

# Annual Plan



2005-06

**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 Plan** for the year ending 30 June 2006

Prepared as required by  
section 36(1) of the Public Audit Act 2001  
and section 38 of the Public Finance Act 1989





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## Speaker's Foreword

I am pleased to introduce the Controller and Auditor-General's *Annual Plan* for the 2005-06 financial year.<sup>1</sup>

The Controller and Auditor-General is an Officer of Parliament whose role is to act on behalf of Parliament by assisting it to strengthen the effectiveness, efficiency, and accountability of public sector organisations.

The *Annual Plan* indicates how the Controller and Auditor-General intends to discharge his duties and apply the resources made available to him in the forthcoming financial year. It gives Parliament an appropriate basis for holding the Controller and Auditor-General to account for his Office's performance during 2005-06.

A handwritten signature in black ink, appearing to read 'Margaret Wilson', written in a cursive style.

Hon Margaret Wilson MP  
Speaker of the House of Representatives

6 May 2005

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

## Introduction by the Controller and Auditor-General

My key objective for 2005-06 is for the Office to make real progress in developing our people and our assurance products and services.

Since receiving Parliament's support last year to strengthen the capability of my Office, we have put in place many of the building blocks to ensure the sustainability of the Office and its ability to proactively respond to the assurance issues facing public entities.

This has included:

- implementation of a “project office” approach to how we manage the work and resources of the Office;
- review of our leadership model for how we want to govern and manage the Office;
- development of a comprehensive monitoring and reporting regime;
- completion of a pilot implementation of enhancements to our Strategic Audit Planning process which resulted in greater involvement of, and communication with, audit service providers, and a better deployment of the full range of our assurance interventions around the key issues and risks;
- appointment of additional performance auditors to strengthen the base capability of this group and to better enable their professional development, including methodology development;
- significant inroads into our programme of research and development in the areas of our audit response to Long-Term Council Community Plans (LTCCPs), International Financial Reporting Standards (IFRS), and the Public Finance Amendment Act 2004 (PFAA) and Crown Entities Act 2004 (CEA);
- review and design of stakeholder feedback mechanisms;
- review of our sector arrangements within the Office to ensure we maximise our sector efforts and provide “one voice” for the Office;
- use of a common framework for business planning within the Office, which has resulted in greater alignment between our business units;
- development of a communications framework;
- development of an Information Systems Technology Plan;



## INTRODUCTION BY THE CONTROLLER AND AUDITOR-GENERAL



- introduction of an agreed evaluation framework for performance audits to measure the impact of our work in this area; and
- significant progress in the alignment of our corporate policies in the OAG and Audit New Zealand.

I am pleased with the progress we have made in starting to bring into effect our 5-year Strategic Plan for the Office. This *Annual Plan* reflects the next stage in that change process. The emphasis now shifts from building the infrastructure that supports the Office of the future to one of “development”. Specifically, investing significantly in developing the people who work for and with the Office, and developing our assurance products and services.

This stage involves:

- strengthening our organisational capability, especially in leadership and professional areas;
- adjusting to our increased capability, particularly in terms of how we manage our people and how we access additional resources more flexibly;
- further improving our timeliness for inquiries;
- delivering an effective product mix with an increased focus on non-financial reporting and on waste, probity, governance and accountability;
- continuing to look for efficiencies in our operational and corporate processes; and
- making real gains in terms of creating a mindset for innovation and collaborative working.

In this *Annual Plan*, we outline our specific management actions for 2005-06 to give effect to these objectives. In addition, we include the information on future operating intentions required under section 38 of the Public Finance Act 1989.

I am committed to real change and improvement in the public sector and to the enhancement of the trustworthiness of the public sector. The 5-year Strategic Plan sets out how I intend to position my Office to lead these goals. This *Annual Plan* reflects an important second stage in the implementation of our Strategic Plan.

Kevin Brady  
Controller and Auditor-General  
6 May 2005

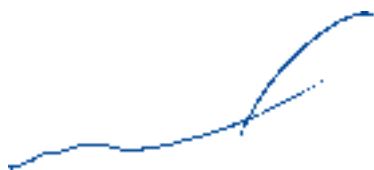
## Statement of Responsibility

The information on future operating intentions of the Controller and Auditor-General for the year ending 30 June 2006 contained in this *Annual Plan* has been prepared in accordance with section 36(1)(b) of the Public Audit Act 2001 and section 38 of the Public Finance Act 1989.

As Controller and Auditor-General, I acknowledge, in signing this statement, that I am responsible for the information contained in this *Annual Plan*.

The forecast financial statements, which include the service performance forecast for each class of output, are consistent with the plans considered by the Officers of Parliament Committee when it examined (on behalf of the House of Representatives) the 2005-06 budgetary estimates for the Auditor-General submitted pursuant to section 45G of the Public Finance Act 1989.

I certify that the information contained in this *Annual Plan* is consistent with existing appropriations and with the appropriations set out in the Appropriation (2005/06 Estimates) Bill.



K B Brady  
Controller and Auditor-General  
11 April 2005



(countersigned)  
D E Atkin  
Finance Manager  
11 April 2005

# Part One

## STATEMENT OF INTENT

### Strategic context

#### Role of the Auditor-General

The office of Controller and Auditor-General (the Auditor-General) is a statutory office that exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.

As an Officer of Parliament, the Auditor-General provides independent assurance to both Parliament and the public that public entities are operating, and accounting for their performance, in accordance with Parliament's intentions. This includes effective and efficient use of the resources and powers conferred on them.

The Auditor-General also provides independent assurance about local government, as local authorities are accountable to the public for the activities they fund through locally raised revenue.

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?*

## *Our operating model*

The Auditor-General employs staff in 2 business units – the **Office of the Auditor-General** (OAG) and **Audit New Zealand** (Audit NZ) – and also engages private sector **Audit Service Providers** (ASPs) to carry out his statutory functions in relation to public entities.

The OAG undertakes strategic audit planning, and policy development and standard setting. It also appoints auditors and oversees their performance, and carries out performance audits, Parliamentary reporting and advice, and inquiries and other special studies.

Audit NZ carries out audits allocated under the audit resourcing model, and provides public entities with other assurance services that are within both the Auditor-General's mandate and the Auditor-General's Auditing Standard relating to independence of auditors.

ASPs are private sector accounting firms that carry out annual audits allocated to them under the audit resourcing model. ASPs also offer wider assurance services to public entities within the limits of the Auditor-General's Auditing Standard relating to independence of auditors.

## **The audit resourcing model**

The Auditor-General uses an “audit resourcing model” for selecting auditors to carry out annual audits of public entities.

For the majority of public entities, the Auditor-General now allocates annual audits to auditors. He chooses from a pool of ASPs – which includes Audit NZ, the 4 major chartered accountancy firms and a range of smaller audit firms. (In total about 70 private accounting firms act as ASPs.) Some audits, of public entities that have a strong commercial focus, are subject to a contestable regime.

The audit resourcing model allows the Auditor-General choice and flexibility in the allocation of his work to the auditors who carry out annual audits, and allows collaboration within his Office and between the organisations that support the Auditor-General.

## *Our strategic direction*

This Statement of Intent builds from our 5-year Strategic Plan, which was made available in early 2004. In that Strategic Plan, we set out our internal operating vision and strategy, as follows:

We want “**to set the benchmark for design and delivery of independent assurance services**”. This means that we want to be acknowledged as the innovators in designing public sector, independent assurance services, and as high-quality deliverers of such services. We refer to this internally as being “product leaders”.

In our Strategic Plan, we set out our 3 key strategies for the next 3-5 years. These are:

- **Shaping our services** to anticipate and respond to Parliament and other stakeholders’ needs and our changing environment. This means having the “best” independent, public-sector assurance products and services, which constantly evolve to meet the needs of Parliament and our other stakeholders and to respond to the ongoing and significant changes in our environment.
- **Building our capability** to create and deliver our services. Investing in the future capability of the Office through targeted attraction, retention, and development strategies. This means having systems and processes that support the work of the Office, and having access to the “best people” from OAG, Audit NZ, and our other ASP colleagues.
- **Fostering relationships and ways of working** that support our strategy. This means encouraging and valuing behaviours that support collaborative working and innovation.

To progress these 3 key strategies during 2005-06, we will focus our efforts on developing our people and our products/services. Our “management actions” are described on pages 69-70.

## Operating environment

Our Strategic Plan identified a range of issues affecting the environment in which we work. These issues fell broadly into 3 areas, relating to the significant and ongoing changes occurring in:

- the accounting and auditing profession;
- the legislative and operating environments of public entities; and
- information and reporting requirements and methods.

### *Accounting and auditing profession*

The accounting and auditing profession continues to face pressure after major corporate collapses in the last 3 years. The firms have responded with a “back-to-basics” approach, including:

- internationalisation of accounting – professional and ethical standards;
- an increased emphasis on risk and quality;
- reappraisal of audit methodologies;
- rationalisation of service lines by firms;
- increased ratio of senior staff to junior staff;
- increased emphasis on core auditing and accounting skills; and
- a resultant increase in audit fees in both the public and private sectors.

The introduction of New Zealand equivalents of International Financial Reporting Standards (NZ IFRS) will pose a significant challenge for us. All entities, including those within the Auditor-General’s mandate, will need to use NZ IFRS for reporting periods starting on or after 1 January 2007. However, there are implications for re-stating comparatives and their opening balance sheets. In addition, some sectors – including local government – are likely to elect to comply earlier than this date.

