



### DAVID GASCOIGNE

6 Stafford Street  
Mt. Victoria  
Wellington  
New Zealand

Tel: (+64-4) 385 2553  
Fax: (+64-4) 385 2340  
Mobile: (+64-274) 405 405  
E-mail: david.gascoigne@xtra.co.nz

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, 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** CBE LL.M

Business Tel: +64 4 498 5120  
Business Email: david.gascoigne@minterellison.co.nz