possible to draw some tentative conclusions that our work does act as a deterrent and/or uncovers and stops unlawful or unethical behaviour or behaviour undertaken without probity.

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### Measure Two: Analysis of themes emerging from the enquiries we receive

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Another possible indicator of the impact our work has on the behaviour of public entities and public officials is the extent to which we see continuing themes in the enquiries we receive. The assumption is that the occurrence of themes should lessen over time, if our assurance interventions are targeted appropriately.

### Results

We responded to 179 enquiries from ratepayers, taxpayers and Members of Parliament in 2003-04, and 80 enquiries under the Local Authorities (Members' Interests) Act 1968.

A large proportion of these related to:

- issues around processes and procedures;
- issues of appropriateness of expenditure;
- matters arising from the sale and purchase of assets; and
- unusual payments and the legal authority for such payments.

Three common themes emerged from our review of all enquiries received:

- contract management practices (in Local Government – issues such as contracting for infrastructure development, and in Central Government – issues such as contract management for funding NGOs);
- conflicts of interest – both of a pecuniary and non-pecuniary nature; and
- advertising guidelines for parliamentary and local government elections – i.e. the need for clear and consistent rules to guide expenditure of public funds on advertising and communications.



## **Commentary on results**

This is the first time that we have attempted to report on key themes emerging from the enquiries we receive. It is intended to provide a benchmark for future years' reporting. We intend to develop mechanisms to monitor the recurrence of these and any other themes.



# Impact 3: Parliamentary control of expenditure

(Output Class D2)

INTERVENTION LOGIC	MEASURES
<p><i>If we properly carry out our Controller function, then there is a greater likelihood that the mechanisms that are designed to ensure Parliamentary control of public money will function properly and no funds will be released without appropriate authorisation.</i></p>	<p>No funds are released to government departments without appropriate Parliamentary approval.</p>

**Measure One:** No funds are released to government departments without appropriate Parliamentary approval

The Controller function is a statutory function carried out in accordance with section 22 of the Public Finance Act 1989. The Office acts as a monitor, on behalf of Parliament, to control the issue of funds from the Crown Bank Account.

## Results

100% compliance; i.e. all warrants issued by the Governor-General for the release of funds, and daily amounts released to departments to fund their activities, were supported by appropriations and were for lawful purposes.

## Commentary on results

There have been no breaches of this measure. This provides a high level of confidence to Parliament and the public that funds released from the Crown Bank Account are done so within a robust framework.

## Summary

### 1. Did our work maintain and/or improve our desired impacts?

We believe that, as a result of our work over the 2003-04 year, our desired impacts have been **maintained at existing levels**.

- We saw ongoing strengthening of entity management evidenced through our comparison of the five management aspect results for 2002-03 compared to 2001-02.
- Select Committees continued to draw from our advice to make their own recommendations at the rate of 74%.
- New Zealand maintained its ranking on the Transparency International Corruption Perceptions Index.

We have identified the following as **areas of our work that we need to strengthen and/or improve** to enhance our desired impacts (the Auditor-General has already acknowledged these in his five-year Strategic Plan):

- we need to improve our timeliness, especially for performance audits and inquiries;
- we need to enhance annual audits to have stronger non-financial and waste, probity governance and accountability emphasis; and
- we are being asked for more performance audits in order to provide greater depth and breadth in areas of value-for-money, effectiveness and efficiency.

These areas of strengthening and/or improvement have been incorporated into our *Annual Plan 2004-05*.

### 2. Did we improve our own development, measurement and reporting of outcomes?

We believe that, arising from the work on our Strategic Plan and Annual Plan, we have made **significant improvements** in our own development, measurement and reporting of outcomes.

- We comprehensively reviewed our outcome and measurement frameworks as we developed our *Annual Plan 2004-05*.
- We developed, in consultation with the Treasury, an evaluation framework for measuring the impact of our performance audits. The Officers of Parliament Committee has since approved this framework.
- We started to use our revised measurement framework to improve the information provided in this Annual Report.





# Part Three

## GOVERNANCE REPORT

# 3

What we set out to achieve in 2003-04



### Our key objectives for 2003-04 in relation to governance

1. Implement our governance (and risk management) framework (see page 5 of our *Annual Plan 2003-04*).
2. Improve our own measurement and reporting of governance.

## Our governance framework

The Office has in place a sound governance framework.

We define governance as “the system by which the Office is directed, managed and held to account.” It incorporates the culture, structures and processes for decision-making, accountability, control and behaviour. It provides the framework within which:

- the Auditor-General is accountable to Parliament for his stewardship of the resources entrusted to him;
- the strategies and goals of the Office are set, promoted and achieved;
- the key risks to the Office are identified and managed; and
- ethical values and behaviours, and responsible decision-making are promoted, and inappropriate actions and behaviours are sanctioned.

During 2003-04, we undertook a review of a key part of our governance framework; i.e. our strategic and operational management of the Office (what we call our “leadership model”).

The following framework incorporates the revisions in this area. Our leadership model is described in detail on pages 46-47.

We have developed our framework to be generally consistent with good practice in governance arrangements. This is drawn from international and local sources, including from our counterpart organisations in Australia and the United Kingdom, and from guidance provided by the State Services Commission, the Crown Companies Monitoring and Advisory Unit, and the various Stock Exchange/Securities Commission organisations. This has been modified to reflect the public sector environment we operate in.



### Our key governance principles

The Office will:

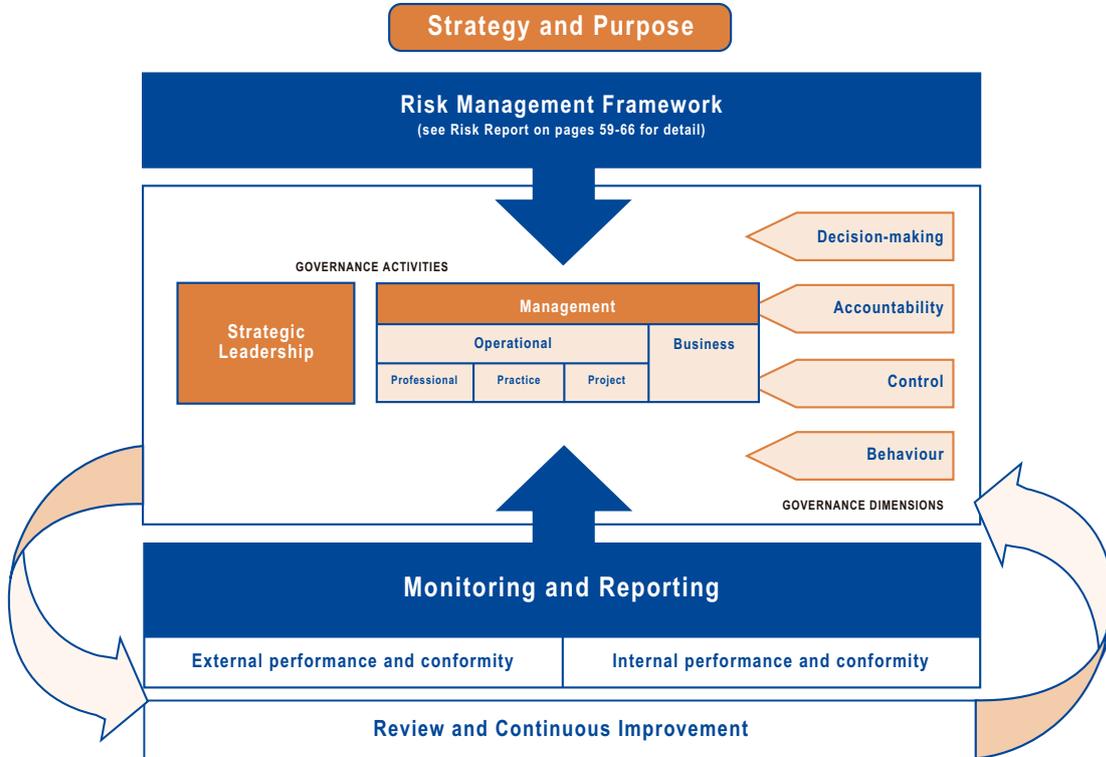
- clearly define, and seek common agreement on, our Strategy and Purpose;
- maintain a sound system of risk oversight and management, and internal controls;
- actively promote a leadership culture which values and models ethical behaviour, openness, integrity and accountability;
- clearly assign governance roles and responsibilities;
- encourage open and effective working relationships and information flows within the governance structure ;
- ensure timely and balanced disclosure of material matters affecting the Office;
- monitor management effectiveness and commitment;
- maintain a structure to independently verify and safeguard the integrity of the Office's financial reporting;
- recognise our legal and other obligations;
- operate mechanisms for stakeholder inclusion and feedback; and
- review and continuously improve our governance arrangements.

**Our key governance relationships** are between:

- the Auditor-General and Parliament (through the Officers of Parliament Committee), in relation to his stewardship (Note: the Auditor-General is independent from Parliament and Executive Government in relation to the performance of his duties);
- senior management and staff, in relation to the strategic leadership and management of the Office; and
- the Office and its stakeholders, in relation to the provision of services we provide.

These governance relationships define the accountability and reporting parameters of the Office.

Our governance framework can be represented as follows:



Each component of our governance framework is described below:

### Strategy and purpose

Our governance framework operates within the context of the Office’s Strategy and Purpose. Our purpose is set out in the Public Audit Act 2001. The Auditor-General proposes his Strategy to Parliament through the Officers of Parliament Committee at least every three years. The current Auditor-General has recently proposed his Strategy for the next five years (the balance of his term), and this has been endorsed by Parliament.

### Risk management framework

Our risk management framework is an integral component to our governance framework. It sets in place the system by which risks to the Office can be proactively identified and managed. Our risk management framework is fully outlined in the Risk Report on pages 59 to 66.



### Governance activities

There are two primary activities over which governance is required. They are:

- Strategic Leadership, and
- Management.

We define “Strategic Leadership” as:

- The development of Strategy
- The translation of Strategy into action (through Planning)
- The establishment of linkages between strategy and performance and remuneration
- The strategic management of capability (including succession planning for key senior positions)
- The provision of guidance on the expectations of ethical behaviour, and
- The communication of Strategy.

We define “Management” in two categories: “Operational management” and “Business management”.

“Operational management” encompasses:

- Professional management
- Practice management, and
- Project management.

“Business management” includes:

- Human Resource Management
- Financial Management
- IT Management
- Administration/Procurement Management, and
- Communications Management.



### Dimensions of governance

We consider our governance activities against four dimensions of governance. These are:

- Decision-making
- Accountability
- Control, and
- Behaviour.

Considering our governance activities against these dimensions enables us to determine the appropriate culture, structures and processes we need for effective governance.

Decision-making includes such things as:

- Governance structures
- Information flows, and
- Stakeholder inclusion and feedback mechanisms.

Accountability includes:

- Roles and responsibilities within the governance structure, and
- Key accountability documents.

Control includes:

- Management controls, and
- Supporting governance bodies/structures.

Behaviour includes:

- Leadership culture.

On the following pages, we outline our specific governance responses for both of our governance activities against these dimensions of governance.



## **Monitoring and reporting framework**

Key to our governance framework is an integrated system of monitoring and reporting. This enables us to demonstrate internally and externally, our performance (against our outcomes, risks, outputs and business strategies) and conformance (compliance with legislation, regulations and published standards and how we meet stakeholder expectations of probity, accountability and openness).

We have recently reviewed our monitoring and reporting framework across the Office to ensure it is aligned to our Strategy, and to promote “one-time reporting” of information.

## **Review and continuous improvement**

We are committed to the ongoing review and development of our governance framework. This will include, from time to time, independent review of our governance framework.

We also intend to develop measures to assess the quality, effectiveness and appropriateness of our governance framework.

## Decision-making

### Governance structure

#### *Our leadership model*

Over the 2003-04 year, we reviewed how we manage and lead the Office to ensure alignment with our Strategy, and its ongoing appropriateness from a governance perspective.

As a result, we have made some key changes to our “leadership model”.

- We have made a clearer distinction between the strategic leadership of the Office and our operational management. This means we have better defined the roles and responsibilities of the various management groups across the Office to ensure they exercise the appropriate oversight and are consistent with our Office-wide Strategy.
- Secondly, we have strengthened the relationship between the two operational parts of the Office: Audit New Zealand and OAG Operations. Over the past ten years under the contestable environment for auditor appointments, the two parts of the Office had, by necessity, become quite distinct. The removal of contestability creates the opportunity to work closer together in terms of knowledge and resource sharing.
- And thirdly, we have sought to involve more people in the ongoing development and leadership of our Strategy. This reflects our desire to be more innovative and flexible, and become “product leaders”.

There are four new leadership groups. They are:

- The Strategy Governance Team (SGT)
- OAG Operations (OAG Ops)
- Audit New Zealand Executive Leadership Team (ELT), and
- The Combined Management Group (CMG).

They are configured as follows:



The purpose of each group is outlined below.

- SGT is responsible for advising the Auditor-General on achievement of the OAG Strategy, including delivery of agreed annual objectives.
- OAG Ops is the management team with collective accountability for the operational performance of the OAG.
- ELT is the management team with collective accountability for the operational performance of Audit New Zealand.
- CMG includes all members of SGT, OAG Ops and ELT, and is responsible for participating in the development of OAG strategies and policies.

## Stakeholder feedback

We have some well-established stakeholder validation and feedback mechanisms – both internally and externally. These include:

- The Auditor-General’s meetings with Select Committee chairpersons, parliamentary party leaders and public entities
- The Local Government Advisory Committee
- Client satisfaction survey (Audit New Zealand)
- Staff survey (Audit New Zealand)
- Internal client survey.

We have also trialled a pilot focus group of key stakeholders. In addition, we receive extensive feedback from our ongoing liaison with sectors and entities.

In our *Annual Plan 2004-05*, we have proposed that we will review our stakeholder validation and feedback mechanisms. This will include developing an overall framework for external stakeholder feedback, and aligning our internal staff and client surveys across the Office.

## Accountability

### Roles and responsibilities

In addition to having agreed purposes for the respective groups in our leadership model (outlined on page 47), the Office has:

- job descriptions for all positions, and
- terms of reference for our Project Office approach.

For all performance audits, major inquiries, research and development, and major corporate projects, the Office has recently introduced more formal project specification and proposal requirements. We expect to fully implement these project disciplines during 2004-05.

Through these mechanisms described above we are able to ensure greater clarity of roles and responsibilities in the governance of the Office.

### Key accountability documents

Under the Public Audit Act 2001, the Auditor-General is required to submit:

- An Annual Plan, and
- An Annual Report.

The Auditor-General also submits a Strategic Plan (at least every three years), which incorporates a three-year Business Plan for funding. This is done so consistent with the requirements under the Public Finance Act 1989.

During the development of the Office's five-year Strategic Plan, the Officers of Parliament Committee (OPC) has sought further reporting from the Office along the lines contemplated in the Public Finance (State Sector Management) Bill. Specifically that the Office will report on:

- Impact evaluation of our performance audits (to commence in 2005), and
- In three years, an evaluation of the implementation of the Strategic Plan.



At a management level, the Office has a range of internal accountability documents. These are:

- Business Unit Business Plans
- Team Plans
- Individual Performance Plans.

These accountability documents form the basis for active monitoring and reporting internally and externally.

## Control

### Management controls

The key elements of the management control environment within the Office are:

#### *Strategic leadership*

- Code of Conduct (which includes the process and disclosure mechanisms for identifying and managing conflicts of interest, confidentiality provisions, non-discrimination, care of property and other resources, and working with colleagues)
- Risk management policy and process
- Planning and monitoring processes
- People Management and Communication Strategies
- Process for Protected Disclosures.

#### *Operational and business management*

- Policies and procedures for operational (practice) and business management activities
- Human Resources policies and procedures
- Finance and accounting systems and controls
- Auditing standards
- Auditing manuals
- Methodologies
- Professional indemnity insurance
- Professional development programme
- Performance reviews
- Delegations
- Independence declarations by all staff – at least annually (moving to six monthly)
- All staff sign-offs of IT acceptable use policy
- Business continuance plans.

While we have sound corporate (HR and Finance) policies and procedures, they are, in some instances, different across the OAG and Audit New Zealand. This reflects the different operating environments of the two parts of the Office and the separation which was necessary under the contestable audit model for selecting auditors to carry out annual audits.