We are working in partnership with PricewaterhouseCoopers, using that firm’s global connections and expertise in IFRS, to ensure that our auditors are fully trained and to mitigate possible risks to public entities associated with the change to NZ IFRS.

The Institute of Chartered Accountants of New Zealand is currently undertaking consultation about the adoption of International Standards of Auditing (ISA). ISA will have a significant effect on our work during 2005-06 and beyond.

### *Legislative and operating environments of public entities*

Major legislative change will continue to affect public entities within the Auditor-General’s mandate, including this Office, during the next 1-3 years. In particular:

## STATEMENT OF INTENT

- The audit of Long-Term Council Community Plans (LTCCPs) under the Local Government Act 2002, which will take place from 2006. Local authorities are also still coming to grips with the new decision-making principles in the Act, and have varying capability to respond to the new requirements. For us, this means there is:
  - a need to ensure that the auditing methodology for LTCCPs (which is in its final stages of development) is robust and appropriate for the needs of local authorities and their stakeholders; and
  - an ongoing expectation that we will scrutinise local authorities' decision-making processes through our inquiry function.
- Enactment of the Public Finance Amendment Act 2003 (PFAA), which will implement changes to government departments' non-financial reporting from the 2005-06 year – changes which have been progressively introduced as a result of the Managing for Outcomes initiative. In addition, changes to the appropriations system will apply to the 2005 Budget. This will impose a major additional burden on government departments and on this Office. Changes to the Controller function will also take effect from 1 July 2005. For us, this means there is:
  - a need to prepare our auditors for the changes, and to adapt our auditing approach accordingly; and
  - an expectation that we will assist government departments to come to grips with the changes, by providing assurance over their reporting in non-financial areas (including outcomes, impacts, capability, and risk).
- Enactment of the Crown Entities Act 2004 (CEA) which brings about major changes in the governance, accountability, and financial management of Crown Entities. Changes in respect of non-financial reporting (similar to those in respect of government departments) will take effect from 2006-07.

Recent probity failures in the public sector – for example, high profile frauds, a range of issues with non-government organisations (NGOs) about the use of public funds, and conflicts of interest – have resulted in an increased level of scrutiny of public sector activities by Members of Parliament (MPs), the media, and the public. Overall, this has increased expectations about what the Auditor-General can do through annual audits, performance audits, and inquiries.

New and emerging ways of doing business are also affecting the work of public entities and this Office – for example, the effect of e-government and e-business activities.

### *Information and reporting requirements and methods*

As well as legislative change, there has been an increase in sustainable development reporting and, to lesser extent, in the use of Extensive Business Reporting Language (XBRL).

Reporting is becoming more complex (involving consideration of inter-generational equity, spending choice, capability, and value for money). Public entities have limited skills and experience in more complex reporting, which is reflected in the current low levels of evaluative activity in the public sector.

Changes in reporting requirements and methods pose challenges for us, particularly as expectations increase as to the nature and extent of assurance that the Auditor-General can provide.

### *Responding to issues in our environment*

In response to the issues existing in our environment, our Strategic Plan identified the following key area of focus –

*Enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues/risks.*

Specifically, this means:

- seeking greater involvement, communication, and knowledge-sharing between people working in and for this Office in our Strategic Audit Planning process; and
- applying the full range of assurance responses to issues and risks that we identify as requiring attention.

In addition, the Strategic Plan identified the need for us to:

- Undertake more work in the area of non-financial reporting – including assurance over:
  - local authorities' LTCCPs;
  - reporting by government departments and Crown Entities under the PFAA and CEA, including outcomes, capability, risk, ownership, and stewardship reporting; and
  - sustainable development reporting.





- Enhance the level of audit work in key areas such as:
  - waste;
  - probity; and
  - governance and accountability.
- Increase the number of performance audits undertaken each year from 10 to 21 by the 2005-06 year, and improve the timeliness of such audits.
- Improve the timeliness of inquiries.

## Our outcomes

### Outcomes framework

Our outcomes framework is modelled on the “Managing for Outcomes” approach.

#### *Progress in the development of our outcomes framework*

During the past 2 years, we have continued to develop our outcomes framework, in particular, to better define the impact of our work, and explore ways in which we can more effectively evaluate our impact. This progress will be ongoing as we continue to understand and apply the “managing for outcomes” approach.

When the Officers of Parliament Committee (OPC) considered our Strategic Plan and the associated business case for additional funding in March 2004, it requested us to introduce 2 additional impact evaluation processes – one for performance audits, and one for the implementation of our Strategic Plan.

Our impact evaluation process for performance audits was developed in consultation with the Treasury, and agreed by the OPC in August 2004. A pilot evaluation report on 2 selected performance audits was provided to the OPC in March 2005. The process will be fully implemented during 2005-06, with a full report to the OPC in February 2006.

We expect to develop the evaluation framework to assess the impact of the implementation of our Strategic Plan during 2005-06.

## Outcomes statement

While we are independent of the Government, and therefore do not contribute directly to the “Government’s goals”, we play a key role in supporting the achievement of like outcomes. We have one end outcome and 2 intermediate outcomes.

### *End outcome*

The “end outcome” is the desired situation sought as the result of our (and others’) work. While aspirational in nature, it is nevertheless achievable. Others will also play a part in its achievement.

Our end outcome is:

#### **Trust in an effective and efficient public sector.**

“*Trust in ...*” is where Parliament and the public know whether public entities (including central and local government entities, and others such as schools) are –

- carrying out their activities effectively, efficiently, and appropriately;
- using public funds wisely; and
- reporting their performance accurately;

and know that if this is not the case we will tell them.

“... *an effective and efficient public sector*” is where public entities operate effectively and efficiently, and with a focus on continual improvement and innovation.

Others who contribute to the achievement of this end outcome are:

- central government agencies – State Services Commission, Department of the Prime Minister and Cabinet, and the Treasury; and
- public entities – through their actions and behaviours.

### *Intermediate outcomes*

“Intermediate outcomes” are the outcomes that we can directly influence, which will significantly contribute to the achievement of the end outcome. They are also known as “impacts”.

The desired situation that we aim to create as the direct result of our work is where there is:

- independent assurance that public entities are acting legally and with probity;
- advice to improve public entity operations; and where
- Parliament has control of expenditure.

We achieve this desired situation through the provision of 2 intermediate outcomes:

- independent assurance and advice; and
- Parliamentary control of expenditure, delivered through our Controller function and appropriation audit activities.

### **Independent assurance and advice**

We help to ensure the legality and probity of public entity actions by being vigilant for any behaviour that falls below expectations, and by highlighting and investigating any irregularities that we come across in the course of our work.

We contribute to improvement by assessing public entity operations (through our assurance activities), and then telling relevant stakeholders (through our reporting and advisory activities) about:

- the sufficiency and appropriateness of public entity information systems;
- the effectiveness and efficiency of public entity operations; and
- the accuracy and adequacy of public entity reporting.

### **Parliamentary control of expenditure**

We play a key role in ensuring Parliamentary control of expenditure through our Controller function and appropriation audit activities. These activities ensure that expenses or capital expenditure of departments and offices of Parliament have been incurred (or public money spent) within the appropriation or other statutory authority, and are for lawful purposes.

### Outputs

In order to achieve the desired situation through our intermediate outcomes, we intend to continue to deliver the following assurance products and services:

- annual audits;
- Controller function and appropriation audit;
- advice to Parliament;
- inquiries;
- advice and liaison;
- working with the profession;
- wider assurance work;
- performance audits; and
- international liaison and involvement.

These are classified into 3 output classes:

Output Class D1 – Reports and advice arising from the exercise of the function of legislative auditor
<ul style="list-style-type: none"> <li>• Reporting to and advising Members of Parliament (either in Select Committees, as Ministers, or as individual MPs) on the results of audits, performance audits and inquiries. Most of this work is done through financial reviews and Estimates examinations.</li> </ul>
<ul style="list-style-type: none"> <li>• Responding to inquiries from taxpayers, ratepayers or individual MPs on matters that we think appropriate to investigate.</li> </ul>
<ul style="list-style-type: none"> <li>• Providing advice to government bodies and other agencies (e.g. the profession, our international counterparts) on auditing, accountability and financial management in the public sector.</li> </ul>
<ul style="list-style-type: none"> <li>• Administering the provisions of the Local Authorities (Members' Interests) Act 1968.</li> </ul>



### Output Class D2 – The Controller function and the appropriation audit

- Providing independent assurance to Parliament that expenses or capital expenditure have been incurred (or public money spent) within the scope, amount and period of the appropriation or other statutory authority, and are for lawful purposes.

### Output Class D3 – Provision of audit and other assurance services

- This output class relates to the conduct of the annual audits of public entity financial reports.
- Audit service providers (Audit NZ and private sector auditors) also provide other auditing and assurance services to public entities.

## *Our business strategies*

To enhance the achievement of our outcomes, we have developed **3 business strategies**. They have emerged through work on our Strategic Plan, and cover both of our intermediate outcomes. For each business strategy, we have identified specific **areas of focus** to concentrate on during the next 3 to 5 years. The 3 strategies and respective areas of focus are:

### **Shaping our services**

- ongoing research and development, product development, and innovation;
- changes to the breadth and depth of our current assurance products and services; and
- enhancement of our Strategic Audit Planning process and deployment of our full range of assurance interventions around issues and risks.

### **Building our capability**

- Continual adaptation of our organisation (including enhancing our capabilities).

## Fostering relationships and ways of working

- Facilitating opportunities for collaborative working.

This *Annual Plan* details the specific objectives we intend to implement over the 2005-06 year to achieve our 3 business strategies. Our objectives for a given year are within the context of a broader 3-year plan of action.