Where appropriate, we intend to look for alignment and consistency of our corporate policies and procedures over the 2004-05 year.

In addition, we have identified the need to enhance our policies and procedures in the areas of Sensitive Expenditure and Employee Fraud, and to undertake a review of the Office's legislative compliance.

### **Supporting governance bodies/structures**

We have in place a range of supporting governance bodies/structures which are designed to strengthen the effectiveness of the Office's governance.

The key supporting governance bodies/structures are:

#### *Audit committee*

The Auditor-General has appointed an independent committee to review and advise him on:

- Risk management and internal control
- Internal audit
- Financial and other external reporting, and
- Compliance with legislation, policies and procedures.

The Audit Committee has four members – three of whom are from outside the Office. The Deputy Auditor-General is the fourth member. The Audit Committee meets approximately four times a year.

#### *Internal audit*

To support the Audit Committee, the Auditor-General has also established an internal audit function. The purpose of internal audit is to provide assurance that risk identification has occurred and that risk mitigation strategies are in place, and internal controls operate and are effective. The internal auditor develops and implements an annual audit plan which is approved by the Audit Committee.

### *External audit*

Under the Public Audit Act 2001, the House of Representatives appoints an independent external auditor for the Controller and Auditor-General. CST Nexia Audit, a private sector chartered accounting firm, is the current external auditor. The role of the external auditor is to:

- conduct an audit and form an opinion on whether the annual financial statements published in the Auditor-General's Annual Report fairly present the Auditor-General's financial results, cash flows, financial position and service performance achievements; and
- be alert to any issues relating to the Auditor-General's performance, stewardship of resources, and the probity of management behaviour.

### *Opinions Review Committee (ORC)*

- An Opinions Review Committee (convened on an as-required basis) provides assurance as to the consistency of non-standard and potentially non-standard audit reports in certain circumstances, and ensures a consistent approach to major accounting and auditing policy issues affecting the Office. The Committee considers most cases in which a non-standard audit report is contemplated by an approved auditor.

### *Our quality assurance regime*

Our quality assurance (QA) regime is the means by which we assure ourselves that all the "products" of the office meet the necessary standards of quality. Currently, our QA regime applies predominantly to annual audits. We intended to complete a review of QA over all products of the Office by 30 June 2004. However, this was unable to be completed due to competing priorities. It will now be completed in the 2004-05 year.

We aim to review each Appointed Auditor's performance once every 3 years. Follow-up reviews may be initiated if we identify a need for improvement.

Our QA programme:

- aims to ensure that auditors fulfil the requirements of the *Auditor-General's Auditing Standards* and relevant audit briefs;
- is part of the continuous improvement programme within the Office; and
- provides feedback to the Office's policy, sector and technical managers.

To carry out QA of an annual audit, we undertake desk reviews of audit files and also visit Appointed Auditors in their offices to:

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

### *Internal peer review*

We require all Audit Service Providers (including Audit New Zealand) to subject all audits over 500 hours (and for high risk audits less than 500 hours) to an independent peer review by a second Partner or Director of the firm.

For our other assurance products, especially performance audits and inquiries, we maintain rigorous peer review and substantiation procedures.

### *External peer review*

In 2002-03 we adopted a policy of selecting two reports of performance audits a year to be reviewed by external reviewers – a New Zealand academic and a group based at the London School of Economics (LSE). The criteria for these reviews are based on those that the LSE devised for the same purpose with the United Kingdom National Audit Office.

We continued to implement this policy in the 2003-04 year. However, while we received comment from the NZ academic, we did not receive a report from the LSE and ended our contract with them. We are now seeking to replace them as our external reviewers.

In addition, we invited the Australian National Audit Office to review 2 of our performance audits, with particular emphasis on the methodologies we are using and how well we are using them. The reports chosen were *Local Authorities Working Together* and *Accident Compensation Corporation: Case Management of Rehabilitation and Compensation*.

### *Independence Review Committee (IRC)*

The Independence Review Committee provides assurance that judgements made on independence matters are appropriate, having regard to:

- professional and the Auditor-General's standards and guidelines on independence; and
- the Auditor-General's duty to act independently, as required by section 9 of the Public Audit Act 2001.



#### *Local Authorities (Members' Interests) Act Review Committee*

The Local Authorities (Members' Interests) Act Review Committee provides input into decisions on significant investigations under the Local Authorities (Members' Interests) Act 1968, including whether to initiate proceedings against members of local authorities after an investigation by the OAG's Legal Group.

#### *Project Steering Committees (PSC)*

All of our performance audits have a PSC to provide oversight, project monitoring and quality control. This is a key element in ensuring that our reports to Parliament and the public are of a high quality.

#### *Project management*

Over the past year, we have started to introduce a "project office approach" to our major work in the Office. This includes performance audits and special studies, major inquiries, research and development, and major corporate projects. This involves increased project management disciplines around scoping and monitoring of our work.

#### *Independent evaluation of auditor appointments*

An independent evaluator, Mr David Gascoigne, is currently retained to evaluate auditor appointment processes and report on their probity. His report for 2003-04 is provided on pages 116-117.

## Behaviour

### Leadership culture

The ability of the leaders of the organisation to promote and model ethical behaviour, openness, integrity and accountability is fundamental to successful governance. It is, however, perhaps the most difficult area of governance to both develop and measure.

Given the nature of our role and purpose, it is incumbent on the Office to demonstrate a high standard of ethical behaviour. The core values which the Office relies on for its credibility and reputation are integrity, independence and competence. We are therefore committed to maintaining and enhancing a leadership culture which supports this behaviour and these values.

We currently reinforce the demonstration of our leadership culture through:

- clear communication of our expectations of ethical behaviour through our Code of Conduct (which includes Conflict of Interests, Confidentiality and other professional behaviours) and our Independence Standards;
- seeking ongoing assessment of the perceptions of staff (through the Staff Survey – Audit New Zealand only) of:
  - Management’s demonstration of our values
  - The clarity of our vision and purpose
  - The extent to which co-operation exists within the Office
  - The clarity around performance expectations
  - The degree to which staff feel involved in the organisation and decision-making
  - How satisfied staff are with the level of recognition and reward, and
  - The extent to which staff believe there is opportunity for their development;
- undertaking 360-degree feedback of key senior staff across the Office;
- carrying out internal surveys to assess staff perceptions of the accessibility of information, the usefulness of internal systems and procedures and the quality and relevance of services;
- completing “organisational aptitude” assessments of all Audit New Zealand staff to assess the extent of alignment with the Office’s Strategy; and
- seeking stakeholder feedback about the perceptions of the Office’s credibility and relevance.

Each of these mechanisms provides indications of the leadership culture within the Office. We expect to do further work in this area.



## Measuring our governance

Little work has been done internationally on measuring the quality, appropriateness, adequacy or effectiveness of the governance arrangements of entities.

Typically, reporting is focused on describing the nature of the roles and relationships between the key players.

For some time, as an Office, we have advocated for both stronger reporting and measurement of governance.

- There were no measures proposed in our Annual Plan for 2003-04. We intend to continue to work on developing suitable measures of governance over the 2004-05 year. We will report on our progress in next year's Annual Report.

## Summary

### 1. Did we implement our governance (and risk management) framework?

- During 2003-04, we reviewed and aligned our governance framework to be consistent with our Strategy. This included:
  - The review of our leadership model;
  - The finalisation of our risk management framework and the integration of it within our business planning process; and
  - The development of a framework for monitoring and reporting across the Office.

Areas within our governance framework that we have identified as requiring **further improvement** are:

- QA over all products of the Office;
- The enhancement of our policies and procedures for Sensitive Expenditure and Employee Fraud; and
- A review of the Office's legislative compliance.

We intend to address some of these areas over 2004-05, the remainder in successive years.

### 2. Did we improve our own measurement and reporting of governance?

We consider that we have made **some progress** in our own measurement and reporting of governance. Significant further work is required.

- We have presented the information on our governance framework in this Annual Report as an example of emerging good practice in governance reporting.





# Part Four RISK REPORT

# 4

## What we set out to achieve in 2003-04



**Our key objectives for 2003-04 in relation to risk management**  
were to:

1. Implement our (governance and) risk management framework (see page 5 of our *Annual Plan 2003-04*).
2. Improve our own measurement and reporting of risk.

## Our risk management framework

We have developed a comprehensive risk management framework for the Office in consultation with key staff. It was introduced in 2003-04 and integrated within our strategic and business planning processes.

Our risk management framework can be represented as follows:



We **define** risk management as:

“The culture, processes and structures that are directed towards the continuous management of both opportunities and adverse effects impacting on our business.”

The **key features** of our risk management framework are:

- Our risk management framework is aligned to our business outcomes and the strategies designed to achieve these outcomes.
- The culture within the Office accepts that risk management is a critical part of our business. Management’s acceptance of ownership and accountability to effectively manage agreed risks and take an appropriate degree of mitigating action is an essential part of this culture.



- We apply a defined methodology that enables us to identify and assess risks and make decisions about appropriate ways to mitigate the risks identified.
- We have clear statements of our risk management policy, principles and practice.
- Our risk management process includes the mechanisms we use for: identifying and assessing risks; developing specific mitigating strategies, plans or actions; and recording, monitoring and reviewing.

The governance arrangements associated with our risk management framework have been outlined in the Governance Report on pages 39-57.



## Measuring our risks

In implementing our risk management framework in 2003-04, we identified our key strategic risks. These were published in our *Annual Plan 2004-05* and are as follows:

- not maintaining our credibility and reputation;
- not meeting our stakeholders' expectations;
- not maintaining and building our capability;
- failure to successfully implement our five-year Strategic Plan;
- not maintaining our independence; and
- serious audit failure.

In addition, we outlined the key measures we will use to assess the extent of implementation, and the quality, of our risk mitigation strategies. We will report on these for the first time in next year's Annual Report.

As we had not implemented our risk management framework at the time of publishing our *Annual Plan 2003-04*, we did not specifically identify our key risks or how we would measure them. We did, however, outline what we saw as the "challenges and risks" to the Office that we expected in our operating environment. These were largely consistent with what subsequently emerged through our robust risk management process.

We also included some general statements about "what we need to do". These were not specifically risk mitigation actions. In this Annual Report, we summarise our key responses to these general statements. Many of these responses were incorporated in the development of the Strategic and/or Business Plans, or were part of our ongoing "business as usual" (which is separately reported in our Statement of Objectives and Service Performance on pages 123-140).



CHALLENGES AND RISKS	“WHAT WE NEED TO DO”	OUR KEY RESPONSES
<p>Credibility of the accounting and auditing profession</p>	<ul style="list-style-type: none"> <li>Maintain the quality of our key products and services</li> <li>Ensure that the way we select and brief auditors, and monitor quality and timeliness of audit work and opinions, maintains the highest professional standards</li> <li>Target our written products accurately to appropriate audiences and write them clearly and authoritatively</li> </ul>	<ul style="list-style-type: none"> <li>Reported on in our Statement of Objectives and Service Performance (pages 123-140)</li> <li>We implemented our new audit resourcing model</li> <li>We continued to monitor the quality and timeliness of audit work</li> <li>We continued our policy of external peer review of selected performance audit reports</li> </ul>
<p>Increases in Parliamentary and public expectations about public sector performance and accountability</p>	<ul style="list-style-type: none"> <li>Ensure that we have sufficient resources to respond to increases in demand</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through our five-year Strategic Plan and associated three-year Business Plan</li> </ul>
<p>Expectation gap and limitations on our effectiveness</p>	<ul style="list-style-type: none"> <li>Continue to focus on strengthening our working relationship with Parliament</li> <li>Discuss with Parliament any options for possible changes to the current system for dealing with our reports</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing programme of Auditor-General meetings with Select Committee chairpersons</li> <li>Active consultation with Parliament over our <i>Draft Annual Plan 2004-05</i></li> <li>We continued to consider ways in which we could enhance the impact of our reports</li> </ul>

CHALLENGES AND RISKS	“WHAT WE NEED TO DO”	OUR KEY RESPONSES
<p>Expectation gap and limitations on our effectiveness ... <i>continued</i></p>	<ul style="list-style-type: none"> <li>Promote awareness of our reports among relevant sector representatives and central agencies</li> </ul>	<ul style="list-style-type: none"> <li>The Auditor-General meets 2 or 3 times a year with central agencies</li> <li>Key senior staff across the Office continue to meet regularly with relevant sector representatives</li> </ul>
<p>Ongoing changes in, and increasing complexity of, Central and Local Government operations</p>	<ul style="list-style-type: none"> <li>Assess the effects of these changes and reforms, and contribute to addressing their financial management and accountability implications</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through our five-year Strategic Plan and associated three-year Business Plan</li> </ul>
<p>Increasing litigiousness in the public sector</p>	<ul style="list-style-type: none"> <li>Ensure our methods for choosing what work we undertake (especially inquiries) are sound and transparent</li> </ul>	<ul style="list-style-type: none"> <li>A further review of our major inquiries process commenced and will be completed in 2004-05</li> </ul>
	<ul style="list-style-type: none"> <li>Identify where additional capability is required (including training)</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through our five-year Strategic Plan and associated three-year Business Plan</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure that our own processes are fair, transparent and consistent with the requirements of natural justice</li> </ul>	<ul style="list-style-type: none"> <li>A review of our inquiries methodology is proposed for 2004-05</li> </ul>
	<ul style="list-style-type: none"> <li>Manage the additional time and costs (such as legal costs) involved in “getting it right”</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through the Office’s business planning process</li> </ul>



CHALLENGES AND RISKS	“WHAT WE NEED TO DO”	OUR KEY RESPONSES
Advances in information systems and information and communication technology	<ul style="list-style-type: none"> <li>Keep up to date with these developments in the public sector, and also in the audit and assurance tools available to deal with them</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through the Office’s business planning process</li> </ul>
Ongoing changes in performance reporting	<ul style="list-style-type: none"> <li>Ensure that we have adequate capability, informed processes, and appropriate products</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through our five-year Strategic Plan and associated three-year Business Plan</li> </ul>
Difficulties in obtaining required capabilities	<ul style="list-style-type: none"> <li>Constant assessment, recruitment of people, and acquisition of information – to maintain our capability and respond to the increasing breadth of knowledge we are dealing with</li> </ul>	<ul style="list-style-type: none"> <li>Addressed through our five-year Strategic Plan and associated three-year Business Plan</li> </ul>
	<ul style="list-style-type: none"> <li>Keep skills levels up and institutional memory strong</li> </ul>	
	<ul style="list-style-type: none"> <li>Formulate strategies to obtain external capability when required</li> </ul>	
	<ul style="list-style-type: none"> <li>Need to maintain a viable in-house audit capability</li> </ul>	

## Summary

### 1. Did we implement our risk management framework?

We believe that we have **substantially implemented** our risk management framework in 2003-04.

- We undertook a robust process of identifying and assessing our key strategic, professional and business risks. This involved a large number of senior staff across the Office.
- We developed key mitigation actions for 2004-05.
- We fully integrated our agreed risk mitigation actions into our business plans.
- We established the ongoing monitoring and reporting framework to ensure achievement of our risk mitigation actions.
- We set up the processes for recording and re-assessing risk status and actions.

**An area we would like to develop further is:**

- Embedding our culture of risk management into all our management activities.

### 2. Did we improve in our own measurement and reporting of risk?

We believe that we have **improved** our measurement of risk. We have yet to implement our proposed improvements in the reporting of risk.

- We developed our first risk measures and published them as part of our *Annual Plan 2004-05*.
- We will develop the mechanisms to report on these measures during the 2004-05 year.



# Part Five

## CAPABILITY REPORT

# 5

### What we set out to achieve in 2003-04



**Our key capability objectives for 2003-04** (as set out on pages 43-44 of our *Annual Plan 2003-04*) were to:

1. Review our future capability needs as part of the development of our Strategic Plan.
2. Enhance our capability, specifically to:
  - implement our revised contestability regime (audit resourcing model) for the provision of audit services;
  - implement a communications strategy;
  - seek opportunities to improve relationships – internally and externally;
  - continue to invest in Information and Communications Technology (ICT) and knowledge management systems; and
  - review our Equal Employment Opportunities Programme and Effectiveness For Māori Plan.
3. Improve our own measurement and reporting of capability, specifically to:
  - better define targets for our measures; and
  - consider further measures of capability.



# Our capability management framework

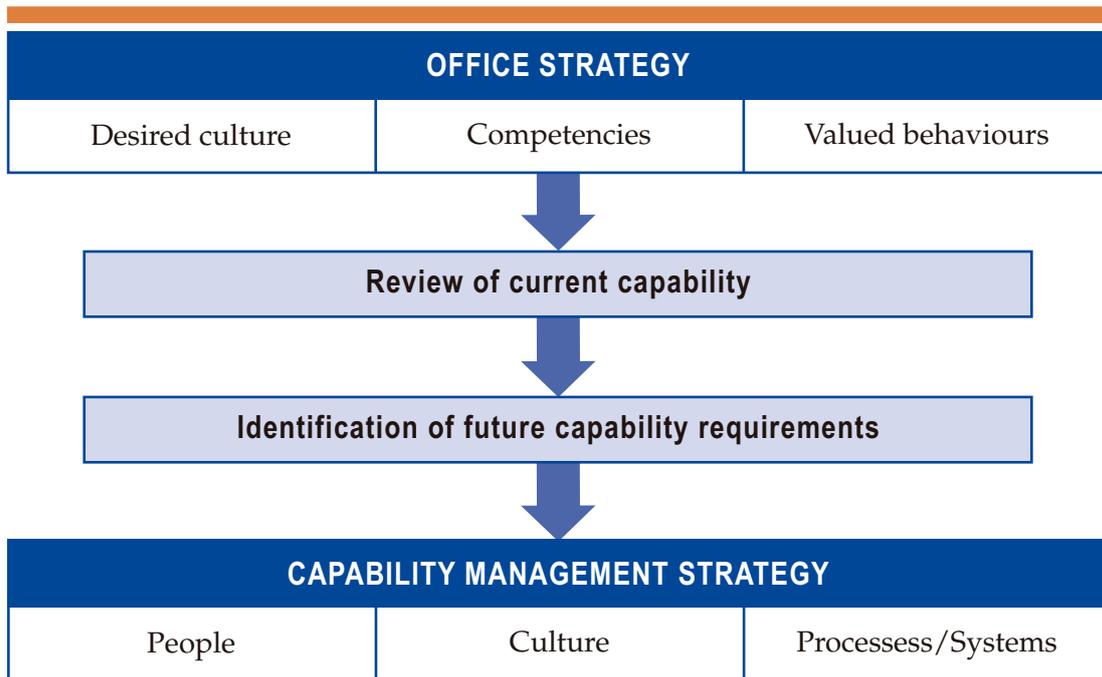
As we developed our five-year Strategic Plan in 2003-04, we undertook a comprehensive review of our current and future capability.

We **define** capability as:

“Having, or having access to, a combination of people, resources and systems that enables us to:

- Deliver our outputs and results to meet current needs and stakeholder satisfaction; and
- Maintain our ability to cope with likely future changes.”

The **framework and process** we used for reviewing our current and future capability and determining our key capability initiatives can be represented as follows:



That is, within the context of our five-year Strategic Plan – which describes at a high level the kind of culture, competencies and behaviours we need in the Office of the future – we reviewed our current capability, then looked at the likely changes in our environment and their implications on our people, culture and processes/systems, and came up with key capability initiatives to address these implications.



Below, we describe briefly the key findings from our review (for a broader analysis, see pages 32-37 of our *Annual Plan 2004-05*).

## Our current capability to respond

The key challenges we identified in relation to our current capability were:

- the Office was struggling to maintain our capability and market competitiveness;
- we had to continually apply senior resources to deal with unplanned work (e.g. inquiries);
- we had limited ability to invest in research and development and product development;
- our timeliness was variable, especially for inquiries and performance audits;
- our ability to invest in capability development was limited; and
- there was no knowledge management strategy across the Office.

## Our future capability requirements

Through our strategic planning process, we identified the following future capability requirements for the Office if we are to achieve our Strategy and our desired outcomes.

### Our staff

- Increased capability and capacity to:
  - undertake research and development, and product development;
  - carry out performance audits – including building a critical mass of professionals working in this area (for peer support, training, peer review and the development of robust methodologies and approaches); and
  - undertake inquiries.
- Strengthening of our core capabilities/skills in:
  - professional leadership of public sector auditing and accounting;
  - relationship management (to further build relationships with our key stakeholders and work collaboratively with others); and
  - strategic leadership.



## CAPABILITY REPORT

### Our capability management framework

#### PART 5

- Encouragement and recognition of the following behaviours:
  - Office-thinking;
  - joint working;
  - internally and externally; and
  - innovation.

#### *Our processes*

- The creation of more flexible access to the “best people”.
- The ability to backfill roles.
- The ability to better balance productivity with innovation and create “headspace” to think.
- Greater alignment of our Corporate Support strategies and processes across the OAG and Audit New Zealand.

#### *Our systems*

- The design and implementation of a Knowledge Management strategy and an Information Systems Strategy.
- Improved project management disciplines.

The specific capability initiatives we will take are outlined on pages 62-65 of our *Annual Plan 2004-05*.



## Measuring our capability

For the last two years, we have provided a “capability snapshot” as part of our reporting on capability. This has been intended to provide a broader view of the Office’s capability profile, and has looked at:

- base information – reporting what is our current capability (staff numbers, function, gender, ethnicity, etc.); and
- information which shows what we have done to maintain and enhance our core capability.

We will continue to provide similar information this year. However, in addition, we will provide – as a trial – some tentative conclusions we have made on the adequacy, quality and effectiveness of our capability based on this information.

We acknowledge that this is a new area of reporting, and we do not yet have in place all the measures needed to form complete views about this. (In our *Annual Plan 2004-05*, we have proposed some new measures for capability, which include quality, adequacy and effectiveness measures. Over the coming year, we will continue to develop these measures and report on them in our next Annual Report.)

In each of these categories, the **key capability questions** we have used to form our tentative conclusions are as follows.

### Adequacy

- Does the Office have – or have access to – enough skilled, experienced and competent people?
- Can the Office attract suitably qualified staff?
- Does the Office have a ready supply of future leaders?
- Does the Office have sufficient working capital to sustain its work?
- Does the Office have adequate information systems to effectively perform its work?



#### Quality

- Does the Office maintain and enhance the skills of its existing staff?
- Does the Office create an environment where skilled people want to stay and work?
- Does the Office facilitate diversity?

#### Effectiveness

- Does the Office have effective and efficient mechanisms to store, retrieve and share information/knowledge?
- How skilled, experienced and competent are our people to perform their work?
- Do our systems and processes support the work of the Office?

## Current capability – Base information

This information provides an understanding of the size, scale and distribution of our current resource base, specifically:

- the current size of our staff resources;
- the distribution of our staff by function, gender and ethnicity;
- the current size of our contracted resource base; and
- the scale of our information technology systems.

	UNIT OF MEASURE	AS AT 30 JUNE		
		2004	2003	2002
<b>STAFF NUMBERS</b>				
OAG	FTE	52.4	54.5	51.4
Audit New Zealand	FTE	178.4	194.2	197.0
Total	FTE	230.8	248.7	248.4
<b>FUNCTIONAL DISTRIBUTION</b>				
Audit/ Assurance	%	65	65	62
Technical and Advisory	%	4	7	5
Corporate Support	%	27	23	28
Management	%	4	5	5
<b>GENDER DISTRIBUTION</b>				
<b>All Staff</b>				
Female	%	46	49	53
Male	%	54	51	47
<b>Management Staff</b>				
Female	%	38	8	17
Male	%	62	92	83
<b>ETHNICITY DISTRIBUTION</b>				
NZ European	%	56	62	65
NZ Māori	%	3	3	6
Pacific Island	%	1	2	2
Asian	%	13	9	15
Other European	%	8	13	12
Other ethnic groups	%	4	7	-
Undeclared	%	15	4	1
<b>CONTRACTED RESOURCES</b>				
Audit Service Providers (private sector firms engaged to undertake annual audits)	No.	81	71	Not reported

## Additional information

### *Scale of our information technology systems*

The Office is highly dependent on information technology (IT) to complete its work. Audit New Zealand is especially dependent – its field audit staff need to have remote access in order to deliver services to entities (i.e. offline access to its technical audit and accounting databases and its electronic audit management tool – “TeamMate”).

Consequently, the Office has a 1:1 ratio of personal computers (or laptops) to staff. All staff have access – both network and dial-up – to the operational systems required for their jobs.

There are different IT systems in use within the OAG and Audit New Zealand. This reflected the distinct operating environments which existed under the contestable audit model. With the removal of contestability, the Office intends to align its IT systems (the development of an Office-wide Information Systems Strategic Plan (ISSP) is already underway). Some initiatives have already been implemented to improve Office-wide communication and shared access, for example, a shared Intranet Site has been developed to provide information, and allow for consultation, about our Strategy.

An external review of the Office’s IT systems was completed in 2003-04, as the basis for the development of the ISSP. This review confirmed that:

- the Office has a solid and modern (i.e. under 3 years old) IT infrastructure; and
- the Office has a sound programme of frequent upgrades for both hardware and software.

The review also identified the following as areas for development:

- the IT systems of the Office are adequate but under-utilised;
- the Office is light in terms of its IT staff capability relative to other organisations of similar size and IT usage; and
- there are opportunities for greater alignment of IT across the Office.

These areas for development will be addressed as part of the implementation of the ISSP over the coming year.



### *Contract resources*

The Office supplements its permanent staff resource base at various times of the year to assist in the delivery of its work. In 2003-04, within Audit New Zealand, this supplementation included:

- 4 secondees from KPMG in Poland;
- 6 secondees from Asian Audit Offices;
- 2 secondees from the Australian National Audit Office (ANAO);
- 1 secondee from the UK National Audit Office; and
- 1 long-term secondee from the UK Audit Commission.

Audit New Zealand has reciprocal secondment arrangements with the ANAO and the UK Audit Commission, where 3 of our staff were seconded for varying periods in 2003-04.

## Current capability – Other information

This information provides an understanding of the “supply characteristics” of our current capability, specifically:

- the average numbers of applicants who apply for key Office vacancies;
- the percentage of senior staff in Audit New Zealand who are perceived to have future potential;
- the number of staff who have been internally promoted to senior positions; and
- the Office’s current working capital (as at 30 June 2004).

	UNIT OF MEASURE	2003-04	2002-03
<b>APPLICANTS FOR OFFICE VACANCIES</b>			
<b>Senior positions (i.e. positions within CMG*)</b>			
Total number of vacancies at senior levels	No.	6	Not reported
Average number of applicants per externally advertised vacancy	No.	10	Not reported
<b>Key operational positions</b>			
Graduates (ANZ)			
• Total number of vacancies	No.	13	Not reported
• Number of applicants	No.	113	Not reported
<b>INTERNAL STAFF PROMOTIONS</b>			
Total number of internal staff promoted to senior positions (i.e. positions within CMG*)	No.	5	Not reported
Total number of internal staff promoted to management positions (i.e. Directors, Managers, Sector Managers, Performance Auditors and Corporate Managers)	No.	13	Not reported
<b>CURRENT WORKING CAPITAL</b>			
Working capital ratio	%	144%	153%

\* Combined Management Group – membership is described in Appendix 1 on page 165).

## Additional information

### *Audit New Zealand's Capability (Talent) Management System*

Audit New Zealand has continued to operate its Capability (Talent) Management System. This system is used to form views about the current and future capability of senior staff, and to provide a framework for the development of strategic capability management initiatives. It considers such things as:

- current levels of demonstration of the core competencies required for senior roles;
- perceptions about how aligned senior staff are with the Strategy;
- perceptions about potential for career advancement or job expansion; and
- perceptions about likelihood and significance of senior staff leaving.

A wide range of views is incorporated into the assessments, and they are nationally moderated. From its Capability (Talent) Management System, Audit New Zealand has formed some conclusions on the perceived extent, depth and challenges to its future capability. For 2003-04, the key findings from the Capability (Talent) Management assessments were:

- There is good vertical bench strength with a solid base of technical expertise.
- There are areas of development focus in the core competencies of “innovation” and “leading and managing people”.
- There is a good level of alignment with the Office's Strategy.
- There is a recurrence of key development themes for some individuals – suggesting limited implementation of development interventions.

Over the 2004-05 year, we will look at the applicability of Audit New Zealand's Capability (Talent) Management System for the OAG.



#### *External acknowledgement*

Audit New Zealand received first place in the Human Capital 2004 Employer of Choice Awards for Accounting. The survey sought the views of prospective candidates to determine New Zealand's best employers based on the following criteria:

- salary and remuneration;
- career development opportunities;
- management style and structure;
- workplace culture;
- working environment and company resources; and
- perception in local and (if applicable) international community.

## Maintaining and enhancing our capability

This information provides an understanding of:

- the current levels of experience of our staff in their existing or similar roles;
- the current levels of tertiary qualifications held by our staff;
- average time and spending on training and development;
- pass rates for professional accreditation;
- turnover;
- rates of sick leave; and
- staff satisfaction (Audit New Zealand only).

		UNIT OF MEASURE	2003-04	2002-03
<b>EXPERIENCE</b>				
Average "time in job"	OAG	years	4.54	4.85
	ANZ	years	5.80	5.67
<b>TERTIARY QUALIFICATIONS</b>				
No. of positions requiring tertiary qualifications	OAG	%	76	75
	ANZ	%	87	88
Staff with tertiary qualifications holding those positions	OAG	%	95	95
	ANZ	%	98	97
Staff with post-graduate qualifications	OAG	%	61	59
	ANZ	%	Not reported	Not reported
<b>TRAINING AND DEVELOPMENT</b>				
Formal training spending per employee	OAG	\$	1,243	1,894
	ANZ	\$	1,878	2,363
Pass rate of staff undertaking ICANZ accreditation	ANZ	%	94	100

... continued on the next page.



# CAPABILITY REPORT

## Maintaining and enhancing our capability

### PART 5

		UNIT OF MEASURE	2003-04	2002-03
<b>ORGANISATIONAL HEALTH</b>				
Turnover	OAG	%	16.9	9.3
	ANZ	%	20.0	20.0
Average sick leave taken per employee	OAG	days	5.7	5.9
	ANZ	days	4.6	5.0
Staff survey results (ANZ only)				
• Job satisfaction		Average rating on 1-6 scale	4.35	4.38
• Organisational satisfaction			4.50	4.55
• Satisfaction with management			4.58	4.58
• Understanding of vision and purpose			4.57	4.62

## Additional information

### *Training and development*

The total amount spent per employee on formal training has decreased during the 2003-04 year. In Audit New Zealand, this was due primarily to the fact that its leadership development programme was deferred over the year to ensure alignment with the Strategy and our Office-wide capability intentions. At the OAG, expenditure on leadership and management development remained at similar levels to the previous year.

The Office did however run a greater number of professional development courses than usual, including:

Audit New Zealand –

- Coaching and mentoring skills
- Train the trainer
- Supervisory skills
- Performance management
- Auditing practices and techniques (for graduate auditors)
- Presentation skills
- Building business relationships
- Audit approach to income tax

- Directors workshop
- Introduction to sustainable development
- Ethical governance Improvement in the public sector
- Health sector foundation training.

#### OAG –

- Human rights and harassment
- Media skills
- Writing skills
- Presentation skills
- Health and safety
- First aid
- Holidays Act seminars.

### *Audit New Zealand staff survey*

Audit New Zealand continued to invite staff perceptions on their satisfaction with the organisation on a range of dimensions. Consistent with previous years, staff rated job satisfaction, organisational satisfaction and clarity of vision and purpose highest. Lowest rated dimensions were again recognition, work /life balance and demonstration of our values.

Specific actions and targets have been included in 2004-05 team business plans to address the lowest rated dimensions.

In our *Annual Plan 2004-05*, we have undertaken to review and align our staff survey with our Strategy. We also intend to develop some consistent mechanism to assess Office-wide staff satisfaction.



### Specific capability objectives for 2003-04

On page 43 of our *Annual Plan 2003-04*, we set out our specific capability objectives for 2003-04. The following table summarises our achievements and, in some cases, lack of achievement, in the implementation of our specific capability objectives for 2003-04.