Within the areas of focus, our emphasis for 2005-06 will be on development of our people and our products/services (see pages 69-71). This builds on our work already completed in 2004-05.

## Summary: Our key objectives for outcomes in 2005-06

We aim to achieve the following objectives in relation to **our outcomes** during 2005-06:

As a result of our work, maintain and/or improve our desired impacts, specifically:

- improvements over time in Parliament's and the public's perceptions of public sector performance and trustworthiness;
- public entities that act legally, ethically, and with probity;
- improved public entity operations; and
- Parliamentary control of expenditure.

In relation to the **ongoing development of our outcomes framework**, we also propose the following "management actions" during 2005-06:

- complete the implementation of our agreed impact evaluation process for performance audits; and
- develop an evaluation framework to assess the impact of the implementation of our Strategic Plan.

## Strategic risks

### Our risk management framework

We have developed a comprehensive risk management framework for the Office in consultation with key staff. This was introduced and



integrated within our strategic and business planning processes during 2003-04. Further work is still needed to ensure that our framework is being applied.

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:

- It 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 to: identify and assess risks; develop specific mitigating strategies, plans or actions; and record, monitor and review.

Note: The governance arrangements associated with our risk management framework are outlined on pages 26-30.

### *Our risk management process*

Annually, we review our strategic risks. This review considers any changes to the strategic risks or to the probability of occurrence, or likelihood of consequence, if the risk materialises.

We already have in place a number of mitigation strategies and processes. In addition, annually, we determine specific actions we will take to enhance our existing strategies or to provide additional mitigation. These actions are then integrated into our annual and business planning processes, and responsibilities for completion are assigned.

On a quarterly basis, we review progress with the implementation of these specific annual actions, and we confirm that there have been no known events that may have affected our assessment of the level of risk.

### *Progress in the implementation of our risk management framework*

In our *Annual Report 2003-04*, we noted that an area of risk management that we wanted to develop further is –

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

By this we mean ensuring that:

- our Risk Manager role is able to effectively evaluate the risks within management strategies;
- we have the processes and systems in place to support effective risk management; and
- we have clear management accountabilities for proactive identification and management of risks.

### *Our strategic risks*

In implementing our risk management framework, we have identified the following key strategic risks to the achievement of our Strategic Plan and our outcomes:

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

We have a comprehensive range of mitigation strategies in place, including actions we took and enhancements that we made to our existing mitigation strategies during 2004-05. We have also identified specific actions to take during 2005-06.





These specific actions – listed below and on page 23 – represent what we propose as “management actions” or areas for research and development. This demonstrates the extent of integration between our annual planning and our risk management.

### **Serious Audit Failure**

This is the risk that the office issues an incorrect audit opinion with material impact, or a report that is significantly wrong in nature or process. In addition to our existing mitigation strategies, we intend to carry out the following specific actions during 2005-06:

- implement the outcomes from our quality assurance review of all products; and
- research and development into the enhancement of our annual audits, with a focus on non-financial reporting, waste, probity, governance and, to some extent, accountability.

### **Not maintaining our credibility and reputation**

This is the risk that there is damage to the credibility and reputation of the Office. In addition to our existing mitigation strategies, we intend to carry out the following specific actions during 2005-06:

- complete the introduction of our agreed evaluation framework for performance audits;
- implement revisions arising from a review of our enhanced Strategic Audit Planning process;
- develop a legislative compliance framework for the Office;
- develop measures to assess the quality, adequacy, effectiveness, and appropriateness of our governance framework; and
- review the application of our agreed risk management processes, and clarify the management accountabilities for risk management.

### **Not meeting our stakeholders' expectations**

This is the risk that we are not seen to meet our stakeholders' expectations. In addition to our existing mitigation strategies, we intend to carry out the following specific actions during 2005-06:

- complete the implementation of our stakeholder feedback study; and
- continue our projects on NZ IFRS, LTCCPs, and the PFAA and CEA.

### **Not maintaining and building our capability**

This is the risk that the Office is unable to attract and retain suitably qualified staff, and maintain its investment in their development. In addition to our existing mitigation strategies, we intend to carry out the following specific action during 2005-06:

- implement our “key objectives for capability” (see page 26).

### **Failure to successfully implement our Strategic Plan**

This is the risk that we will not sufficiently progress the implementation of our 5-year Strategic Plan. In addition to our existing mitigation strategies, we intend to carry out the following specific actions during 2005-06:

- develop an evaluation framework for measuring the implementation of our Strategic Plan; and
- review the linkages between our Strategic Plan, performance management, and remuneration.

### **Not maintaining our independence**

This is the risk that our independence is compromised. Our existing mitigation strategies will continue during 2005-06.

## **Summary: Our key objectives for risk management in 2005-06**

In relation to **our risk management framework**, we propose the following “management actions” for 2005-06:

- review the application of our agreed risk management processes, and clarify management accountabilities for risk management.



# Capability

## Our capability requirements

We define capability as:

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

- *deliver our intermediate outcomes and our outputs to meet current needs and stakeholder satisfaction; and*
- *maintain our ability to cope with likely future changes.*

When we developed our 5-year Strategic Plan, we undertook a comprehensive review of our existing capability. We concluded that the Office was struggling to maintain capability, and that we had limited ability to respond proactively to the future challenges facing the Office.

On this basis, Parliament provided significant additional funding for us to invest in the future capability of the Office. Since 1 July 2004, we have applied this additional funding through the direct appointment of additional staff, mainly in our performance audit group, and, increasingly, through the contracting in of additional resources in the areas of research and development, and inquiries.

## Our current capability to respond

We face the following challenges in relation to our current capability:

- We are experiencing difficulties in recruiting suitably qualified staff because of labour market shortages – in particular, for Audit NZ and for specialist technical roles.
- We are still adjusting to our increased capability, and consequent flow-on pressures on other teams within the Office, as well as to the need to develop more structured approaches to team management.
- We have not invested as much in staff development as we might like, particularly for leadership development.
- Our timeliness remains variable for inquiries.
- Our ability to have flexible access to the required capability – in particular, for inquiries and research and development – requires further consideration.
- There are further opportunities for operational and corporate efficiencies.

## Summary: Our key objectives for capability in 2005-06

In relation to our capability, we propose the following “management actions” during 2005-06:

- implement Leadership Development initiatives for senior staff within the Office, including, for example, individual development plans and specific leadership development learning interventions.
- design and implement a technical/professional development programme for performance auditors; and
- devise a strategy for difficult-to-recruit positions, including the consideration of options to extend or rotate existing staff, and seek interest in secondments from overseas.

## Governance

### Our governance framework

The Office has an established, 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, and 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 sanctions are applied against inappropriate actions and behaviours.

### *Our key governance relationships*

Our key governance relationships define the accountability and reporting parameters of the Office, and are between:



- the Auditor-General and Parliament (through the OPC), in relation to his stewardship;
- senior management and staff, in relation to the strategic leadership and management of the Office;
- the OAG and our Audit Service Providers; and
- the Office and its stakeholders, in relation to the provision of services.

### *Our governance framework*

The main components of our governance framework are:

#### **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 OPC at least every 3 years. In 2004, the Auditor-General proposed his 5-year Strategic Plan to cover the balance of his term in office. This was endorsed by the OPC.

#### **Risk Management Framework**

Our risk management framework is an integral component of our governance framework. It sets in place the system by which risks to the Office are proactively identified and managed.

#### **Governance Activities**

The 2 primary activities over which governance is required are management and strategic leadership. We consider 4 aspects in relation to our governance activities to enable us to determine the appropriate culture, structures, and processes that we need for effective governance. These aspects are:

- decision-making;
- accountability;
- control; and
- behaviour.

## Monitoring and reporting framework

Vital to our governance framework is an integrated system of monitoring and reporting. This enables us to demonstrate – internally and externally – 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).

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

## *Our governance structure*

Our governance structure comprises 2 elements:

- our leadership model; and
- supporting governance bodies and mechanisms.

## Our leadership model

We introduced a new “leadership model” in 2004 to ensure better alignment with our Strategic Plan and to reflect the move from contestability to our audit resourcing model. During 2004-05, we continued to refine our leadership model. There are 4 leadership groups within the Office. These are:

- Strategy Governance Team – responsible for monitoring progress in implementing our Strategy, and for resolution and approval of policies that affect the Office as a whole.
- OAG Leadership Team – the management team with collective accountability for the operational performance of the OAG.
- Audit NZ Executive Leadership Team – the management team with collective accountability for the operational performance of Audit NZ.
- Combined Management Group – comprises all members of the 2 leadership teams, and is responsible for strategy development.



## Supporting governance bodies and mechanisms

We have in place a range of supporting governance bodies and mechanisms, which are designed to strengthen the effectiveness of the Office's governance. These were described in detail in our *Annual Report 2003-04* on pages 51-54.

Our key supporting governance bodies and mechanisms are:

- The Audit Committee.
- Internal Audit.
- External Audit.
- Opinions Review Committee.
- Our Quality Assurance (QA) Regime.
- Internal Peer Review.
- External Peer Review.
- Independence Review Committee.
- Local Authorities (Members' Interests) Act Review Committee.
- Project Steering Committees.
- Project Management.
- Independent Evaluation of Auditor Appointments.

## Summary: Our key objectives for governance in 2005-06

During 2004-05, we implemented several governance-related actions, and we have identified other areas that we wish to strengthen. In relation to our governance framework, we propose the following "management actions" during 2005-06:

- review the linkages between our Strategic Plan, performance management, and remuneration;
- complete the implementation of our stakeholder feedback study;
- develop measures to assess the quality, adequacy, effectiveness, and appropriateness of our governance framework;
- review our professional methodologies for performance audits and Audit NZ's annual audits;

- implement the outcomes from our review of quality assurance over all our products; and
- develop a legislative compliance framework for the Office.

## Measurement

### Our measurement framework

Improving the quality of financial and non-financial reporting in the public sector is one of our key objectives. We have therefore put a lot of effort into designing meaningful measures for the Office. Our measurement framework covers the areas of outcomes, outputs, governance, risk, capability, and Strategic Plan implementation.

For each of these areas, we consider how we can best assess:

- **Impact** – the contribution made to an outcome by a specified set of outputs, or actions, or both; and
- **Performance** – quantity, cost, and timeliness, and, increasingly, quality, effectiveness, and adequacy.

Using our measurement framework, we have set the following proposed measures for 2005-06 in the areas of outcomes, capability, risk, and governance.

### Our proposed measures for outcomes in 2005-06

To enable us to assess our progress towards achieving our outcomes, our impact evaluation considers:

- whether the desired state has been achieved (maintained and/or improved); and/or
- the quality of our interventions.

### *End outcome*

We will measure our impact/contribution to our end outcome – “Trust in an effective and efficient public sector” – by assessing the extent of improvements over time in Parliament’s and the public’s perceptions of public sector performance and trustworthiness.



A key measure we will use is that:

- New Zealand maintains or improves its Transparency International ranking.

### *Intermediate outcome 1*

We will measure our impact/contribution to our first intermediate outcome – “independent assurance and advice” – by assessing whether:

- real change and improvement is happening as a result of our work; and
- the Auditor-General is perceived by stakeholders as an essential part of the parliamentary system of government.

Key measures we will use are:

- actions others take as a result of our work;
- stakeholder assessment of our relevance and timeliness, and the value we add;
- reduction over time in the recurrence of key themes in inquiries we conduct; and
- improvements in aspects of entity management (as measured through our assessments).

### *Intermediate outcome 2*

The changes made by the PFAA to the Controller function have affected how we measure our impact/contribution to our second intermediate outcome – “Parliamentary control of expenditure”. We intend to develop appropriate impact measures for this outcome during the 2005-06 year.

## **Our proposed measures for capability in 2005-06**

In our *Annual Report 2003-04*, we trialled an example of good practice reporting in our Capability Report on pages 67-93. This capability report considered not only the provision of data about the current size and scale of, and extent of investment into, our capability, but also attempted to draw some conclusions about the adequacy, quality, and effectiveness of our capability. It considered the following capability questions:

## 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 and knowledge?
- How skilled, experienced, and competent are our people to perform their work?
- Do our systems and processes support the work of the Office?

We will continue to provide similar reporting in the future as we consider it provides a more complete picture of our capability to respond.

The specific measures we will use in 2005-06 to help us form views on our capability will be:

## Current capability

Base data:

- 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.
- The scale of our information technology systems.
- The average numbers of applicants for key Office vacancies.
- The percentage of senior staff perceived to have future potential.
- The number of staff who have been internally promoted to senior positions.
- The Office's current working capital (as at 30 June 2006).

### **Maintaining and enhancing our capability**

- Average time in role.
- Percentage of staff holding required tertiary qualifications.
- Average time and spending on training and development.
- Pass rates for professional accreditation.
- Turnover.
- Rates of sick leave.
- Staff satisfaction.
- Staff assessment of the extent of innovation and collaborative working that occurs and is encouraged.
- Staff assessment of quality and usefulness of business processes and systems.
- Staff assessment of the adequacy of the resource base (whether the Office has, or has access to, enough suitably qualified staff to do its work).
- Equal Employment Opportunity initiatives substantially implemented (90%).
- Effectiveness for Māori initiatives substantially implemented (90%).
- Audit NZ ratio of senior to junior staff.
- Ratio of operational to non-operational staff.
- Strategic Plan implementation substantially achieved (90%).

### Our proposed measures for risk management in 2005-06

We have designed indicators to assess the success of our risk management strategies in managing or mitigating our strategic risks. (Some of these, by their very nature, are a subset of our outcome, output, or capability measures.)

We propose the following measures for risk management in 2005-06:

#### *Strategic risk 1*

We will measure how we have managed/mitigated the risk of “serious audit failure” by assessing whether our mitigation strategies have been effectively implemented.

A key measure we will use is that:

- our risk mitigation actions for 2005-06 are substantially implemented (90%).

#### *Strategic risk 2*

We will measure how we have managed/mitigated the risk of “not maintaining our credibility and reputation” by assessing whether there has been any damage – real or perceived – to the credibility and/or reputation of the Office.

Key measures we will use are:

- there are no instances where our credibility/reputation is badly damaged or litigation action is taken against the Office.
- sample stakeholders’ assessment of perceptions of the Office’s credibility and reputation.

#### *Strategic risk 3*

We will measure how we have managed/mitigated the risk of “not meeting our stakeholders’ expectations” by assessing whether our stakeholders perceive that we add value, are timely, and are relevant.

A key measure we will use is:

- sample stakeholders’ assessment of the value we add, our timeliness, and our relevance.



### *Strategic risk 4*

We will measure how we have managed/mitigated the risk of “not maintaining and building our capability” by assessing the Office’s ability to attract and retain suitably qualified staff, and to maintain its investment in their development.

This will be covered by our capability measures (see pages 31-33).

### *Strategic risk 5*

We will measure how we have managed/mitigated the risk of “failure to successfully implement our 5-year Strategic Plan” by assessing the extent of implementation of our Strategic Plan activities.

A key measure we will use is that:

- implementation of our Strategic Plan is substantially on target (90%).

### *Strategic risk 6*

We will measure how we have managed/mitigated the risk of “not maintaining our independence” by assessing whether there have been any failures of independence by the Office – including breaches of the Auditor-General’s auditing standard on independence by his employees and agents.

Key measures we will use are:

- there are no breaches of the Auditor-General’s auditing standard on independence or, if any breaches are identified, they are resolved promptly; and
- Independence Declarations for all OAG and Audit NZ staff are completed every 6 months.

### **Our proposed measures for governance in 2005-06**

We noted on page 56 of our *Annual Report 2003-04* that –

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

The Office has been a strong advocate for stronger reporting and measurement of governance.

During 2005-06 we intend to develop measures to assess the quality, adequacy, effectiveness, and appropriateness of our governance framework. We will report on our progress to develop these governance measures.

# Part Two

# WORK PROGRAMME

# 2

## Introduction

The following description of our proposed work programme for 2005-06 includes:

- core work of the Office, and major changes which may affect our delivery of this core work;
- discretionary work (performance audits and studies) the Office will undertake during the planning period;
- our proposed research and development, and product development programme for the year;
- how the Office intends to act on its Strategic Plan initiatives during the term of the planning period (our “management actions”); and
- other contributions the Office will make towards better public sector administration.

By providing this depth of information, we aim to assist Parliament to better understand the work of the Office, and to provide a basis for greater accountability for the achievement of our Strategic Plan.

## Core work of the Office

The core work of the Office is in 3 key areas, known as our “Output Classes”. They cover:

- reports and advice arising from the exercise of the function of legislative auditor;
- Controller function and appropriation audit; and
- provision of audit and assurance services.

## *Assurance products and services*

There are 10 core assurance products and services that contribute to these output classes. They are:

- **Annual audits**

The majority of our work and effort relates to the conduct of annual audits of the financial reports of public entities. We carry out about 4000 audits each year. During 2005-06, the major changes to annual audits will come from the implementation of LTCCPs, NZ IFRS, ISA and the PFAA. The significance of these changes is discussed on page 12.

- **Controller function and appropriation audit**

The function of Controller and the audit of appropriations are concerned with providing independent assurance to Parliament that expenses or capital expenditure of departments and Offices of Parliament have been incurred (or public money spent) within the scope, amount and period of the appropriation or other statutory authority, and are for lawful purposes. There have been some changes to the Controller function and appropriation audits arising from the PFAA that we will implement in 2005-06. Primarily, the Auditor-General will no longer certify warrants and Controller statements. Instead, the Auditor-General will examine monthly statements provided by the Treasury, and provide them to Appointed Auditors for their use in the audit of appropriations.

- **Advice to Parliament**

We report and provide advice to MPs – in Select Committees, or as Ministers, or individual MPs – on the results of audits and inquiries. Mostly this is done through financial reviews and Estimates examinations. We anticipate no major changes to this area of work during 2005-06.

- **Inquiries**

The Office responds to enquiries from taxpayers, ratepayers, or individual MPs on matters that we consider appropriate to investigate. Between 150 and 300 enquiries are received every year. Some – usually between 6 and 10 – become the subject of a major inquiry. Our Strategic Plan noted the increasing complexity and volume of enquiries during the last 5 years, and the significant demands this was placing on the Office. In the past, we dealt with major inquiries by re-prioritising other planned work in the areas of performance audits, research and development, or product development. We received additional funding from Parliament to expressly fund our work in this area. We need to do further work during 2005-06 to improve our timeliness and to manage the additional resources for responding to enquiries.