SPECIFIC CAPABILITY OBJECTIVES	PROGRESS
<p><b>Implement and refine the revised contestability regime</b></p>	<p><b>Completed</b> We have implemented the new audit resourcing model, including completion of a high level of consultation with ASPs and entities.</p>
<p><b>Implement a Communications Strategy</b></p>	<p><b>Good progress made</b> Many aspects of the OAG’s Communications Strategy had already been implemented when planning began for the new Office Strategy. Further implementation was halted to enable preparation of a new Communications Strategy to cover the whole Office, and to ensure alignment with the Office Strategy. The new Communications Strategy was drafted, for implementation from 1 July 2004.</p>
<p><b>Seek opportunities to improve relationships</b></p>	<p><b>Many successes</b> The Office has made considerable progress in improving its relationships – both internally and externally. Internally, the emphasis has been on – “closer working” between the OAG and ANZ. There are many examples of joint working, including an Office-wide conference for senior staff in December 2003, the use of mixed project teams to develop the Strategy and the increased sharing of resources and information. Externally, the emphasis has been on improving collaborative working among ASPs, and the ongoing improvement in our relationships with Parliament and other key stakeholders. Again, we have many examples of success in this area. However, we have noted the need in 2004-05 to strengthen some of our “relationship capital” with key sectors, as this has been affected by our capacity issues over the past few years.</p>

## CAPABILITY REPORT

## Maintaining and enhancing our capability

SPECIFIC CAPABILITY OBJECTIVES	PROGRESS
<p><b>Continue to invest in Information and Communications Technology (ICT) and knowledge management systems</b></p>	<p><b>Some successes – and disappointments</b></p> <p>We have completed the annual upgrading of our ICT systems. In addition, we have implemented a new Financial Management Information System across the Office. We have also developed a Shared Intranet site to facilitate consistent internal communication between the OAG and ANZ on our Strategy. This will be developed further over the coming year.</p> <p>However, the Audit Status Database project to enable auditors to input certain audit related data online proved unsuccessful and was abandoned to ensure that the integrity of the central database was maintained.</p> <p>We have subsequently verified the information and are in the process of completing specifications to re-design the system. We also did not progress development of a Knowledge Management Strategy for the Office. This was deferred until completion of the Strategy and the ISSP.</p>

### Equal Employment Opportunity (EEO) and Effectiveness for Māori (EFM)

We undertook to review our EEO Programme and EFM Plan in 2003-04. However, we did not complete this. We made a decision to defer this review until the 2004-05 year, as we wanted to ensure that the review was carried out in the context of our Strategy.

We did, however, continue to implement our existing EEO Programme and EFM Plan. Our key initiatives in 2003-04 were:

- We continued to expand our recruitment horizons through:
  - broadening our recruitment advertising through the use of different media and locations; and
  - school visits where our Māori staff talk about their experiences.
- We re-designed our website to show a more “human face”.
- We continued to look for secondment opportunities both in and out of the organisation.



## CAPABILITY REPORT

### Maintaining and enhancing our capability

#### PART 5

- We continued to implement our strategy for developing women in preparation for movement to more senior roles. This included attendance on executive management training courses and the opportunity for women to “act” in vacant senior roles.
- We maintained our EEO network groups, as required.
- We continued to pilot work/life balance initiatives – e.g. one female manager works from home one day a week in an office set up by us.
- We established a Māori Sector group to provide input to, and monitor, the EFM Plan.
- We piloted an interactive CD ROM called “Culture Flow” with two staff. This tool provides staff with the opportunity to learn basic Māori language. It is of benefit to those staff who have Māori clients and/or cultural affiliations and/or interest in wider personal development. We will be reviewing the outcomes from the pilot in October 2004.
- In December 2003, one Māori scholarship was awarded for the year beginning February 2004. One Pacific Island Scholarship was also awarded. There are 3 other Māori accounting scholarships currently ongoing.
- We conducted a tender for providers in training on the Treaty of Waitangi and cultural awareness. This will be put in place in 2004-05.
- We have purchased 10 copies of a CD called “Te Rito” which are now available in all our offices. The CD is designed to raise awareness of Māori culture, protocols, language and understanding of the Treaty of Waitangi. It is to be used as a reference to support other training and initiatives.
- Te Puni Kōkiri have been contacted to provide seminars to Office staff nationwide. This will be progressed further in the 2004-05 year.

## Adequacy of our current capability

Using the information provided on the previous pages, we have formed some conclusions about the “adequacy” of our capability to meet our current and future stakeholder needs. We have used the following key capability questions to form this view:

- Does the Office have – or have access to – enough skilled, experienced and competent people?
- Can the Office attract suitably qualified staff?
- Does the Office have a ready supply of future leaders?
- Does the Office have sufficient working capital to sustain its work?
- Does the Office have adequate information technology to effectively perform its work?

### Does the Office have – or have access to – enough skilled, experienced and competent people?

The Office has maintained its capability levels at approximately the same levels for the past three years. In developing our five-year Strategic Plan, the Auditor-General acknowledged that:

- Our current capability (staff numbers and funding) was insufficient to deliver our existing outputs. This was particularly evident in relation to:
  - Research and development, and product development. The Office’s capability in these areas had been depleted over the past ten years, and there is a backlog of work required to meet current needs, especially in local government.
  - Major inquiries. The number and complexity of inquiries has significantly increased over the last few years. The Office has been required to divert senior resources from planned work, primarily performance audits, to respond.
- Our ratio of operational to non-operational staff was about right. However, if increased funding was received for additional operational staff, there would be no consequential increases in the numbers of non-operational staff – with the exception of the Reports and Communications Group (who will be required to complete more reports).

- Maintenance of the current size of our pool of contracted resources for annual audits is necessary to ensure the Office has access to a broader resource base. Under the audit resourcing model, the method for choosing auditors who carry out annual audits has changed. Through his initial allocation, the Auditor-General has sought to provide more sustainable audit portfolios to ASPs – which are now geographically and sectorally better aligned – which should better enable the ASPs to invest in development of public sector-specific auditing.

On the basis of the above, the Office has received a significant increase in baseline funding for additional staff and/or the capacity to purchase additional resources.

### Can the Office attract suitably qualified staff?

A number of vacancies (6) occurred at senior levels within the Office in 2003-04, primarily due to implementation of our new leadership model (described on pages 46-47). The Office sought applicants for 4 of these positions both internally and externally, and for the remaining 2 internally only (as it considered that there were sufficient potential applicants within the Office with the required skills sets). For the externally advertised positions, we received good response rates (average 10 applicants per vacancy).

Audit New Zealand undertakes an annual recruitment drive for graduates. This occurs at or about the same time as the graduate recruitment processes of the major CA firms. In the May 2003 recruitment round, for graduates to commence work with Audit New Zealand in February 2004, Audit New Zealand received 113 applications for the 13 positions it had available nationwide. From this pool, Audit New Zealand employed 12 graduate staff. Audit New Zealand experienced difficulties in recruiting graduates in the South Island, particularly in Dunedin. Similar difficulties were experienced by the major chartered accounting firms in those locations.

Likewise, Audit New Zealand has experienced difficulties recruiting senior audit staff in the South Island.

The Office is held in high regard externally, and appears to be able to attract a good level of responses to any externally advertised positions at senior levels and for graduate roles. However, the Office continues to experience difficulties in attracting staff in some locations.



### Does the Office have a ready supply of future leaders?

Audit New Zealand's Capability (Talent) Management System indicates that almost a third of all senior staff are perceived to have the potential to take on more senior roles. Of this number, 67% are perceived as being ready now or in the next 2 years. This would tend to indicate some depth in the future supply of leaders.

In addition, the average rate of internal promotions to senior positions (i.e. positions within the CMG) of 83% (i.e. 5 out of the 6 appointees to positions within the CMG were internal applicants) has demonstrated that the Office has enough suitably qualified staff ready to take on more senior roles.

### Does the Office have sufficient working capital to sustain its work?

Over the 2003-04 year, Audit New Zealand has made improvements in its work in progress (WIP) and debtor management. This has resulted in a reduction in WIP and a small improvement in debtor collection. The bank balance as at 30 June 2004 has improved significantly from a year earlier, and the Office has not had to use its overdraft facility.

This tends to indicate that the Office currently has sufficient working capital to sustain its work.

### Does the Office have adequate information technology to effectively perform its work?

Our recent review of our IT infrastructure confirmed that the Office has adequate information systems to effectively perform our work. However, it highlighted that these systems are under-utilised and that there are opportunities for efficiency across the Office.



## Conclusions

We accordingly believe that:

- Our capability was insufficient to meet our current and future capability needs, but this has been addressed through the provision of additional baseline funding for the next three years.
- In general, we have adequate access to a supply of suitably qualified staff and future leaders. However, we continue to experience difficulties in some locations.
- The Office has adequate working capital to sustain its work.
- Our IT infrastructure is sufficient to support the work of the Office, but is under-utilised.

## Quality of our current capability

Using the information provided on the earlier pages, we have formed some conclusions about the “quality” of our capability to meet our current and future stakeholder needs. We have used the following key capability questions to form this view:

- Does the Office maintain and enhance the skills of its existing staff?
- Does the Office create an environment where skilled people want to stay and work?
- Does the Office effectively implement EEO and EFM?

### Does the Office maintain and enhance the skills of its existing staff?

While our total spending per employee was less in 2003-04 than in the previous year, we did invest more in professional development. All core professional development programmes were implemented. In addition, a number of new programmes were provided. The main area of spending that was less was in leadership development. As outlined earlier, this was because we decided to put on hold the Audit New Zealand leadership programme so that it could be aligned across the Office with our Strategy.

We have acknowledged that our overall investment in staff development needs to be increased, and, in Audit New Zealand’s case, applied more evenly throughout the year. (Audit New Zealand is dependent on income to invest in the development of staff. Historically, this has meant that decisions about development have been deferred until the second half of the financial year, or, in some cases, traded for business viability.) In addition, as a broader consequence of the limited capacity of the Office to respond to new work and achieve its core outputs, there has been limited time for staff to undertake development opportunities.

As part of our Business Planning process, we have committed to a number of capability development initiatives. Particular areas of emphasis will be the development of individual plans, and a review of our capability development model for senior staff.



### Does the Office create an environment where skilled people want to stay and work?

Staff turnover rates in Audit New Zealand have remained at similar levels (i.e. 20%) for the past two years. While this rate appears high, it is a reflection of the turnover of staff who have received ICANZ accreditation after three years of tenure and who, largely, chose to travel overseas. This is consistent within the accounting and auditing profession.

The staff turnover rate in the OAG has increased over the 2003-04 year, although from a very low level in the previous year. The present level of turnover is still unexceptional.

Results from the Audit New Zealand Staff Survey demonstrate a consistent trend, in that organisation and job satisfaction and clarity of vision and purpose remain highly rated.

Together, these results indicate a degree of satisfaction with the working environment and an intention to remain for the foreseeable future.

### Does the Office effectively implement EEO and EFM?

We have started to see some improvements in the ratio of women in management positions. We have made considerable efforts during 2003-04 in targeting development for women with emerging senior leadership potential. This has included high value training and development courses, as well as the opportunity to act in senior roles. Out of 6 appointments in the last six months to positions at the level of Assistant Auditor-General, 3 were female.

Work remains to improve the representation of Māori and people from Pacific Islands in the Office. We have made some progress in implementing our Effectiveness for Māori Plan. This is outlined on pages 83-84. However, our efforts have not yet resulted in increased representation of Māori or Pacific Island staff in the Office.

### Conclusions

We believe that over the 2003-04 year:

- we have at least maintained our capabilities at our existing levels;
- we continue to offer an environment where skilled people want to stay and work; and
- we have made some gains in terms of facilitating diversity for women, but work remains to improve the representation of Māori and Pacific Island people.

## Effectiveness of our current capability

Using the information provided on the earlier pages, we have formed some conclusions about the “effectiveness” of our capability to meet our current and future stakeholder needs. We have used the following key capability questions to form this view:

- Does the Office have effective and efficient mechanisms to store, retrieve and share information/knowledge?
- How skilled, experienced and competent are our people to perform their work?
- Do our systems and processes support the work of the Office?

### Does the Office have effective and efficient mechanisms to store, retrieve and share information/knowledge?

As an information-intensive organisation, we have acknowledged the need to have effective document management systems in place. We have therefore implemented such systems in the Office. Audit New Zealand and the OAG have separate systems, and neither system is yet fully effective – either because further training is required or because there are ongoing implementation and/or user effectiveness issues. However, they do provide some building blocks for the future, and are being reviewed as part of the implementation of the ISSP.

In addition, we have not progressed the development of a Knowledge Management Strategy for the Office.

Audit New Zealand invites staff perceptions on the accessibility of its IT systems. Consistent with the previous year, staff rated this as 4.5 out of 6.

### How skilled, experienced and competent are our people to perform their work?

The Office has staff with a depth of experience in their existing roles (or similar roles) and a high proportion of staff with the appropriate tertiary qualifications necessary for their role.

We received a range of feedback from our key stakeholders on their perceptions of the expertise of our staff and the quality of their relationships with our staff. This included client surveys (public entities) and the Auditor-General’s meetings with Select Committee chairpersons.



Key findings were:

- Continuing high levels of satisfaction from Select Committee Chairpersons with the expertise of our staff and the quality of their relationships with our staff.
- Public entities indicated that they highly value the interaction and relationships they have with senior Audit New Zealand staff, and acknowledge their skills and expertise. However, they questioned the depth of sector and business knowledge of junior staff.

### Do our systems and processes support the work of the Office?

This is the second year that Audit New Zealand has surveyed the perceptions of its staff on the usefulness of its systems and processes. The rating for 2003-04 was 4.3 out of 6.

No similar survey was carried out in the OAG in 2003-04.

Because different systems and processes are in effect across the Office, there are opportunities for greater efficiencies to support more effective joint-working between the OAG and Audit New Zealand.

### Conclusions

We believe that:

- The Office has the basis for effective and efficient mechanisms to store and retrieve information. However, knowledge sharing is inhibited by different document management systems across the Office and the lack of a Knowledge Management Strategy.
- The people who work for the Office continue to be acknowledged as effective by our key stakeholders – Parliament and public entities.
- The usefulness and ease of access of Audit New Zealand's systems and processes are rated at above satisfactory levels. Further work is needed to ensure consistency across the Office and to develop Office-wide reporting mechanisms in this area.

## Summary

### 1. Did we review our future capability needs as part of the development of our Strategic Plan?

We believe that we have **comprehensively reviewed** our future capability needs as part of the development of our five-year Strategic Plan.

As a result, we have secured additional Parliamentary funding for increased capability/capacity to respond to the challenges in our environment and to better meet our stakeholder needs.

### 2. Did we enhance our capability?

Overall, we are of the view that we **at least maintained** our capability at its existing levels.

In relation to the specific capability objectives the Office had for 2003-04:

- The Office did implement its revised contestability regime.
- Implementation of the 2003-04 OAG Communications Strategy was well under way, but was halted so that a new Communications Strategy could be drafted for the whole Office, to align with the new Office Strategy from 1 July 2004.
- We had many successes in improving relationships – internally and externally.
- We continued to invest in ICT. However we had a notable disappointment in the upgrading of our Audit Status Database, and we did not progress our Knowledge Management Strategy.
- We did not review our EEO Programme and EFM Plan, but we continued to implement the existing strategies

### 3. Did we improve our own measurement and reporting of capability?

We believe that we continued to make **good progress** in the development of our measurement and reporting of capability. This Annual Report is an enhancement on the level of reporting provided in the previous year, and is intended as a model of good practice capability reporting.





# Part Six

## WORK PROGRAMME REPORT

# 6

### Our work programme for 2003-04



We identify our work programme for the coming year from our annual planning processes (particularly our Strategic Audit Planning). This is subject to consultation with Parliament.

Primarily, this relates to the performance audits and special studies we are proposing to complete, and the special areas of emphasis we will be requiring from our auditors in the annual audits. The planning looks at public sector-wide themes, and identifies sector-specific and entity-specific issues. It also outlines the areas where the Office makes broader contributions to the Public Sector and the accounting and auditing profession. In our *Annual Plan 2004-05* we have extended this area to include our proposed Research and Development Plan and the actions we intend to take to bring effect to our Strategy.

Section 20 of the Public Audit Act 2001 requires the Auditor-General to report annually on the results of audits. We produce separate reports for this purpose. (Copies of our latest reports for Central Government and Local Government are available on our website [www.oag.govt.nz](http://www.oag.govt.nz).) These reports discuss in detail the key audit findings from our work on annual audits.

We do not intend to duplicate this reporting. However, to provide additional context in this Annual Report about the work of the Office, we present:

- a brief description of the core work of the Office and any major changes which have occurred in relation to the delivery of this work over the 2003-04 year;
- a summary of each of our reports on programmed performance audits and special studies issued in 2003-04; and
- supplementary information about the work the Office undertakes to maintain and enhance its professional practice.

Full information about our performance against our targets in the delivery of our work programme is provided in our Statement of Objectives and Service Performance contained within Part Seven: Financial Statements for 2003-04 (see pages 123-140).

## Core work of the Office

The core work of the Office is focussed around three key areas (our “Output Classes”):

- reports and advice arising from the exercise of the function of legislative auditor;
- certification of authority to release funds from the Crown Bank Account; and
- provision of audit and assurance services.

Each of the activities that contribute to these output classes is defined in detail in our *Annual Plan 2003-04* (see pages 69-83). They can be summarised into the following core assurance products and services:

- Annual audits
- Controller function
- Advice to Parliament
- Enquiries
- Advice and liaison
- Working with the profession
- Wider assurance work
- Performance audits, and
- International liaison and involvement.

### Annual audits

The majority of our work and effort relates to the conduct of annual audits of the financial reports of public entities. We carried out 4070 audits during the 2003-04 year (for full details of our performance, see pages 134 and 137 of this Annual Report).



## *Major changes impacting on our delivery of annual audits*

### **Audit resourcing model**

The full implementation of our audit resourcing model – the process for appointing auditors to conduct annual audits – was the most significant change in our delivery of annual audits.

This has resulted in:

- a reallocation of some audits to alternative auditors;
- stability in Audit New Zealand’s portfolio, with a more predictable fee base; and
- stable and more sustainable portfolios for private sector firms with stronger sector specialisation and regional concentration.

Some audits of entities with a strong commercial focus will continue to be subject to the contestable audit appointments process, where the Auditor-General considers a tender process is appropriate to select an auditor to act on his behalf.

This year, ongoing audit contracts were negotiated for the audits of 250 entities in the context of the new auditor appointments policy. The Office of the Auditor-General was asked by 19 of those entities to provide additional comparative fee analysis to assist in resolving concerns about the audit fee proposed by the appointed auditor. In 18 cases, the matter was resolved between the auditor and the entity on the basis of that additional information. The Auditor-General exercised his direct statutory power to set the audit fee in the other case.

### **New entities added to our audit portfolio**

The Public Audit Act 2001 resulted in a clearer definition of the Auditor-General’s mandate. The Auditor-General is now the auditor of every “public entity”, which also includes “controlled entities” under section 5(2) of the Act. We continued to examine and make determinations on the status of a number of entities over the 2003-04 year, and as a result an additional 56 entities were added to our audit portfolio in the 2003-04 year.

## Long-Term Council Community Plans

The Local Government Act 2002 creates a new audit reporting responsibility for the Auditor-General on councils' Long-Term Council Community Plans (LTCCPs), which comes into effect for LTCCPs adopted in 2006. This reporting responsibility applies to councils' LTCCP statement of proposal and final LTCCP, as well as to any amendments that a council makes to its LTCCP. The Auditor-General is required to report on:

- the extent to which the local authority has complied with the requirements of the Local Government Act in respect of the LTCCP;
- the quality of the information and assumptions underlying the forecast information provided in the LTCCP; and
- the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision (see sections 84(4) and 94(1) of the Local Government Act 2002).

We have commenced a project to manage our response to the LTCCP audit requirement, which involves putting in place the resources, standards and knowledge required to successfully and credibly audit LTCCPs from 2006 onwards. The project also has an objective to share, promote and communicate best practice in long-term planning through local government representative groups.

Five key work streams are being undertaken within the project:

- development of the methodology, audit procedures and guidance for auditors in conducting the audit;
- communication with the sector and key stakeholders;
- information to and Training of Audit Service Providers;
- impact analysis of the Office's capability to undertake the work involved; and
- research and evaluation on the impact of the audit and the planning and reporting provisions of the Local Government Act.

During 2003-04, we focused on development of the methodology, audit procedures and guidance to support auditors in undertaking LTCCP audits. This included pilot work with three councils (Auckland City, Marlborough District and Central Otago District), through which we tested the approach we are developing.

## Controller function

The Office acts as a monitor on behalf of Parliament to control the issue of funds from the Crown Bank Account. 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 role 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.

### *Major changes impacting on our delivery of the Controller function*

There were no major changes to this area of work, although we note that the Public Finance (State Sector Management) Bill, if enacted, will change the way in which the Controller function is exercised.

## Advice to Parliament

We report and provide advice to Parliamentarians – either in Select Committees, or as Ministers or individual MPs – on the results of audits and inquiries. Most of this work is done through financial reviews and *Estimates* examinations.

### *Major changes impacting on our delivery of advice to Parliament*

There were no major changes to this area of work in 2003-04.

## Enquiries

The Office responds to enquiries from taxpayers, ratepayers or individual MPs on matters that we think are appropriate to investigate. Between 150 and 300 enquiries are received every year. Of these, approximately 6-10 result in significant work. The Office also responds to approximately 80 enquiries in relation to the Local Authorities (Members' Interests) Act 1968.



### *Major changes impacting on our delivery of enquiries*

In our five-year Strategic Plan, we noted the increasing complexity and volume of enquiries over the last five years and the significant demands that this was placing on the Office. To date, we have dealt with this by re-prioritising other planned work in the areas of performance audits and research and development/product development. We believe that the Office is positioned well to undertake enquiry work – primarily because of our independence, and also because we have existing infrastructure and professional practices in relation to the gathering of evidence, accounting and auditing analysis, natural justice and reporting. However, we considered that we would be unable to sustain this work without it being appropriately resourced. We have now received additional funding from Parliament to expressly fund our work in this area.

### **Advice and liaison**

Advice and liaison on matters of public sector finance, governance and accountability with central agencies, public entities and other sector groups is an integral part of the Office's involvement and presence in the public sector.

Over the 2003-04 year, we have provided:

- input to the preparation of the Public Finance (State Sector Management) Bill, and advice to the Finance and Expenditure Committee;
- comment to the Cabinet Office on the draft Members of Parliament (Pecuniary Interests) Bill; and
- comments on a range of other draft legislation and policy proposals.

### *Major changes impacting on our delivery of advice and liaison*

The workload in this area is growing, as a result of both the volume and complexity of proposals on which our views are sought. Select Committees are also keen to obtain our independent perspective on legislation in respect of public finance, governance and accountability and we are regularly invited to accept appointment as advisors to committees for this purpose.

## Working with the profession

The Office plays an important role in representing public sector interests in working with the accounting and auditing profession, both in New Zealand and internationally.

A number of our senior staff serve on committees, including the ICANZ Professional Practices Board and Financial Reporting Standards Board, and the National Asset Management Steering Committee.

### *Major changes impacting on our delivery of working with the profession*

The decision that New Zealand will adopt International Financial Reporting Standards (IFRS) in the public sector by 2007 has significant implications for the Office. We have commenced a project to:

- Prepare the Office and our auditors to credibly audit public sector entities' financial reports prepared under NZ IFRS; and
- Support "sector readiness".

We have entered into a partnership with one of the major CA firms to help us achieve these project aims. This will enable the Office to draw on the expertise and resources of this firm, including their international experiences, to complement our public sector expertise.

## Wider assurance work

Wider assurance work is the audit work undertaken by Audit New Zealand in response to particular needs of public entities (and accordingly is paid for by those entities). As an example of this type of work, Audit New Zealand is often asked to provide independent assurance over tender processes for large or sensitive projects in the public sector.

### *Major changes impacting on our delivery of wider assurance work*

In 2002, the Auditor-General reviewed the consistency of this wider assurance work with his mandate under the Public Audit Act 2001. In his five-year Strategic Plan, the Auditor-General confirmed that this wider assurance work forms an important part of the overall level of assurance which he provides to the public sector. It is his intention to ensure that, over the 2004-05 year, this work is more strategically aligned through greater involvement in the Strategic Audit Planning process.

## Performance audits/special studies

Performance audits and special studies are significant audits covering value-for-money or issues of effectiveness and efficiency. As such, they enable the Auditor-General to provide greater breadth and depth of assurance in the areas we have identified as key themes. Performance audits are resource-intensive, and often span more than one year. A brief summary of the performance audits/special studies we completed in 2003-04 is provided on pages 104-112.

### *Major changes impacting on our delivery of performance audits/special studies*

In our five-year Strategic Plan, we observed that parliamentarians were asking us to do more performance audits in order to better address the key themes emerging from our Strategic Audit Planning process. We received additional funding to increase the number of performance audits we do annually – from 10 to 21 over the next two years. This will also enable us to build a more sustainable critical mass of professionals working in this area.

## International liaison and involvement

The Office has had strong involvement with our international counterparts and various working groups that have been established. In particular, we make a significant contribution to the training and development of our South Pacific counterparts. We also make significant contributions to Asian countries, actively work together with our Australian counterparts at state and federal level, and are an active member of the INTOSAI working group on environmental auditing.

Over the 2003-04 year, we have:

- conducted a comprehensive peer review of the Indonesian Supreme Audit Institution – 3 senior audit staff carried out planning and initial fieldwork in April and completed their fieldwork and draft report in July;
- made an active contribution to the 17<sup>th</sup> UN/INTOSAI Symposium on the independence of Supreme Audit Institutions;
- begun preparations to host the Commonwealth Auditors-General Conference in January/February 2005;
- commenced a peer review of the Tonga Audit Office; and
- hosted a range of visitors from our international counterparts and other public sector bodies.



### *Major changes impacting on our delivery of international liaison and involvement*

In our Strategic Plan we acknowledged both the value and cost of maintaining this international involvement and liaison. We intend to keep the level of our involvement at similar levels. However, we will target our efforts to ensure that we maximise the benefits to the work of the Office as a whole.

## Reports to Parliament and other constituencies

### Performance audits and special studies

Over the 2003-04 year, the Office tabled 10 performance audits and special studies (this met our planned target of 10). A brief summary of each performance audit/special study is provided below. For fuller information, copies of each report are available from our website at [www.oag.govt.nz](http://www.oag.govt.nz).

TITLE OF REPORT	INLAND REVENUE DEPARTMENT: PERFORMANCE OF TAXPAYER AUDIT
<b>What it was about</b>	The audit examined the taxpayer audit function of the Inland Revenue Department (IRD) in the context of the IRD's Taxpayer Compliance Model.
<b>What we found</b>	We found that taxpayer audit was under-developed – much of what was needed for taxpayer audit to play its full part in the Taxpayer Compliance Model and to enable the IRD to meet its strategic direction was not in place. We also found that there was insufficient accountability for ensuring that good practices and new initiatives are taken up.
<b>Key recommendations</b>	IRD's strategy for taxpayer audit needed to be further developed; specifically: <ul style="list-style-type: none"> <li>• Implement case management techniques based on best practice</li> <li>• Strengthen capability including training of investigators, information availability and use, and knowledge management</li> <li>• Improve performance measurement (including impact measurement) and reporting of performance</li> <li>• Implement sound change management arrangements for overseeing changes based on good practice or new initiatives.</li> </ul>
<b>What happened as a result of our work</b>	<ul style="list-style-type: none"> <li>• IRD acknowledged the need for changes to be made in the area of taxpayer audits. They had already progressed many of these changes prior to our report being tabled.</li> <li>• IRD now has an extensive process in place to fully implement all of our recommendations. Key to this is the establishment of a Business Initiative Governance Board to oversee changes to taxpayer audit and other new initiatives. The OAG is invited to observe at quarterly meetings.</li> </ul>



TITLE OF REPORT	CO-ORDINATION AND COLLABORATION IN THE CRIMINAL JUSTICE SECTOR
<b>What it was about</b>	The audit examined the way in which the core agencies (which, at the time of our report, were the Ministry of Justice, the Police, the Department for Courts and the Department of Corrections) were working together to achieve the Government's goals for the criminal justice sector.
<b>What we found</b>	We found that there were many examples of good practice across the core agencies, and a strong commitment to sharing information and collaboration. However, the core agencies had encountered difficulties in maintaining oversight of one complex project with sector-wide implications.
<b>Key recommendations</b>	<p>Core agencies should:</p> <ul style="list-style-type: none"> <li>• consider options for integrating their strategic planning processes;</li> <li>• consult on their draft policy work programmes;</li> <li>• promote active collaboration between research units;</li> <li>• consider the establishment of Māori advisory groups and develop an integrated sector strategy on outcomes for Māori; and</li> <li>• draw from the lessons on project oversight and risk management.</li> </ul> <p>The Ministry for Justice should be responsible for overseeing the status of information technology systems in the sector.</p>
<b>What happened as a result of our work</b>	The Ministry of Justice has completed an analysis on our report and recommendations. Key actions have been developed in response. Not all recommendations were agreed to.



TITLE OF REPORT	MANAGING THREATS TO DOMESTIC SECURITY
<b>What it was about</b>	The audit set out to provide assurance to Parliament and the public that threats to the country’s domestic security were being adequately managed.
<b>What we found</b>	<p>We found that New Zealand has taken, and is continuing to take, steps to ensure that it is meeting current “international best practice” in relation to domestic security.</p> <p>We found however, that:</p> <ul style="list-style-type: none"> <li>• there is no whole-of-government Domestic Security Strategy;</li> <li>• cross-agency information/intelligence is still in the early stages of development;</li> <li>• there is no current reporting on whole-of-government preparedness of domestic security arrangements (individual agencies do provide reports); and</li> <li>• traditional domestic security response elements are well-practiced and planned in response aspects, but the requirements of the recovery phase have not received as much attention.</li> </ul>
<b>What happened as a result of our work</b>	<ul style="list-style-type: none"> <li>• The Foreign Affairs, Defence and Trade Committee considered our report.</li> <li>• The Department of the Prime Minister and Cabinet accepted the findings of our report and has undertaken to address them within 12 months.</li> <li>• Work is currently under way to address 5 of our findings, while the remaining 3 require further work.</li> </ul>



TITLE OF REPORT	MINISTRY OF HEALTH: WHAT FURTHER PROGRESS HAS BEEN MADE TO IMPLEMENT THE RECOMMENDATIONS OF THE CERVICAL SCREENING INQUIRY?
<b>What it was about</b>	The audit examined what progress the Ministry of Health has made since the January 2003 independent review of the implementation of the Committee of Inquiry's recommendations made in 2001.
<b>What we found</b>	This was our second report on progress in relation to the implementation of recommendations from the 2001 Committee of Inquiry. We found that 67% of the recommendations had been implemented or were likely to be implemented by June 2004. Of the other 33%, work had been planned on half, 2 of the recommendations will not be implemented, and decisions on implementation needed to be made on the remaining recommendations.
<b>Key recommendations</b>	We concluded that the most significant issues for the future were: <ul style="list-style-type: none"> <li>• ensuring that the appropriate assurance processes are in place around the quality aspects of the Programme; and</li> <li>• ensuring the National Screening Unit is more open and collaborative with stakeholders and key positions are filled.</li> </ul> We also recommended that the use of an independent expert to review progress be continued, and that the review be extended to include effectiveness.
<b>What happened as a result of our work</b>	<ul style="list-style-type: none"> <li>• The Health Committee considered our report and noted that it was timely.</li> <li>• Draft legislation has incorporated the ongoing independent review of the Programme on a regular basis.</li> </ul>



TITLE OF REPORT	SOCIAL SECURITY BENEFITS: ACCURACY OF BENEFIT ADMINISTRATION
<b>What it was about</b>	The audit sought to provide Parliament with assurance that the Ministry of Social Development has effective systems and methods for ensuring benefit accuracy, and that Parliament can place reliance on the performance data that the Ministry reports.
<b>What we found</b>	We were unable to form a clear view because of the limitations of the information currently collected by the Ministry.
<b>Key recommendations</b>	We identified a number of areas where information collected and published on benefit accuracy could be extended or improved.
<b>What happened as a result of our work</b>	<ul style="list-style-type: none"><li>• Parliament and the public (including beneficiaries) have gained an insight into the information available on benefit accuracy.</li><li>• The Social Services Committee considered our report and questioned Ministry staff about the various matters raised in it.</li><li>• We intend to follow-up the Ministry's response to the issues raised in our report.</li></ul>

## WORK PROGRAMME REPORT

## Parliamentary reports



## PART 6

TITLE OF REPORT	THE STATE SERVICES COMMISSION: CAPABILITY TO RECOGNISE AND ADDRESS ISSUES FOR MĀORI
<b>What it was about</b>	The audit sought to assess the capability of the State Services Commission to recognise and address issues for Māori in the advice it provides to other departments and Ministers.
<b>What we found</b>	We found that the Commission has positioned itself well to work alongside departments to build a public service that produces more effective outcomes for Māori. The Commission has in place appropriate internal systems and processes to give effect to its role for Māori. In addition, it has aligned its Senior Leadership and Management Development Strategy well to the Government's goals for Māori and the public service. We noted some areas where we felt the Commission could further enhance its capability.
<b>Key recommendations</b>	<p>We recommended that the Commission should:</p> <ul style="list-style-type: none"> <li>• complete its discussion to clarify its respective roles with Te Puni Kōkiri;</li> <li>• evaluate the impact of its strategy for effectiveness for Māori; and</li> <li>• take steps to provide more clarity, formality and certainty in its relationships with Chief Executives and their departments in relation to effectiveness for Māori.</li> </ul>
<b>What happened as a result of our work</b>	The Māori Affairs Committee and the Government Administration Committee both considered our report, and encouraged us to undertake similar reviews of the capability of other organisations in the State sector.