- **Approvals under the Local Authorities (Members' Interests) Act 1968**  
 The Office is empowered to grant exemptions from the statutory prohibition against local authority members voting on and discussing matters in which they have a pecuniary interest, and to approve extensions of the limits that apply to contracting between a local authority and its members. We respond to about 80 enquiries a year on these matters and other issues relating to administration of the Act. We anticipate no major changes to this area of work in 2005-06.
- **Advice and liaison**  
 Advice and liaison on matters of public sector finance, governance, and accountability with central government agencies, public entities, and other sector groups is an integral part of the Office's involvement and presence in the public sector. The workload in this area continues to grow, 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 accounting and auditing 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 represent the Auditor-General on committees, including the ICANZ Professional Practices Board and Financial Reporting Standards Board, and the National Asset Management Steering Committee. The decision that NZ IFRS will be adopted in the public sector by 2007 has significant implications for the Office.
- **Wider assurance work**  
 Wider assurance work is the audit work undertaken by Audit NZ in response to particular needs of public entities (and accordingly is paid for by them). For example, Audit NZ is often asked to provide independent assurance for tender processes for large or sensitive projects in the public sector. In 2002, we reviewed the consistency of this wider assurance work with the Auditor-General's mandate under the Public Audit Act 2001. Our Strategic Plan confirmed that this wider assurance work forms an important part of the overall level of assurance that we provide to the public sector. It is our intention to ensure that, during 2005-06, this work is more strategically aligned through our Strategic Audit Planning process.

- **Performance audits and studies**

Performance audits and studies are significant audits covering value-for-money or issues of effectiveness and efficiency. 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. In our Strategic Plan, we identified that Parliament was asking us to do more performance audits and studies 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 and studies we do each year from 10 to 21 by 2006.

- **International liaison and involvement**

The Office has had strong involvement with our international counterparts and various working groups. 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 with our Australian counterparts at State and Federal Government level, and are active members of the International Organisation of Supreme Audit Institutions (INTOSAI) working group on environmental auditing. In our Strategic Plan we acknowledged both the value and cost of maintaining this international involvement and liaison. During 2005-06, we intend to keep the level of our involvement at a similar level. However, we will target our efforts to ensure we get the most benefit for the work of the Office as a whole.

### **Our Strategic Audit Planning process**

We undertake a comprehensive process of Strategic Audit Planning (SAP) in order to develop our annual work programme.

This year, we enhanced our SAP process to more fully include the issues and risks that exist in the environment in which we work, and to better use the knowledge and experience of people working in and for the Office. We also sought to use the full range of our assurance responses around the key issues and risks, and to increase the nature and number of our performance audits.



## *Background to the Strategic Audit Planning process*

### **Sector groupings**

To assist in the management of our work, we sort public entities by sector, within 2 broad groups – Parliamentary and Local Government. Entities within the Parliamentary Group are categorised along the same subject lines as Parliamentary Select Committees. Entities within the Local Government Group are organised in a similar way. We give our sector managers responsibility for monitoring all significant activities within their assigned sectors, and for consulting with relevant stakeholders. Audit NZ and other ASPs contracted by the Auditor-General also have sector specialists.

### *The 2004 Strategic Audit Planning process*

This year we piloted enhancements to our SAP process as proposed in our Strategic Plan. This has resulted in significant improvements to the process. During 2005-06, we intend to implement revisions arising from a post-implementation review of our pilot process. The 5 key steps used in our SAP process this year were:

#### **Step 1: Public entity and sector environmental scanning**

Our sector managers reviewed changes and trends in:

- legislation;
- governance and accountability requirements;
- the accounting and auditing profession;
- information and reporting ;
- entity management practices; and
- the broader environment within which public entities operate.

The sector managers then:

- surveyed current and forecast activities by all public entities within each sector;
- formed preliminary views on the key issues and risks, and possible assurance responses; and

- identified what other relevant work is being done, or has been done, by other agencies, and/or what we have already done in respect of those issues and risks or related issues and risks.

### **Step 2: Consultation with Audit Service Providers**

Consistent with our intention to take up opportunities for greater involvement, communication, and knowledge-sharing between people working in and for the Office, a workshop was held with ASPs to review the preliminary issues and risks, and possible assurance responses. This enabled a broader perspective to be considered at an earlier stage. Sector managers undertook further review after this workshop.

### **Step 3: Prioritisation of issues and risks, and proposed assurance responses**

In order to give priority to the most important issues and risks affecting public entities within the Auditor-General's mandate, we identified required actions – the responses to those issues and risks that we must address. The criteria for identifying the required actions were:

- any function that the Auditor-General has a responsibility to undertake under the Public Audit Act 2001;
- any function that the Auditor-General has a responsibility to undertake under other legislation (such as the audit of LTCCPs, and audit performance matters in relation to the Electricity Commission);
- any work that the Auditor-General has publicly committed to undertake, where the factors that gave rise to that commitment are still valid;
- “second-stage” work associated with work that has already started and which must be completed to ensure that value will be achieved through our work;
- any work where there is a clear requirement to update a position that the Auditor-General has previously taken on a matter (for example, updating out-of-date guidance); and
- any work where an exceptional matter has arisen on which the Auditor-General needs to take a position in order to maintain the integrity of the audit opinions that we issue.

We then gave priorities to all remaining actions. The criteria for prioritising were:

- public benefit – the benefit to the public from addressing the issue or carrying out the assurance response;



- performance improvement – the extent to which the performance of the sector concerned could be improved through addressing the issue or carrying out an assurance response;
- significance – the significance of the issue or assurance response (from the aspect of materiality as well as public profile); and
- role fit – the extent to which the issue or assurance response related to our role.

A number of iterations occurred as an integral part of our peer review process.

#### **Step 4: Developing the 3-year programme**

Consideration was then given to the most appropriate phasing and sequencing of assurance responses. This took into account:

- the most effective way to address the key issues and risks, using our full range of assurance responses (see pages 46-47);
- the resource implications of the proposed assurance responses; and
- our current work programme.

From this basis, we drafted a 3-year programme, then the proposed work programme for 2005-06. By using this approach, we were able to give broader consideration to the “best” assurance responses that we could apply to the key issues and risks affecting public entities within the Auditor-General’s mandate.

#### **Step 5: Consultation with Parliament and other stakeholders**

Our *Preliminary Draft Annual Plan* formed the basis for consultation on the Auditor-General’s proposed work programme for 2005-06. On the basis of feedback received, we reviewed and amended our proposed work programme for 2005-06 before completing the statutory *Draft Annual Plan*. There was then a further opportunity for feedback by the Speaker and Select Committees before finalising this *Annual Plan*.

## **Areas of major audit and assurance interest**

The Auditor-General has undertaken to increase the outputs of his Office during the next 3 years. To assist Parliament’s understanding of the context of our proposed annual work programme, we have commenced work on identifying what we consider will be the areas of major audit and assurance interest, and the key issues and risks that will affect public entities within the Auditor-General’s mandate during the next 3 years.

## *Areas of interest*

As part of enhancements to our SAP process, we commenced work to identify areas of major audit and assurance interest that warrant consideration by the Office during the next 3 years. The following is our initial view on these areas. We intend to do further work in 2005-06 to develop these themes. In alphabetical order, these initial areas are:

- Capability – the ability of public entities to achieve the outcomes that they are seeking now and in the future through their people, resources, and systems.
- Financial performance and management – the effective and efficient financial management and performance of public entities.
- Governance/accountability – the suitability of governance and accountability arrangements within public entities.
- Legislative compliance – the extent of compliance by public entities with relevant legislation (both statute and regulation).
- Performance (including waste) – the ability of public entities to deliver operational outputs, and to do so in a manner that applies resources economically and minimises waste.
- Performance reporting – the ability of public entities to respond to changes in reporting requirements and methods.
- Probity (including fraud) – the appropriateness of the actions and behaviours of public entities/officials.

In addition, after more detailed analysis, we have identified key issues and risks affecting public entities at a public-sector-wide level. These are detailed below.

## **Public-sector-wide issues and risks**

We are already undertaking specific research and development projects to progress 3 issues that affect the public sector:

- New Zealand International Financial Reporting Standards (NZ IFRS);
- Long-Term Council Community Plans (LTCCPs); and
- implementation of the Public Finance Amendment Act 2004 (PFAA) and the Crown Entities Act 2004 (CEA).



We identified the following key issues and risks as having a significant effect on the whole of the public sector:

- **Asset and infrastructure management**

Many of our public entities own and operate significant infrastructural assets that are of vital importance to the country, as well as being significant in the financial performance of the relevant entity. Key infrastructural assets have shown signs of stress or have been identified as being at risk. The management and state of assets has therefore been a key focus for our audit work for some years, and remains a key issue and risk.

- **Decision-making and consultation**

In both central and local government, there has been public concern about the extent of analysis and consultation to support major projects, such as capital development projects, or significant decisions. In addition, issues have arisen in local government around business cases for decisions such as land purchases and investments in economic development initiatives, and the extent to which such initiatives are appropriately governed and managed. Legislation requires a number of public entities to undertake consultation as part of decision-making. While there has been no significant change in case law for some years, good practice is evolving and legislation changes have reinforced the public's expectation of greater levels of consultation.

- **Contracting of public services to NGOs**

We have been extensively involved in issues relating to contract and other funding arrangements between Government and non-government organisations (NGOs) since 2000, when a range of issues was raised relating to the Waipareira Trust. The level of scrutiny of NGO contracting has continued to increase. In our 2003 report of an inquiry into the management of funding arrangements with several NGOs connected with Donna Awatere-Huata MP, we outlined some of our expectations of public entities that contract with, or provide funding to, NGOs. This included expectations of how they should ensure proper accountability, transparency, and best use of public money. Since the report was published, we have continued to develop guidance on a "risk-based" approach to managing NGO contracts. The Treasury also published revised *Guidelines for Contracting with Non-Government Organisations for Services Sought by the Crown*.

In addition, in the local government area, we have identified a practice that has involved the use of community groups and "arm's length" trusts to deliver a range of Council/community outcomes, which in some instances involve large assets (such as stadiums).



- **Performance planning and reporting (including sustainable development reporting)**

Our *Annual Plan 2004-05* identified performance planning and reporting as a key strategic risk and issue. A coherent strategy with integrated audit responses based on our 2001 report *Reporting Public Sector Performance* is required to respond to these developments. Auditors also need the requisite tools to audit this information when it falls within the scope of our audit responsibility.

- **Pricing of public services**

Many services provided by public entities are funded by way of charges on the users of the services. In some instances, such charges are governed by specific regulation. In other instances, charges are to be set in accordance with general principles, with legislative compliance issues being raised in respect of both. Levies that incorporate either a “public good” or an economic pricing approach in order to influence the behaviour of users of services (for example, court fees or environmental user charges) fall within the latter category. We published guidelines on setting fees and charges in 1989, and there is a need to update this guidance. There is also a need to consider whether public entities are effectively and appropriately setting charges to give economic signals about the use of services and avoidance of other behaviours.

- **Probity**

The Public Audit Act 2001 provides for the Auditor-General to consider and report on “any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or one or more of its members, office holders, and employees” (referred to below as “probity”). There is increased interest and scrutiny by taxpayers and ratepayers of how public resources are and should be prudently used, and how public officials should behave. Probity has many aspects. It encompasses such matters as the adequate identification and management of conflicts of interest, and the controls in public entities around sensitive expenditure.

## **The range of our assurance responses**

The range of assurance responses that we can use to address the key issues and risks includes:

- **Performance audits** – These are significant audits covering issues of effectiveness, efficiency, compliance, waste, and/or probity. Typically, they take 9-18 months to complete. They provide greater depth and breadth of assurance than can be gained through an annual audit. While performance





audits tend to be one-off, we may conduct similar performance audits of a number of public entities, or over a number of years within the same entity, or we may carry out a follow-up performance audit to assess the extent of progress by an entity or sector in response to our recommendations from an earlier performance audit.

- **Areas of focus or specific work as part of annual audits** – We provide guidance to auditors who carry out annual audits on our behalf through “audit briefs”. In addition, we may require auditors to undertake specific work as part of the annual audit – either generally for all public entities within a sector, or specifically within an entity. In this instance, our auditors may be asked to provide general or entity-specific “returns” on their findings.
- **Reports to Parliament** – Under the Public Audit Act 2001, the Auditor-General is required to report annually to the House of Representatives on matters arising from the exercise of his functions, duties, and powers. This is normally achieved by separate reports for Central Government and Local Government. Articles in these reports can include the results from general or entity-specific returns, and we may also report in more detail on specific issues of concern.
- **“What we expect” studies and best practice guidance** – From time to time, we have published “best practice” guidance on areas of major audit interest, frequently in circumstances where no other published guidance exists.
- **Other** – There are a number of other possible assurance responses that we may choose to address key issues and risks. These may include consultation with relevant central agencies, providing advice on accountability regimes and auditing standards, or the completion of work to further scope an issue and formulate our response. In this document, this category also includes research and development activity. As a result of increased funding from Parliament, we are now able to more pro-actively respond to the changes in our environment and the profession by undertaking research and development, and product development.

## Deploying the full range of our assurance responses around key issues and risks

Our Strategic Plan identified the need for us to apply the full range of our assurance responses to key issues and risks that we consider require attention.

The use of the full range of our assurance responses is called an “integrated audit approach”. Through our SAP process, we have taken a 3-year view of the key issues and risks. This considers such questions as:

- How well defined is our position in relation to the issue or risk? If it is not well defined, we may propose some initial research and development, before the implementation of other assurance responses.
- How aware are our auditors currently of the issue or risk? If there is a low level of awareness, our efforts will be designed to raise the profile of the issue/ risk in the next year (year one).
- Do we currently have enough information on the extent/scale of public entity or sector performance in relation to the issue or risk? If not, a general or entity-specific return may be sought in year one and in the following year (year 2). The results of such returns would then most likely form the basis for an article in a report to Parliament in the following year (year 3). They may also result in more specific advice being provided to Appointed Auditors for the next year’s annual audits.
- Would the issue or risk benefit from more intensive examination through a performance audit? If yes, then this may also involve consideration of whether there should be a single or multiple public entity examination, and/ or a multi-year, rolling programme of performance audits.
- Is adequate guidance available to public entities on the issue or risk? If not, we may initiate a best-practice guide or update existing guidance.



## Proposed performance audits and studies for 2005-06

### *Selection of performance audits for 2005-06*

Developments and issues arising during 2005-06 could influence the actual implementation of these proposed performance audits. It is therefore possible that some of the selected audits may not be started or completed.

A full assessment of each proposed performance audit will be made at the time that the audit is scheduled to begin, and at appropriate intervals as the audit progresses. This assessment will consider the ongoing relevance and timeliness of the proposed performance audit, and how it fits with any unplanned work that may arise as a priority, such as major inquiries.

In the event that we choose not to continue with a proposed performance audit, the Auditor-General may determine alternative performance audit(s) to be carried out. We will report on variations to our proposed performance audit programme as part of our Annual Report.

### *Performance audits to be completed in 2005-06*

The following performance audits will be completed in 2005-06:

- E-government – review progress against objectives and targets.
- Management of heritage collections.
- Housing New Zealand Corporation – property portfolio management.
- Sea container surveillance.
- The Treasury – effectiveness for Māori.
- Health sector IT – progress against the WAVE report.
- Review of the New Zealand Qualifications Authority's quality assurance processes.

(All the performance audits listed above are described in our *Annual Plan 2004-05*.)

- Department of Conservation's land holding and purchasing policies.

(This performance audit is described in our *Annual Plan 2003-04*.)

- Overseas development assistance.
- Review of the Health Funding Package.
- Dwelling burglary – follow-up performance audit.
- Economic development funding (West Coast).
- Ministry of Defence – major acquisition projects.
- New Zealand Debt Management Office – Treasury management policies and practices.
- Resource Management Act 1991 consultation relating to major Crown capital developments.
- School property maintenance – follow-up performance audit.
- Annual performance audit of a selected grant programme.

(The performance audits listed above are described on pages 51-56).

### *Proposed performance audits to start in 2005-06*

We have identified a range of performance audits to start in 2005-06, as listed below. The final number will depend on resource allocation and the number of projects finalised in 2004-05.

- Prisoner mental health treatment.
- Youth at risk.
- Primary health care.

(The performance audits listed above are described in our *Annual Plan 2004-05*).

- Annual performance audit of a selected grant programme.
- Call centres.
- Combating immigration fraud.
- Disasters – the maintenance and capacity of flood protection assets.
- Local authority decision-making.
- Management of diabetes.
- Management of employee fraud.
- Ministry of Social Development – debt collection.



- Revitalisation of Te Reo Māori.
- Transit New Zealand – State highway maintenance.
- Sustainable development – implementation of the Programme of Action.

(The performance audits listed above are described on pages 56-62).

### *“What we expect” studies and best practice guidance in 2005-06*

We plan to produce 4 guidance reports that set out our views on how we expect public entities to act in certain circumstances. They are:

- Procurement guidelines update.
- Rates postponement – reverse mortgages.
- Sensitive expenditure guidelines.
- Contracting of public services to non-government organisations (NGOs).

(The studies listed above are described on pages 62-64).

## **Descriptions of proposed performance audits and other reports for 2005-06**

On the following pages, we describe in more detail the proposed performance audits and reports that have been added to our work programme since those outlined in our *Annual Plan 2004-05*.<sup>2</sup>

### *Overseas development assistance*

#### **Background**

NZAID is the agency responsible for international assistance to developing countries. It was created on 1 July 2002 after a consultant’s review recommended that aid should have a more distinct identity, separate from the Ministry of Foreign Affairs and Trade (MFAT). NZAID’s main focus is on the Pacific region, but it also supports projects in Asia, Africa, and Latin America. In 2004-05, the agency will distribute about \$259 million.

<sup>2</sup> Parliamentary paper B.28AP(04), pages 53-59.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would assess how well NZAID administers 2 or 3 overseas development programmes, and might also assess how well NZAID monitors the effectiveness of the programmes. The audit would provide Parliament with assurance about how effectively NZAID is administering the overseas development programme. A briefing would be offered to the Foreign Affairs, Defence and Trade Committee.

### *Review of the Health Funding Package*

#### **Background**

In February 2002, the Minister of Health announced that, for each of the next 3 years, \$400 million would be added to the health-funding baseline. This represented a significant increase, and allowed District Health Boards to have certainty of funding for a 3-year period. However, there has been uncertainty about where the additional funds have been spent. In part, this uncertainty flows from the complicated nature of the Vote: Health.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would clarify the uncertainty by describing in detail where and how the additional funds have been allocated. The audit would aim to provide detailed information to both Parliament and the public about how the additional funding has been allocated. However, it would not try to determine whether the additional funding has led to improved health outcomes. The Health Committee would be offered a briefing on our report.

### *Dwelling burglary – follow-up performance audit*

#### **Background**

Burglary accounts for about 1 in 10 of all recorded offences. Fear of being burgled ranks high, and many people consider that burglary is a specific problem in their area. The Police have responded to public concerns by making reduction of burglary an operational priority, and by undertaking special initiatives to improve the management and investigation of burglary. In 2001, we reported the results of our performance audit *The Police: Dealing with Dwelling Burglary*. During consultation for our *Annual Plan 2004-05*, MPs asked us to follow-up our 2001 report.