TITLE OF REPORT	MĀORI LAND ADMINISTRATION: CLIENT SERVICE PERFORMANCE OF THE MĀORI LAND COURT UNIT AND THE MĀORI TRUSTEE
<b>What it was about</b>	The audit sought to assess the effectiveness of the client service provided by the Māori Land Court and the Māori Trustee in assisting the administration and management of Māori Land by its owners.
<b>What we found</b>	<p>We found that, overall, the Māori Land Court has provided a good level of service to its clients. Some areas for improvement existed.</p> <p>Likewise, we found that the Māori Trustee has provided his clients with a good level of service. Areas for improvement also existed.</p> <p>In addition, we noted that opportunities existed to increase the amount of interaction between the two agencies to ensure that clients receive a more seamless service.</p>
<b>Key recommendations</b>	<p>We recommended that the Māori Land Court should:</p> <ul style="list-style-type: none"> <li>• improve its management and reporting of applications;</li> <li>• improve its training of case managers; and</li> <li>• standardise practices and processes between registries.</li> </ul> <p>We recommended that the Māori Trustee should:</p> <ul style="list-style-type: none"> <li>• establish more qualitative land management performance measures;</li> <li>• develop a set of criteria to determine which owners should receive written reports, and which reports should be delivered in a formal meeting;</li> <li>• develop a strategy for reducing the back-log in processing Court orders and correspondence; and</li> <li>• implement a time-recording system.</li> </ul>
<b>What happened as a result of our work</b>	The report was not reviewed by a Select Committee. However, we have talked to both the Māori Land Court and the Māori Trustee about our recommendations, and they are both considering what actions to take. We will monitor the progress made against our recommendations.



TITLE OF REPORT	ACCIDENT COMPENSATION CORPORATION: CASE MANAGEMENT OF REHABILITATION AND COMPENSATION
<b>What it was about</b>	The audit sought to review the effectiveness and efficiency of the case management processes and procedures of the Accident Compensation Corporation (ACC). It considered ACC's rehabilitation policy and practice, claims strengthening, and claims payment accuracy.
<b>What we found</b>	We found that ACC's case management practices and policies were thorough and work well, and that ACC has a professional approach. However, we considered that there were areas where ACC can improve, particularly in the way it communicates with clients. Claimants also often perceive ACC's service delivery as impersonal and inconsiderate.
<b>Key recommendations</b>	<p>We recommended that:</p> <ul style="list-style-type: none"> <li>• ACC should ensure that individual rehabilitation plans are tailored to a claimant's rehabilitation needs;</li> <li>• ACC case managers should make sure that a claimant fully understands their rights and responsibilities before the claimant is asked to sign an Individual Rehabilitation Plan; and</li> <li>• ACC should report both short-term and long-term claimant satisfaction rates in a consistent manner.</li> </ul>
<b>What happened as a result of our work</b>	<ul style="list-style-type: none"> <li>• We were asked to present our report to the Ministers Advisory Committee on ACC.</li> <li>• ACC has also provided us with a formal response to our recommendations, and is looking to implement our recommendations.</li> </ul>



# WORK PROGRAMME REPORT

## Parliamentary reports

### PART 6

TITLE OF REPORT	GOOD PRACTICE FOR MANAGING PUBLIC COMMUNICATIONS BY LOCAL AUTHORITIES
<b>What it was about</b>	The report updates our “best practice” guide for local authorities in respect of advertising and other communications.
<b>Key recommendations</b>	The report contains 13 principles which are intended to be used as a basis for local authorities to develop their communications policies, including policies on managing communications in the pre-election period.
<b>What happened as a result of our work</b>	The report has been widely accepted in the local government sector and has prompted a number of requests for guidance in the period leading up to the October 2004 triennial elections.

TITLE OF REPORT	LOCAL AUTHORITIES WORKING TOGETHER
<b>What it was about</b>	The audit sought to assess shared services arrangements against a set of high-level expectations with the objective of providing guidance to local government.
<b>What we found</b>	We found that: <ul style="list-style-type: none"> <li>• the opportunities for working together are many and varied;</li> <li>• a systematic approach will help local authorities avoid pursuing unproductive opportunities; and</li> <li>• support and leadership of councillors and chief executives helped give joint arrangements focus and direction.</li> </ul>
<b>Key recommendations</b>	Because of the nature of the report, we made no recommendations. However, the report identified a number of key messages which were: <ul style="list-style-type: none"> <li>• When entering into a joint arrangement, local authorities should agree how they intend to work together.</li> <li>• Local authorities should determine the appropriate form and legal structure for the joint arrangement.</li> <li>• Local authorities should prepare a business case before committing resources to a joint arrangement.</li> </ul>
<b>What happened as a result of our work</b>	We presented our report to the Local Government and Environment Committee. We are also seeking opportunities to discuss the report with local authorities.



## **Unprogrammed inquiries**

The Office reported on 6 unprogrammed inquiries during the 2003-04 year.

The most significant of these were:

- Inquiry into Expenses Incurred by Dr Ross Armstrong as Chairperson of Three Public Entities;
- Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP; and
- Industry New Zealand – Business Growth Fund Grant to The Warehouse.

## Supplementary information

Work that the Office undertakes to maintain and enhance professional practices includes:

- *The Auditor-General's Auditing Standards*;
- training and support for our auditors;
- reviewing auditor performance; and
- implementing our allocation and tendering processes.

### ***The Auditor-General's Auditing Standards***

*The Auditor-General's Auditing Standards* establish the minimum standards to be applied to annual audits conducted on behalf of the Auditor-General. Under section 23 of the Public Audit Act 2001, the Auditor-General must publish the standards, by way of a report to the House of Representatives, and include in each Annual Report a description of any significant changes made to the standards during a financial year. The standards consist of the ethical and professional standards of the Institute of Chartered Accountants of New Zealand (ICANZ), supplemented by the Auditor-General's Statements and (where an ICANZ standard does not exist) the Auditor-General's Specific Standards. The standards are available on our website [www.oag.govt.nz](http://www.oag.govt.nz).

We enhanced two Auditor-General's Statements during the 2003-04 year as follows:

- We wanted to clarify the way in which we report our opinion on an entity's financial statements in the audit report. This resulted in a substantial revision of the presentation and format of audit reports – as contained in the revised Auditor-General's Statement 702: *The Audit Report on an Attest Audit*.
- We updated Auditor-General's Statement 202: *The Terms of the Audit Engagement*, by including a standard audit engagement letter to be used for all public entities. The revision means that the nature of the public sector audit, and the accompanying responsibilities of the auditor and entity management, is communicated consistently and comprehensively.

## Training and support for our auditors

The Office maintains a Manual for Audit Service Providers, which provides:

- background information to assist auditors;
- *The Auditor-General's Auditing Standards*; and
- annual audit plans (known as “audit briefs”) issued by the Auditor-General for all major sectors, together with sector information where appropriate.

The Manual also contains guidance for auditors in the form of statements of general policy on, for example, matters that affect entities in more than one sector or are unique to the public sector.

We also provide technical accounting and auditing advice and support to our auditors. We conducted a number of seminars for auditors over the 2003-04 year on:

- schools audits (7 seminars);
- local government; and
- central government.

## Reviewing auditor performance

We aim to review the performance of each of our Appointed Auditors once every 3 years. Follow-up reviews may be initiated if we identify a need for improvement.

In 2003-04, we carried out 45 reviews (equal to our target). Consistent with previous years, the work we reviewed was, with only a few exceptions, of good quality. For the exceptions, we took appropriate follow-up action.

## Implementing our allocation and tendering processes

The introduction of the audit resourcing model has significantly changed the way in which auditors are selected to carry out annual audits. The majority of entities are now subject to “allocation” by the Auditor-General. However, the audits of some entities with a strong commercial focus may still be subject to a process of competitive tendering, where the Auditor-General considers it to be the most appropriate process to select an auditor to act on his behalf.

The management of the allocation process and the implementation of the tendering process are facilitated by the Director, Auditor Appointments at the OAG. The integrity of these processes are evaluated annually by an independent reviewer (see page 54).

The report of the independent reviewer for 2003-04 is reproduced on pages 116-117.

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6 September 2004

Mr K B Brady  
The Controller and Auditor-General  
PO Box 3928  
**WELLINGTON**

### ANNUAL REPORT OF THE INDEPENDENT REVIEWER OF AUDIT TENDERING AND ALLOCATION PROCESSES

1. You have retained me as an independent evaluator of the processes by which auditors are appointed to act on your behalf. This is my report on those processes for the year ended 30 June 2004. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms. No limitation has been placed upon the manner in which I carry out my assignment.
2. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented.
3. There are now three distinct types of process:
  - (a) An appointment of an auditor following a contestable tender. The tender process is overseen by a panel appointed by you, and that panel reports to you. This process is now reserved largely for organisations with a strong commercial focus. There was only one such tender in the year under review. The entity concerned was the New Zealand Superannuation Fund.
  - (b) An allocation of an approved auditor for a given entity by you in accordance with "the audit allocation model". That model – which has been well publicised by you – does not entail a tender, but instead is an appointment by you in the interests of allocative efficiency. It is administered by the OAG. It has been applied in these circumstances:
    - (i) when an existing audit contract under your mandate is completed, you have either renewed the existing arrangement with the approved auditor or have – following consultation with the entity – appointed a new approved auditor.
    - (ii) in some cases, existing entities are found, upon inquiry by your auditors and subsequent assessment by the OAG, to be subject to the Public Audit Act 2001 and thus subject to your mandate. In those cases you have – following consultation with the entity – either appointed the existing auditor or appointed a new auditor – in both cases to act on your behalf.
  - (c) A simple renewal of contracts for existing auditor arrangements for a further term.

4. In the case of the tender process referred to in paragraph 3(a) I was provided with a copy of all papers, and monitored by means of telephone connection, the deliberations of the panel appointed to evaluate the tenders. I took the opportunity to ask questions where I thought that appropriate.
  5. In the case of appointments of existing or new approved auditors, made in terms of the audit allocation model referred to in paragraph 3(b) and in the case of renewals of existing arrangements as referred to in paragraph 3(c), I spoke to no external parties, but I did seek access to a selection of relevant files and sought explanation from the OAG about points that I thought merited examination. I paid particular attention to a few cases where either the processes used or the outcome had been the subject of questioning or dissatisfaction by an organisation or by an audit firm.
  6. On the basis of the discussions I have had, the documents I have considered and the explanations that I have been given, I consider that the processes adopted by the OAG in relation to the tendering, allocation and renewal of audits falling within your mandate during the year to 30 June 2004 have been applied in a way which is consistently fair and appropriate, having regard to the rights, interests and obligations of the parties concerned.
  7. I indicated above that there were a few instances where an organisation or audit firm wished to question the way in which some matters had been handled. In all but one case the points at issue have been resolved. The one instance that is outstanding is still being worked through. But in that one and in all other cases, I have seen no basis for being critical of the processes which were followed. My view is that the OAG has acted with studied professionalism throughout.
8. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated in the financial year to 30 June 2004 have been implemented with all due probity and objectivity.

Yours faithfully



David Gascoigne CAF (U) V

Business Tel: 4644 461 5120  
Business Email: david.gascoigne@oag.govt.nz





# Part Seven

## FINANCIAL STATEMENTS

### 2003-04



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# Audit Report



**AUDIT REPORT**

**TO THE READERS OF THE CONTROLLER AND AUDITOR GENERAL'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

We have been appointed by the House of Representatives to carry out the audit of the financial statements of the Controller and Auditor General for the year ended 30 June 2004.

**Unqualified Opinion**

- we regard the financial statements of the Controller and Auditor General for the year ended 30 June 2004
- as a true and fair view of the financial position, performance and cash flows of the Controller and Auditor General
- as being in accordance with the requirements of the Financial Reporting Act 2001.

The financial statements are prepared in accordance with the requirements of the Financial Reporting Act 2001 and the requirements of the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Controller and Auditor General and our responsibilities are explained in more detail in the *Statement of Responsibilities*.

**Scope of Opinion**

We conducted the audit in accordance with New Zealand Auditing Standards.

As a result of carrying out the audit in accordance with the standards and applying the audit procedures we have used, we are satisfied that the financial statements do not contain any material misstatements.

Material misstatements are differences or omissions of amounts and disclosures that are of a nature or magnitude that, in the circumstances, could be expected to influence the economic decisions of users of the financial statements. If we had not identified these items, the financial statements would have contained a material misstatement.

The audit was based primarily on procedures to test the statistical representation of the financial statements and on the Controller and Auditor General's responses to our enquiries.



# FINANCIAL STATEMENTS 2003-04

## Audit Report



### Audit objectives generally include:

- obtaining evidence sufficient to form an opinion on whether the accounting records are reliable and the financial statements are true;
- carrying out the audit in accordance with the law;
- seeking to identify the financial statements for misstatement;
- providing an independent assessment of the financial statements to the Public and Audit Committee;
- reporting the results of the audit;
- providing advice to the Public and Audit Committee on any significant areas of concern;
- ensuring that sufficient financial statements are available to the Public and Audit Committee.

The audit objectives are generally consistent with the requirements of the Public Finance Act 2003.

We are not responsible for the preparation or maintenance of the financial statements. We are not liable for the financial statements if they are not supported by appropriate evidence.

### Responsibilities of the Controller and Auditor-General and the Auditor

The Controller and Auditor-General is responsible for the financial statements. This is consistent with the provisions of the Public Finance Act 2003. The financial statements should be prepared in accordance with the provisions of the Public Finance Act 2003. The Controller and Auditor-General is responsible for the preparation and maintenance of the financial statements. This is consistent with the provisions of the Public Finance Act 2003.

We are responsible for the expression of our independent opinion on the financial statements and for ensuring that our report is made available to the Public and Audit Committee.

### Independence

We are independent of the Public and Audit Committee and the Public and Audit Committee. We are not subject to the provisions of the Public Finance Act 2003.

We are not subject to the provisions of the Public Finance Act 2003. We are not subject to the provisions of the Public Finance Act 2003. We are not subject to the provisions of the Public Finance Act 2003.

*C. S. NEXIA*  
 CST NEXIA Audit  
 Chartered Accountants  
 Auckland City, New Zealand

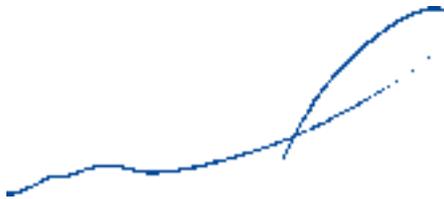
## Statement of Responsibility

As Controller and Auditor-General, I am responsible for the accuracy and judgements used in the preparation of the Financial Statements, and the establishment and maintenance of systems of internal control designed to provide ongoing assurance of the integrity and reliability of financial reporting.

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

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

In my opinion, the information set out in the statements and attached notes to those statements fairly reflects the service performance, financial activities and cash flows of the Office for the year ended 30 June 2004 and its financial position as at that date.