## What is the potential impact of this performance audit?

Our proposed follow-up performance audit would review specific actions by the Police in response to our recommendations in 2001. The audit would provide assurance to Parliament about whether there have been improvements in the management of dwelling burglary since our 2001 report. The Law and Order Committee would be offered a briefing.

## *Economic development funding (West Coast)*

### Background

The West Coast received substantial funding in compensation for lost revenue from a ban on native forest logging. The West Coast community had expectations of substantial benefit. However, there have been at least 2 high-profile failures associated with the subsequent use of this funding. The Auditor-General has been involved in an extensive inquiry arising from the financial collapse of a plastics factory, but declined to review the failed sock factory initiative. We are concerned that, while there has been high-profile publicity of the failure of particular initiatives, there is no overview of how the economic development funding has been invested and applied.

## What is the potential impact of this performance audit?

Our proposed performance audit would examine how the West Coast economic development funding has been invested and applied. The audit would take a region-wide and long-term view of the custodianship and use of the funding, and would aim to provide assurance to Parliament on whether the funding has been governed and managed appropriately. The Local Government and Environment Committee would be offered a briefing on the outcomes of our audit.

## *Ministry of Defence – major acquisition projects*

### Background

Acquisition projects managed by the Ministry of Defence (MoD) are complex. The total value of such projects currently under way is about \$2 billion. In 2001, we reported on the acquisition of Light Armoured Vehicles (LAVs) and Light Operational Vehicles (LOVs). In that report, we made recommendations for

improvements. In early 2005, we reported on a follow-up audit of the LAV project. Given the size and scale of these projects, we continue to maintain an interest in this area.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine recent major acquisition projects of the MoD, and assess performance against the cost estimates, timetables, and technical requirements that were approved by Cabinet. The audit would aim to provide assurance to Parliament on how effectively the MoD is managing its acquisition projects, and would identify any significant variations from what was approved by Cabinet and the reasons for these variations. The Foreign Affairs, Defence and Trade Committee would be offered a briefing on the outcomes of our audit. Depending on the findings, future performance audit work on specific acquisition projects may be appropriate. (The UK National Audit Office carries out this type of audit annually, and we may consider a similar approach).

## *NZ Debt Management Office – Treasury management policies and practices*

### **Background**

The New Zealand Debt Management Office (NZDMO) is responsible for the efficient management of the Crown's debt and associated assets within an appropriate portfolio and risk management framework. In 1994, we carried out an audit of the NZDMO, focusing on the management and control environment, and on the procedures for managing the Crown's debt portfolio. Some submissions to the Finance and Expenditure Committee for the Public Finance (State Sector Management) Bill queried, in particular, whether there were sufficient controls in place around the NZDMO's financial market activities, and raised concerns about off-balance-sheet financing arrangements.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine whether the NZDMO is carrying out its role and responsibilities effectively and efficiently, and assess the control environment and controls in place in relation to NZDMO activities. The audit would aim to provide assurance to Parliament on how well the NZDMO is operating. The audit would be part of an integrated audit





approach to “Treasury management policies and practices, and use of derivative instruments”.

### *Resource Management Act 1991 – consultation relating to major Crown capital developments*

#### **Background**

There is a high risk of inefficient public spending and/or legal action if consultation about capital works is mishandled. This issue arose partly in response to complaints about \$1.5 million of consultation costs incurred by the Department for Corrections in regard to Spring Hill prison. Such issues are likely to arise for any government departments wishing to undertake substantive capital works, so this audit is highly desirable.

#### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine consultation with parties affected by Crown capital works. We would be seeking to raise the level of understanding of effective and efficient consultation processes that achieve positive and defensible outcomes. The relevant Select Committee(s) would be offered a briefing on the outcomes of our audit.

### *School property maintenance – follow-up performance audit*

#### **Background**

In August 2001, we published a performance audit report on management of the school property portfolio by the Ministry of Education (MOE). In our 2001 report, we identified concerns around the MOE’s monitoring of the use of the portion of the operational grant funding for property maintenance purposes to adequately maintain the Crown-owned property used by schools. Given the size of the school property portfolio (it is valued in excess of \$7.5 billion for land and improvements, and represents a significant asset in the Crown balance sheet), we continue to have an interest in this area.

### **What is the potential impact of this performance audit?**

We propose a follow-up performance audit to examine the extent to which the recommendations of our 2001 report have been addressed by the MOE, in the context of the current capital funding and planning framework. The audit would aim to provide assurance to Parliament about how effectively this asset is being managed by the MOE. The Education and Science Committee would be offered a briefing on the outcomes of our performance audit.

### *Annual performance audit of a selected grant programme*

#### **Background**

Our 2004-05 performance audit of New Zealand Trade and Enterprise (NZTE) identified significant deficiencies in how NZTE manages some grant programmes. It is likely that such deficiencies are not limited to NZTE. During the next 3 years, we intend to carry out a series of performance audits of selected grant programmes.

### **What is the potential impact of this performance audit?**

Each performance audit in this series would examine a grant programme that is administered by one or more public entities, to determine whether it is being administered in an effective and efficient manner. Each audit in the series would aim to provide assurance to Parliament on how effectively and efficiently grant programmes are being administered. Each performance audit would also aim to improve the administration of grant programmes by recommending changes to policies and procedures to address any deficiencies identified. The relevant Select Committee(s) would be offered a briefing on the outcomes of our audit. A “what we expect” study or best-practice guide may also be developed in the future.

### *Call centres*

#### **Background**

Government departments are increasingly using call centres as mechanisms for communicating with citizens. Performance against measures, such as response times and percentage of lost calls, varies between organisations. Similarly, technology platforms vary, as do controls over the quality of information provided by call centre operators.



## What is the potential impact of this performance audit?

Our proposed performance audit would examine the performance of selected call centres against best-practice criteria. The audit would aim to provide assurance to Parliament about how effective and efficient call centres are in servicing customers' needs. The audit would aim to improve the performance of Government departments that use call centres, by sharing good practice, and encouraging opportunities for increased efficiencies through greater co-ordination between departments. The relevant Select Committee(s) would be offered a briefing.

### *Combating immigration fraud*

#### **Background**

In 2003-04, immigration fraud detected by the New Zealand Immigration Service (NZIS) increased significantly. Immigration fraud worldwide accounts for a profit of US\$10 billion a year, second only to narcotics and arms dealing. Our appointed auditor has observed an increase in allegations of wrongdoing by NZIS staff at the NZIS's overseas branches during the past 2 years. A number of these allegations have been proven.

## What is the potential impact of this performance audit?

Our proposed performance audit would assess the immigration fraud detection and prevention processes of the NZIS. The audit would aim to provide assurance to Parliament about how effectively the NZIS manages the risk of immigration fraud. The audit would also aim to improve the effectiveness and efficiency of NZIS's management of immigration fraud risks. The Transport and Industrial Relations Committee would be offered a briefing.

### *Disasters – maintenance and capacity of flood protection assets*

#### **Background**

Two significant civil emergencies – both floods – occurred within 6 months in 2004. These emergencies stretched existing flood protection schemes, and community and national response capabilities. The affected communities are still coping with flow-on effects. There has also been some criticism of Regional

Council flood protection schemes and their ability to protect local communities. There is high public and community awareness of the 2004 floods, and a clear expectation that relevant local authorities will maintain adequate flood protection schemes. In a 1998 report to Parliament, we raised concerns about local authorities in relation to the management of flood protection assets.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would review the site management practices of relevant local authorities, asset management practices for flood-related assets, and procedures when floods occur. The audit would assess the effectiveness of flood protection assets associated with the 2004 floods, and would aim to improve the management of such assets by local authorities. The Local Government and Environment Committee would be offered a briefing.

### *Local authority decision-making*

#### **Background**

The Local Government Act 2002 (the Act) provides principle-based decision-making obligations that local authorities are endeavouring to understand and embed into management processes. Local authorities face risks if their decisions can be shown to be unreasonable or if due process has not been observed. After the Act was passed in 2002, it was followed by a series of high-level guidance material produced by sector organisations and the Department of Internal Affairs. A need for more specific advice has emerged as local authorities have developed more experience in implementing the Act. We have dealt with a number of complex ratepayer enquiries in regard to local authorities' decision-making obligations, and consider that we now have sufficient experience to distil and reflect good practice emerging from the sector.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would aim to provide advice to local authorities on their principle-based decision-making obligations. The Local Government and Environment Committee would be offered a briefing on the outcomes of our audit.



## *Management of diabetes*

### **Background**

There is an increased incidence of diabetes in New Zealand – in particular, Type 2 or so-called “adult-onset” diabetes. Improved diabetes management is a key focus for the health sector, and for primary health care, as one of the 7 key service priorities of the Ministry of Health for 2003-04. The Ministry implemented an annual review programme (commonly referred to as “Get Checked”) in mid-2000. The “Get Checked” programme is a major initiative that aims to monitor and continuously improve both the care of, and outcomes for, people with diabetes. Failure of this programme has the potential for expensive consequences.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine the effectiveness of the “Get Checked” programme in terms of ongoing management and impact evaluation. The audit would provide assurance to Parliament about the performance of a major diabetes identification and control initiative. The Health Committee would be offered a briefing on the outcomes of our audit.