**K B Brady**

Controller and Auditor-General

30 September 2004



**D E Atkin**

Finance Manager

30 September 2004

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

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

---

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

---

### **Description**

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

### **Performance against output targets**

This chart is on pages 124-125.

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

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

## FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance



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

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

## Notes:

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

## Comments

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

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

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

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

## FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance

*Comments*

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

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

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

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

*Comments*

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

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

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

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

#### Comments

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

#### 4 Responses to enquiries from:

- Taxpayers
- Ratepayers
- Members of Parliament

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

#### Comments

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

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

## 5 Advice to government bodies and other agencies

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

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

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

### Comments

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

## FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance

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

PART 7

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

### Comments

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

### Financial performance of Output Class D1

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

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

---

### Description

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

### Performance against output targets

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

## Comments

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

## Financial performance of Output Class D2

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

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

### Description

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

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

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

### Performance against output targets

This chart is on page 134.

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

**PART 7**

**FINANCIAL STATEMENTS 2003-04**

**Statement of Objectives and Service Performance**

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

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

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

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

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

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

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

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

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

## FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance

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

## Comments

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

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

### Financial performance of Output Class D3

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

### Comments

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

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

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### Description

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

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

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

### Performance against output targets

This chart is on page 137.

## FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance

## Performance against output targets – D4 Non-contested audit services

### Performance quantity and timeliness<sup>1</sup>

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

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

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

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

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

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

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

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

### Comments

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

# FINANCIAL STATEMENTS 2003-04

## Statement of Objectives and Service Performance



### Financial performance of Output Class D4

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

PART 7

### Comments

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

## Financial performance indicators

for the Year Ended 30 June 2004

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

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



# Statement of Accounting Policies

for the Year Ended 30 June 2004

## **Reporting entity**

These are the financial statements of the Controller and Auditor-General, prepared in accordance with sections 35 and 40 of the Public Finance Act 1989.

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

The Controller and Auditor-General's activities include work undertaken by the Office of the Auditor-General and Audit New Zealand (referred to collectively as "the Office"), and Audit Service Providers (private sector auditors appointed by the Controller and Auditor-General).

## **Measurement base**

The financial statements have been prepared on a historical cost basis.

## **Accounting policies**

### *Revenue*

The 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.

While Crown revenue is recognised evenly over the financial year, all other revenue earned by the Office of the Auditor-General and Audit New Zealand is recognised when time is charged to a client during an accounting period.

Revenue, in the form of the actual audit fee charged to entities, is recognised from Audit Service Providers in the period that the Office of the Auditor-General is notified of the audit completion.

## Expenses

The remuneration of the Controller and Auditor-General and the Deputy Controller and Auditor-General, which are a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, are recognised as expenses of the Office.

Expenses, in the form of the actual audit fee charged to entities by Audit Service Providers, are charged in the period that the Office of the Auditor-General is notified of the audit completion.

## 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 Office leases office premises and office equipment.

### **Finance leases**

Leases which effectively transfer to the Office substantially all the risks and benefits incident to ownership of the leased items are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the Statement of Financial Position. Each lease payment is allocated between the liability and finance expense and the leased assets are depreciated on the same basis as other assets.

The only leases classified as finance leases are of laptop computers.

### **Operating leases**

Where substantially all of the risks and rewards of ownership are retained by the lessor, 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	2.5-5 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 recorded 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 Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

### *Goods and Services Tax (GST)*

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

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

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

### *Income tax*

The 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.



### *Commitments*

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

### *Contingent liabilities*

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

### *Changes in accounting policies*

There have been no changes in accounting policies from those contained in the last audited financial statements.

## Statement of Financial Performance

for the Year Ended 30 June 2004

### Description of Statement

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Office. Supporting statements showing the revenue and expenditure of each output class are on pages 131, 133, 136 and 139.

2002-03 Actual \$000	Notes	2003-04 Actual \$000	2003-04 Forecast* \$000
<b>Continuing Activities</b>			
<b>Revenue</b>			
5,331	2	5,637	5,637
34,368	3	35,175	33,669
<u>39,699</u>		<u>40,812</u>	<u>39,306</u>
<b>Expenses</b>			
19,260		19,278	18,805
18,904	4	20,222	18,712
1,100	5	956	1,230
284	6	198	305
<u>39,548</u>		<u>40,654</u>	<u>39,052</u>
<u>151</u>		<u>158</u>	<u>254</u>

\* See Note 1 on page 154.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

# FINANCIAL STATEMENTS 2003-04

## Statement of Movements in Taxpayers' Funds



# Statement of Movements in Taxpayers' Funds (Equity)

for the Year Ended 30 June 2004

**PART 7**

### Description of Statement

The Statement of Movements in Taxpayers' Funds combines information about the surplus with other aspects of the financial performance of the Office to give a degree of measure of comprehensive income.

2002-03 Actual \$000	Notes	2003-04 Actual \$000	2003-04 Forecast* \$000
3,586	Taxpayers' Funds brought forward at 1 July	3,586	3,586
<b>Movements during the year</b>			
151	Surplus	158	254
151	<b>Total Recognised Revenues and Expenses for the Year</b>	158	254
<b>Flows to and from the Crown</b>			
(151)	Surplus payment due to the Crown	(158)	(254)
(151)		(158)	(254)
<b>3,586</b>	<b>Taxpayers' Funds at 30 June</b>	<b>3,586</b>	<b>3,586</b>

\* See comment in Note 1 on page 154.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

# Statement of Financial Position

as at 30 June 2004

## Description of Statement

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

30/6/03 Actual \$000	Notes	30/6/04 Actual \$000	30/6/04 Forecast* \$000
<b>Taxpayers' Funds</b>			
3,586	General funds	3,586	3,586
<b>3,586</b>	<b>Total Taxpayers' Funds</b>	<b>3,586</b>	<b>3,586</b>
Represented by:			
<b>Current Assets</b>			
1,415	Cash and bank balances	3,040	1,458
344	Prepayments	535	290
1,802	Work in progress	1,272	1,750
3,678	Receivables	3,064	3,650
7,239	<i>Total Current Assets</i>	7,911	7,148
<b>Non-current Assets</b>			
2,037	Physical assets	2,220	2,410
2,037	<i>Total Non-current Assets</i>	2,220	2,410
9,276	<b>Total Assets</b>	10,131	9,558
<b>Current Liabilities</b>			
2,269	Payables and accruals	2,872	2,033
151	Surplus payment due to the Crown	158	254
2,200	Provision for employee entitlements	2,076	2,140
84	Property lease liabilities	108	84
-	Finance lease liabilities	251	343
4,704	<i>Total Current Liabilities</i>	5,465	4,854
<b>Non-current Liabilities</b>			
819	Provision for employee entitlements	795	860
167	Property lease liabilities	110	83
-	Finance lease liabilities	175	175
986	<i>Total Non-current Liabilities</i>	1,080	1,118
5,690	<b>Total Liabilities</b>	6,545	5,972
<b>3,586</b>	<b>Net Assets</b>	<b>3,586</b>	<b>3,586</b>

\* See comment in Note 1 on page 154.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

# Statement of Cash Flows

for the Year Ended 30 June 2004

## Description of Statement

The Statement of Cash Flows summarises the cash movements in and out of the 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 Financial Performance.

2002-03 Actual \$000	Notes	2003-04 Actual \$000	2003-04 Forecast* \$000
<b>Operating Activities</b>			
Cash received from:			
5,331	The Crown	5,637	5,637
22,803	Others'	23,373	21,674
Cash disbursed on:			
(23,252)	Production of outputs*	(23,430)	(23,157)
(2,431)	Net GST paid	(2,538)	(2,570)
(285)	Capital charge	(198)	(305)
(6)	Overdraft interest charges	-	-
<u>2,160</u>	<b>Net Cash Flow from Operating Activities</b>	<u>2,844</u>	<u>1,279</u>
	15		
<b>Investing Activities</b>			
Cash received from:			
233	Sale of physical assets	124	160
Cash disbursed on:			
(765)	Purchase of physical assets	(1,192)	(1,245)
<u>(532)</u>	<b>Net Cash Flow from Investing Activities</b>	<u>(1,068)</u>	<u>(1,085)</u>
<b>Financing Activities</b>			
Cash disbursed on:			
(679)	Surplus payment to the Crown	(151)	(151)
<u>(679)</u>	<b>Net Cash Flow from Financing Activities</b>	<u>(151)</u>	<u>(151)</u>
949	<b>Total net increase in cash held</b>	1,625	43
466	Add Opening cash balance at 1 July	1,415	1,415
<u>1,415</u>	<b>Closing cash balance at 30 June</b>	<u>3,040</u>	<u>1,458</u>

\* See comment in Note 1 on page 154.

The Statement of Cash Flows does not include the Audit Service Provider audit fees as these do not involve any cash transactions within the Office.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

## Supplementary Information

for the Year Ended 30 June 2004

### Statement of Commitments

This statement records those expenditures to which the Office is contractually committed at 30 June 2004 and which will become liabilities if and when the terms of the contracts are met.

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

Equipment lease commitments include leases of telephone exchange systems, facsimile machines and photocopiers.

30/6/03 Actual \$000		30/6/04 Actual \$000
	<b>Capital Commitments</b>	
-	Less than one year	61
-	<b>Total Capital Commitments</b>	61
	<b>Operating Lease Commitments*</b>	
	Property Lease Commitments	
1,476	Less than one year	1,537
1,217	One to two years	1,454
1,710	Two to five years	1,316
-	More than five years	64
4,403	<i>Total Property Lease Commitments</i>	4,371
	Equipment Lease Commitments	
681	Less than one year	279
646	One to two years	251
184	Two to five years	230
1,511	<i>Total Equipment Lease Commitments</i>	760
5,914	<b>Total Operating Lease Commitments</b>	5,192

\* Some leases, previously included as non-cancellable operating leases in this Statement, have been assessed as finance leases and are now recognised as a liability – see Note 14 on page 160.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.



## Statement of Contingent Liabilities

This statement discloses situations which exist at 30 June 2004, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the Financial Statements.

The Office did not have any contingent liabilities as at 30 June 2004 (2003 – nil). There is potential for claims to arise against the Office as a result of defalcations and other losses within entities of which the Controller and Auditor-General is the auditor. No demands for compensation have been made by any party as at the date of these financial statements. It is therefore impracticable to estimate any potential financial effect. The Office has professional indemnity insurance.

There were no contingent assets as at 30 June 2004 (2003 – nil).

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

## Statement of Appropriations

This Statement of Appropriations reports actual expenses incurred against each appropriation administered by the Office for the year ended 30 June 2004.

	2003-04		Appropriations GST Inclusive \$000
	Output Expenses GST Exclusive \$000	GST Inclusive <sup>1</sup> \$000	
<b>Operating Flows</b>			
<b>Annual Appropriations</b>			
<i>Mode B Gross</i>			
D1 Reports and advice to Parliament	4,661	5,249	5,287
D2 Controller function	252	284	293
D3 Non-contested audit services	3,474	3,921	4,533
<b>Total Annual Appropriations</b>	<b>8,387</b>	<b>9,454</b>	<b>10,113</b>
<b>Other Appropriations</b>			
<i>Mode B Gross</i>			
D1 Reports and advice to Parliament <sup>2</sup>	581	581	581
<i>Mode B Net</i>			
D4 Contested audit services <sup>3</sup>	31,686	35,648	33,200
<b>Total Other Appropriations</b>	<b>32,267</b>	<b>36,229</b>	<b>33,781</b>
<b>Total Output Expenses as reported in the Statement of Financial Performance</b>	<b>40,654</b>		
<b>Capital Flows</b>			
<b>Non-Departmental Annual Appropriation</b>			
<i>Repayment of Debt</i>			
Overdraft repayment <sup>4</sup>		412	500
<b>Total Appropriations</b>		<b>46,095</b>	<b>44,394</b>

1 GST is based upon the amount of revenue received within each output. All Appropriations are GST-inclusive, except for Other Appropriations (Mode B Gross) which are exempt from GST.

2 Costs incurred pursuant to clause 5 of Schedule 3 of the Public Audit Act 2001.

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

4 Provides for the repayment of principal on an overdraft facility.

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

## Statement of Unappropriated Expenditure

The Office incurred no unappropriated expenditure during the year ended 30 June 2004 (2003 - nil).

## Statement of Trust Money

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

A trust account records the financial transactions undertaken by the Office on behalf of SPASAI. All trust money transactions are recorded on a cash basis.

None of the transactions associated with the SPASAI trust account are recorded within the Statement of Financial Performance or the Statement of Financial Position.

2002-03 Actual \$000		2003-04 Actual \$000
19	Opening balance at 1 July	304
1,044	Receipts	350
1,063		654
(759)	Payments	(618)
<b>304</b>	<b>Closing balance at 30 June</b>	<b>36</b>

The accounting policies on pages 141-145 and notes on pages 154-164 form part of these statements.

## Notes to the Financial Statements

for the Year Ended 30 June 2004

### Note 1: Budget estimates

The Estimate and Forecast information for the year is extracted from the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the aggregate budget estimates, all of which are unaudited.

	2003-04 Main Budget Estimates \$000	2003-04 Supplementary Estimates Changes \$000	2003-04 Final Estimates (Forecast) \$000
<b>Revenue</b>			
Crown	5,371	266	5,637
Other	34,540	(871)	33,669
<b>Total Revenue</b>	<u>39,911</u>	<u>(605)</u>	<u>39,306</u>
<b>Expenses</b>			
Personnel costs	19,027	(222)	18,805
Operating costs	19,130	(418)	18,712
Depreciation	1,181	49	1,230
Capital charge	305	-	305
<b>Total Expenses</b>	<u>39,643</u>	<u>(591)</u>	<u>39,052</u>
<b>Surplus</b>	<u>268</u>	<u>(14)</u>	<u>254</u>

## FINANCIAL STATEMENTS 2003-04

## Notes to the Financial Statements

**Note 2: Crown revenue**

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

**Note 3: Other revenue**

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
6,331	Audit fees - departments	7,343	6,947
27,933	Audit fees - other	27,822	26,718
104	Miscellaneous	10	4
<b>34,368</b>	<b>Total Other Revenue</b>	<b>35,175</b>	<b>33,669</b>

\* See comment in Note 1 on page 154.

**Note 4: Operating costs**

Operating costs include:

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
21	Loss/(profit) on sale of physical assets	36	-
-	Write-off of physical assets	60	-
	Increase/(decrease) in provision for doubtful		
(50)	receivables	161	-
58	Fees to auditors for audits of the financial statements	58	58
6	Fees to auditors for other services provided	8	4
9	Overdraft interest cost	-	-
427	Equipment lease costs	452	395
-	Lease asset write down provision	259	-
1,471	Property lease costs	1,488	1,568
12,075	Fees paid to contracted auditors	12,861	12,075

\* See comment in Note 1 on page 154.

### Note 5: Depreciation charge

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
234	Furniture and Fittings	130	283
744	Office Equipment	723	812
122	Motor Vehicles	103	135
<u>1,100</u>	<b>Total Depreciation Charge</b>	<u>956</u>	<u>1,230</u>

\* See comment in Note 1 on page 154.

### Note 6: Capital charge

The Office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2004 was 8.5 percent (2003 – 8.5 percent).

During the financial year the Office continued to participate in a pilot differential capital charge scheme. Under the scheme, interest earned on cash bank balances and term deposits (at 5.1%) was offset against the capital charge. For the year ended 30 June 2004, the capital charge reduced by \$107,000 (2003 – \$32,000) as a result of the scheme.

### Note 7: Surplus payment due to the Crown

The Office is not permitted to retain operating surpluses under the Public Finance Act 1989. Thus, the surplus for the year of \$158,452 (2003 – \$151,393) is fully repayable to the Crown.

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

30/6/03 Actual \$000		30/6/04 Actual \$000
<u>151</u>	Surplus	<u>158</u>
<u>151</u>	<b>Total Provision for Payment to the Crown</b>	<u>158</u>

### Note 8: Overdraft facility

The Office has the use of an overdraft facility to manage its seasonal cashflows during the second half of the financial year. The overdraft limit is \$500,000, and interest is charged on the daily balance at Westpac Banking Corporation's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (2003 – \$409,000).

### Note 9: Receivables

30/6/03 Actual \$000		30/6/04 Actual \$000
3,757	Trade receivables	3,389
(172)	Provision for doubtful receivables	(333)
3,585	<i>Net Trade Receivables</i>	3,056
93	Other receivables	8
3,678	<b>Total Receivables</b>	3,064

**Note 10: Physical assets**

30/6/03 Actual \$000		30/6/04 Actual \$000
<b>FREEHOLD ASSETS</b>		
<b>Furniture and Fittings</b>		
1,947	At cost	2,040
(1,732)	Accumulated depreciation	(1,857)
<u>215</u>	<i>Furniture and Fittings at Net Carrying Value</i>	<u>183</u>
<b>Office Equipment</b>		
4,381	At cost	4,838
(3,079)	Accumulated depreciation	(3,546)
<u>1,302</u>	<i>Office Equipment at Net Carrying Value</i>	<u>1,292</u>
<b>Motor Vehicles</b>		
674	At cost	726
(154)	Accumulated depreciation	(148)
<u>520</u>	<i>Motor Vehicles at Net Carrying Value</i>	<u>578</u>
<b>LEASEHOLD ASSETS</b>		
<b>Office Equipment</b>		
-	At cost less write-down	167
<u>2,037</u>	<b>Total Physical Assets at Net Carrying Value</b>	<u>2,220</u>

The Office has recognised assets under finance lease arrangements for the first time as at 30 June 2004. Accordingly, there is no depreciation charge for this financial year.

As the Office has decided to withdraw from the leases, and is systematically replacing the leased assets with capital purchases, the asset values have been diminished. The provision for writing down the asset values is disclosed in Note 4.

The Office's liability at 30 June 2004 in respect of the future lease payments is disclosed in Note 14. The Office is currently negotiating with the lessor to ascertain the future value of the lease payments.



### Note 11: Payables and accruals

30/6/03 Actual \$000		30/6/04 Actual \$000
1,612	Trade payables	1,720
578	Revenue in advance	1,047
79	Accruals	105
<b>2,269</b>	<b>Total Payables and Accruals</b>	<b>2,872</b>

### Note 12: Provision for employee entitlements

30/6/03 Actual \$000		30/6/04 Actual \$000
<b>Current Liabilities</b>		
1,168	Annual leave	1,167
49	Long service leave	45
45	Time off in lieu of overtime worked	34
919	Salary and other accruals	780
19	Retiring leave	50
<b>2,200</b>	<b>Total Current Liabilities</b>	<b>2,076</b>
<b>Non-current Liabilities</b>		
92	Long service leave	87
727	Retiring/resigning leave	708
<b>819</b>	<b>Total Non-current Liabilities</b>	<b>795</b>
<b>3,019</b>	<b>Total Provision for Employee Entitlements</b>	<b>2,871</b>

### Note 13: Property lease liabilities

Property lease liabilities consist of the unamortised value of lease inducements received.

30/6/03 Actual \$000		30/6/04 Actual \$000
84	Current Liabilities (Payables and accruals)	108
167	Non-current Liabilities	110
<b>251</b>	<b>Total Property Lease Liabilities</b>	<b>218</b>

### Note 14: Finance lease liabilities

30/6/03 Actual \$000		30/6/04 Actual \$000
	Finance Leases	
-	- current	251
-	- non-current	175
-	<b>Total</b>	<b>426</b>
	<b>Repayable as follows</b>	
-	One to two years	502
-	Two to five years	-
-		502
-	Future finance charges	(76)
-	<b>Recognised as a liability</b>	<b>426</b>

The effective interest rate on the finance lease is 6.5%. Ownership of the asset remains with the lessor.

The Office's IT leases were reviewed during the year with the result that they have been determined to be finance leases. In accordance with SSAP-18 *Accounting For Leases and Hire Purchase Contracts*, the present value of future lease payments as at 30 June 2004 has been recognised as a liability, and an



equivalent amount, representing the future service potential arising from the use of the equipment, has been recognised as an asset. The Office's liability in respect of future lease payments was previously included in the Statement of Commitments. As the recognition was effected as at 30 June 2004, the total rental payments for the year have been recognised in the Statement of Financial Performance and have not been apportioned between the principal and finance charge elements.

Under the Public Finance Act 1989, entering into financing lease arrangements is deemed to be raising a loan, which requires the approval of the Minister of Finance under the Public Audit Act 2001. The Office has received the Minister's approval for these leases.

## Note 15: Reconciliation of Surplus to Net Cash Flow from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Financial Performance on page 146 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Cash Flows on page 149.

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
151	<b>Surplus</b>	158	254
	<b>Non-cash Items</b>		
1,100	Depreciation	956	1,230
-	Write-off of physical assets	60	-
-	Write-down of leased assets	259	-
1,100	<b>Total Non-cash Items</b>	1,275	1,230
	<b>Working Capital Movements</b>		
(126)	(Increase)/decrease in prepayments	(191)	54
257	(Increase)/decrease in receivables	614	28
253	(Increase)/decrease in work in progress	530	52
554	(Decrease)/increase in payables	603	(236)
75	(Decrease)/increase in employee entitlements	(124)	(60)
-	(Decrease)/increase in property lease liabilities	24	-
1,013	<b>Total Net Working Capital Movements</b>	1,456	(162)
	<b>Investing Activity Items</b>		
21	Loss/(profit) on sale of physical assets	36	-
21	<b>Total Investing Activity Items</b>	36	-
	<b>Other Items</b>		
(41)	Increase/(decrease) in non-current employee entitlements	(24)	41
(84)	Increase/(decrease) in non-current property lease liabilities	(57)	(84)
(125)	<b>Total Other Items</b>	(81)	(43)
<b>2,160</b>	<b>Net Cash Flow from Operating Activities</b>	<b>2,844</b>	<b>1,279</b>

\* See comment in Note 1 on page 154.

## Note 16: Financial instruments

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

### *Credit risk*

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

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

### *Interest rate risk*

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

### *Currency risk*

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

### *Fair values*

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

## Note 17: Related party information

Some 14% of the Office's revenue is provided by the Crown directly (see Note 2 on page 155) and a further 18% indirectly through fees for the audit of Government departments (see Note 3 on page 155). These transactions are conducted on an arm's-length basis.

In addition to these audit transactions, the Office enters into numerous other transactions with entities controlled by the Crown. These transactions are also on an arm's-length basis. Related party disclosures have not been made for transactions conducted at arm's-length.

**Note 18: Office accommodation statistics**

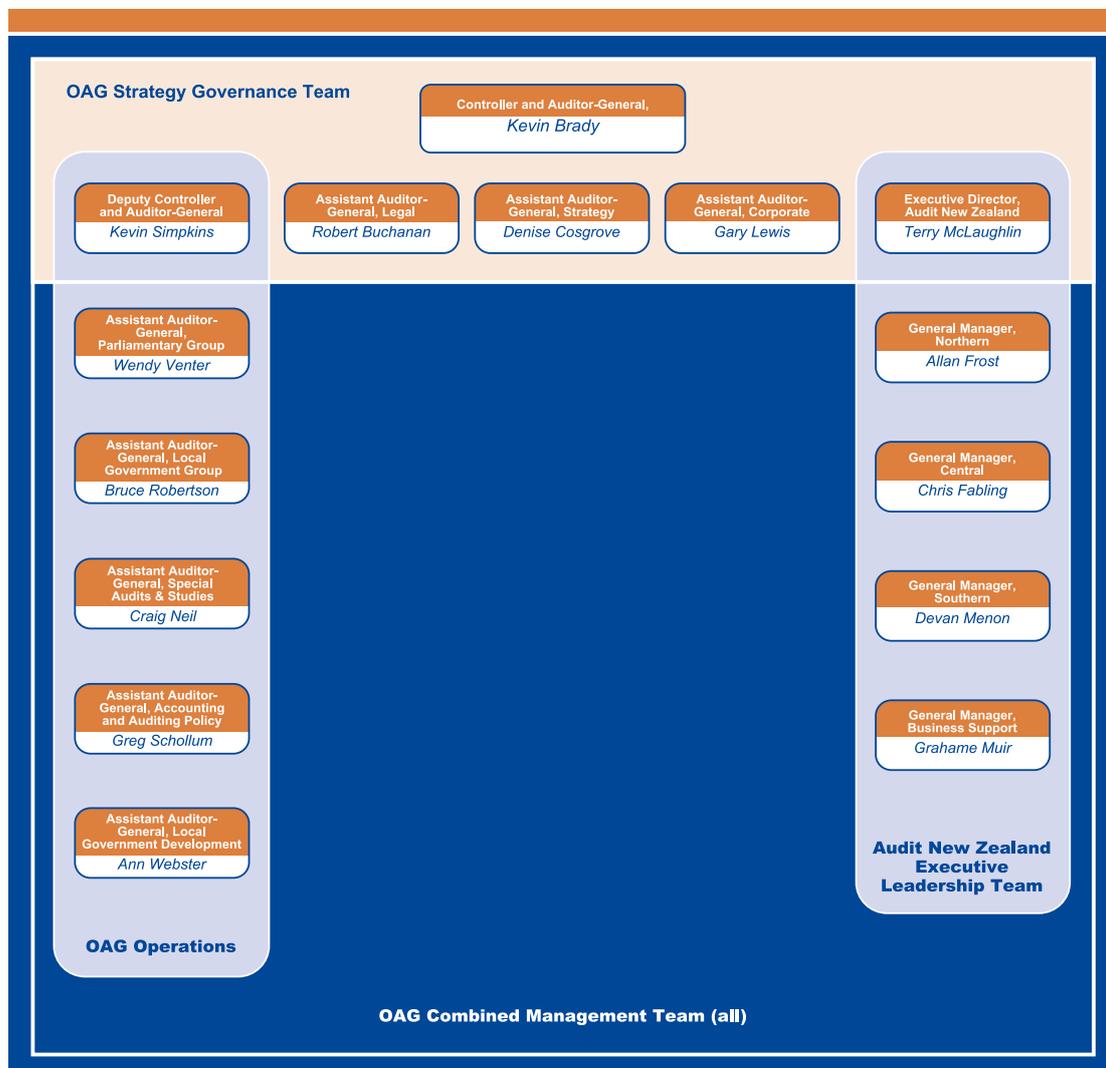
The following statistics for the year ended 30 June 2004 are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

<i>30/6/03</i>		<i>30/6/04</i>
<i>Actual</i>		<i>Actual</i>
<i>\$000</i>		<i>\$000</i>
6305m <sup>2</sup>	Area	6125m <sup>2</sup>
248	Number of staff	231
25m <sup>2</sup>	Space allocation per person	27m <sup>2</sup>
\$1,517,455	Total costs of leased office accommodation	\$1,575,146
\$5,002	Rent costs per person	\$5,838
\$262	Utility costs per person	\$291
-	Vacant accommodation	-



# APPENDICES

## Appendix 1 Organisational structure





## Appendix 2

# Directory of offices

### Office of the Auditor-General

Level 7, Hitachi Data Systems House  
48 Mulgrave Street  
Private Box 3928  
Wellington  
Phone (04) 917-1500  
Fax (04) 917-1549  
Web site [www.oag.govt.nz](http://www.oag.govt.nz)

### Audit New Zealand

#### National Office

Level 8, St Paul's Square, 45 Pipitea Street  
Private Box 99, Wellington  
Phone (04) 496-3099  
Fax (04) 496-3095  
Web site [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

#### Whangarei

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

#### Auckland

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



## *Hamilton*

Level 5, KPMG Centre, 85 Alexandra Street  
Private Box 256, Hamilton  
Phone (07) 839-3349  
Fax (07) 838-0508

## *Tauranga*

745 Cameron Road  
Private Box 621, Tauranga  
Phone (07) 578-8400  
Fax (07) 577-9321

## *Palmerston North*

292 Featherston Street  
Private Box 149, Palmerston North  
Phone (06) 358-0449  
Fax (06) 356-7794

## *Wellington*

Level 9, St Paul's Square, 45 Pipitea Street  
Private Box 99, Wellington  
Phone (04) 496-3099  
Fax (04) 496-3195

## *Christchurch*

Level 2, Charles Luney House, 250 Oxford Terrace  
Private Box 2, Christchurch  
Phone (03) 379-8774  
Fax (03) 377-0167

## *Dunedin*

5th Floor, Forsyth Barr House, 165 Stuart Street  
Private Box 232, Dunedin  
Phone (03) 477-0657  
Fax (03) 479-0447

## Appendix 3

# Reports issued during the year ended 30 June 2004

### **Reports to Parliament**

#### *General reports of the Controller and Auditor-General*

Local Government: Results of the 2001-02 Audits – B.29[03b]	9/9/03
Local Government: Results of the 2002-03 Audits – B.29[04b]	29/6/04

#### *Programmed special reports*

Inland Revenue Department: Performance of Taxpayer Audit	6/8/03
Co-ordination and Collaboration in the Criminal Justice Sector	9/10/03
Managing Threats to Domestic Security	30/10/03
Ministry of Health: What Further Progress Has Been Made To Implement the Recommendations of the Cervical Screening Inquiry?	8/12/03
Social Security Benefits: Accuracy of Benefit Administration	10/12/03
The State Services Commission: Capability to Recognise and Address Issues for Māori	30/1/04
Māori Land Administration: Client Service Performance of the Māori Land Court Unit and the Māori Trustee	26/03/04
Accident Compensation Corporation: Case Management of Rehabilitation and Compensation	29/04/04
Local Authorities Working Together	26/05/04

#### *Unprogrammed investigation reports*

Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP	6/11/03
Inquiry into Expenses Incurred by Dr Ross Armstrong as Chairperson of Three Public Entities	19/12/03



### *Accountability reports of the Controller and Auditor-General*

Annual Report 2002-03 – B.28	16/10/03
Draft Annual Plan 2004-05	2/4/04
Annual Plan 2004-05 – B.28AP(04)	27/5/04

### **Other reports and publications**

#### *Unprogrammed investigation reports*

Industry New Zealand – Business Growth Fund Grant to The Warehouse	29/7/03
Auckland Regional Council 2003-04 Rates	5/8/03
Auckland Region Passenger Rail Service	4/11/03
Findings from the Audit and Inquiry into the Expenses of the Former Chair of Learning Media Limited and Related Matters	7/11/03

#### *Other*

Key Success Factors for Effective Co-ordination and Collaboration Between Public Sector Agencies	9/10/03
Good Practice for Managing Public Communications by Local Authorities	19/4/04

Most of these reports and publications can be viewed on our web site ([www.oag.govt.nz](http://www.oag.govt.nz)).

Copies of these reports and publications may be ordered from:

Reports Group  
Office of the Auditor-General  
Private Box 3928  
WELLINGTON  
Phone: (04) 917-1534  
Fax: (04) 917-1549  
E-mail: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)

## Appendix 4

## Entities audited under section 19 of the Public Audit Act 2001

Section 37(2)(c) of the Public Audit Act requires us to include in the Annual Report a list of entities audited by the Auditor-General under an arrangement in accordance with section 19 of the Act.

As this report was published, arrangements had been entered into for the following audits:

- Campus Services Limited
- Chatham Islands Enterprise Trust
- Colonial Arms Tavern JV and Te Punawai Hotel
- Corporate Property Investment Limited
- Enterprise Hamilton Trust Board
- France Trust
- Hutt Minoh House Friendship Trust
- Industrial Relations Foundation
- Innovative Waste Kaikoura Limited
- Kahungunu Executive Charitable Trust
- Lakes Ophthalmic Services Limited
- Literacy Aotearoa
- Māori Education Trust
- Matawiwi Tauatoru Limited
- Ngati Whatua O Orakei Corporate Limited
- Ngati Whatua O Orakei Health and Social Needs Limited
- Ngati Whatua O Orakei Health Clinic Limited
- Ngati Whatua O Orakei Tourism Limited
- Orakei Management Services Limited
- Orakei Retirement Care Limited
- Student Services Trust Massey @ Wellington

## Entities audited under section 19 of the Public Audit Act 2001



- Tararua District Library Trust
- Tararua Foundation
- Tercel Investments Limited
- Te Runanga O Kirikiriroa Trust Board
- The Quit Group
- T P M Education & Training Centre Limited
- Unipol Recreation Limited
- University Union Limited
- Waikato Polytechnic Student Residence Trust Board
- Wellington Polytechnic Students Association (WePSA)





**The Controller and Auditor-General**  
*Tumuaki o te Mana Arotake*

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**Annual Report 2003-04**