## *Management of employee fraud*

### **Background**

In 2000, we surveyed 43 government departments to see whether they had policies and procedures for minimising the likelihood of employee fraud, and to assess how they had dealt with cases that had occurred. Fewer than half of the departments had formal policies for managing fraud. On completion of our survey in 2000, we said that we would maintain our interest in this area. In addition, the recent developments in auditing standards internationally and in New Zealand show that greater responsibilities will be placed on auditors in relation to considering fraud in audits of financial statements.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine and assess the fraud control arrangements in place within government departments, to identify if any improvements have been made since 2000. Alternatively, we could look more broadly at arrangements throughout the public sector or selected “at-risk” sectors/entities. The audit would raise the profile of fraud management in the public sector, with a view to improving performance and practice in this area. The performance audit would be part of an integrated audit approach to the key issue/risk of fraud, including 2 other proposed performance audits (immigration fraud in 2005-06, and benefit fraud in 2006-07), potential for a best-practice guide on fraud management, and updating our auditing standard on probity.

### *Ministry of Social Development – debt collection*

#### **Background**

The Specialist Services Unit within the Ministry of Social Development (MSD) carries out debt-collection relating to people who no longer receive a social security benefit or student allowance. A total of \$19 million was appropriated in 2003-04 for this work. As at 30 June 2004, the value of non-current beneficiary debt was \$448 million. About \$78 million was collected in 2003-04 and \$94 million was written off. The MSD’s primary focus is debt prevention. However, when debts arise, the MSD uses strategies to increase collection, while ensuring that repayments do not cause undue hardship or jeopardise an individual’s ability to stay in employment.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would assess MSD’s debt-management systems, policies, processes, and procedures. The audit would be the second in a series of 3 performance audits focusing on public sector debt collection (Ministry of Justice: Fines Collection will be completed in 2004-05, and Inland Revenue: Taxpayer Debt is proposed for 2007-08). The audit would aim to provide assurance to Parliament about whether the MSD is collecting beneficiary debt in an effective and efficient manner. It would also aim to recommend ways to improve the MSD’s debt-collection systems, policies, and procedures. The Social Services Committee would be offered a briefing on the outcomes of our performance audit.



## *Revitalisation of Te Reo Māori*

### **Background**

The Government is committed to supporting revitalisation of the Māori language, and released a revised Māori Language Strategy in 2003. Several government departments have been involved in development of the strategy, and are responsible for delivering specific support functions. Te Puni Kōkiri monitors implementation of the strategy. The Government invests several million dollars a year through a range of Votes to meet its Treaty obligations to assist with the revitalisation of Te Reo Māori. There is a risk that efforts are not being well co-ordinated or targeted, and that funds are not being used efficiently.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would examine the extent of co-ordination between contributing departments in response to the Crown's obligations to revitalise the Māori language. The audit would provide assurance to Parliament about the prudent and effective use of taxpayer funds in relation to the revitalisation of Te Reo Māori, and would seek to improve co-ordination of the implementation of the Māori Language Strategy. The Māori Affairs Committee would be offered a briefing on the outcomes of our performance audit.

## *Transit New Zealand – State highway maintenance*

### **Background**

Transit NZ spends more than \$300 million a year on maintaining State highways and motorways. The State highway network is one of the largest assets owned by the Crown, with a depreciated replacement cost of more than \$13 billion. Transit NZ's reporting indicates that the condition of the network is stable (that is, maintenance balances out deterioration). However, it is not clear how efficiently Transit NZ maintains State highways.

### **What is the potential impact of this performance audit?**

Our proposed performance audit would look at how efficiently Transit NZ maintains State highways, and to what extent it follows best practice in asset management and contract management. The audit would provide assurance to Parliament about whether Transit NZ is maintaining State highways in an



effective and efficient manner. The Transport and Industrial Relations Committee would be offered a briefing. We are also proposing a performance audit in 2006-07 on the effectiveness of collaboration between local authorities and Transit NZ in the management of roads.

### *Sustainable development – implementation of the Programme of Action*

#### **Background**

In 2002, an international working group of Auditors-General promoted audits of government responses to the Johannesburg World Summit on Sustainable Development. New Zealand's Programme of Action for the world summit involves a whole-of-government approach in 4 work areas – water, energy, sustainable cities, and child and youth development. New Zealand's performance in relation to the Programme of Action is unclear.

#### **What is the potential impact of this performance audit?**

Our proposed performance audit would assess the effectiveness of the response to the Programme of Action by looking at selected aspects of the Programme. There may be opportunities to collaborate with government agencies on the audit. The relevant Committees would be briefed, and we would also look for ways to promote the audit's findings to government agencies and internationally.

### **“What we expect” studies and best-practice guidance in 2005-06**

#### *Procurement guidelines update*

#### **Background**

Our procurement guidance requires updating to deal with general procurement issues and to clarify its application to Local Government procurement decisions. We are aware that there are other sources of procurement guidance, and that some issues that we have considered in inquiries (such as sole-source procurement) have not yet been included in our guidance.





## What is the potential impact of this study?

Our proposed study would update the Auditor-General's procurement guidance. Through this study, we would maintain the relevance of our published guidelines to current practice, and ensure that the guidelines are applicable to circumstances faced in both Central and Local Government. This would assist in improving the management of procurement activities in public entities. The relevant Select Committee(s) would be offered a briefing.

### *Rates postponement – reverse mortgages*

#### Background

A small number of local authorities are providing rates postponements as reverse mortgages. This is a new initiative made possible by the postponement powers under the Local Government (Rating) Act 2002. Legislative, accounting, debt management, and financial prudence issues need to be considered for such initiatives.

## What is the potential impact of this study?

Our proposed study would identify the extent to which this option of rates payment is being taken up by ratepayers in the early stages of such schemes, and assess compliance with appropriate statutory responsibilities. It would also address arrangements for prudent management of the potential impacts on local authorities. The study would seek to improve the management of reverse mortgages. The Local Government and Environment Committee would be offered a briefing.

### *Sensitive expenditure guidelines*

#### Background

In 1996, the Institute of Internal Auditors of New Zealand published *A Management Guide to Discretionary Expenditure*. The document set out some principles on how organisations should deal with items of sensitive expenditure. Since that time, we have been asked to inquire into and report on a number of specific examples of sensitive expenditure. We consider that more guidance on sensitive expenditure is timely. We intend to publish clear guidance about key sensitive expenditure items. The guidance would establish our expectations for use by all public entities, as well as auditors of all public entities.

### What is the potential impact of this study?

The guidelines will contribute to the wise use of public money by setting definite expectations for public entities to apply to items of sensitive expenditure. We would seek to distribute the guidelines widely among public sector organisations.

### *Contracting of public services to NGOs*

#### Background

We have been involved in issues relating to NGO contracting since 2000. In our 2003 report on funding of organisations associated with Donna Awatere Huata MP, we outlined some of our expectations of how public entities that contract with, or provide funding to, NGOs should ensure proper accountability, transparency, and best use of public money. The report has been used as a best-practice guide, although it was not written for this purpose.

### What is the potential impact of this study?

Our proposed study would develop best-practice guidance (audit expectations) on contract and other funding arrangements between Government and non-government organisations (NGOs). The study would clarify our expectations in relation to the monitoring and evaluation of public entities' contracts with NGOs for service delivery. This would allow us to audit against these expectations in future annual audit and performance audits. We plan an integrated audit approach, including additional assurance responses, such as research and development in 2005-06 on specific work for annual audits, and a series of performance audits, starting in 2006-07, to examine different agencies' management of NGO contracting arrangements.

### Proposed research and development programme for 2005-06

In our Strategic Plan, we undertook to include our proposed research and development programme as part of our *Annual Plan*. For 2005-06, we will continue our existing research and development programme activities in relation to NZ IFRS, LTCCPs, the PFAA and CEA, and ISA. In addition, we propose the following areas for research and development:



- Legal compliance issues.
- NGO contracting – clarification of ongoing annual audit requirements.
- Probity – development of ongoing annual audit requirements.
- Five management aspects.

## *Legal compliance issues*

### **Background**

In relation to Local Government, our standard on assessing compliance with laws and regulations (Auditing Standard AG-208) does not adequately provide auditors with guidance on how to assess the reasonableness of a local authority's actions and extent of compliance under the principle-based approach of the Local Government Act 2002.

### **Proposed research and development**

We propose to update Auditing Standard AG-208 based on work done as part of our research and development programme for 2005-06.

## *Contracting of public services to NGOs*

### **Background**

We have specific concerns in relation to contracting of public services to NGOs (see page 45).

### **Proposed research and development**

We propose to establish, through research and development, the specific annual audit work that we need to carry out on contracting of public services to NGOs, and to roll out the outcomes of that work in subsequent years.

## *Probity*

### **Background**

We have specific concerns in relation to probity (see page 46).

### **Proposed research and development**

We propose to establish, through research and development, the specific annual audit work that we need to carry out on performance, waste, and probity. This will include updating of Auditing Standard AG-3. In 2006-07, we propose to roll out the outcomes of that work in our annual audits.

## *Five management aspects*

### **Background**

In the course of carrying out annual audits, our auditors make assessments of how entities are performing in respect of 5 aspects of financial and service performance management. Select Committees perceive our assessments of the 5 management aspects as having high value. We need to refresh the 5 management aspects, and consider the possibility of applying them in other sectors in the future. A revised rating system also presents an opportunity to reinforce and complement other research and development, and product development initiatives.

### **Proposed research and development**

We propose to carry out a fundamental review of the 5 management aspects, and to develop the audit approach and guidance for auditors for our revised 5 management aspects.

## **Feedback from Parliamentary consultation**

Under section 36(1) of the Public Audit Act 2001, our proposed work programme is subject to Parliamentary consultation. This is an important way in which the Auditor-General can continue to ensure that his work remains relevant and responsive.



We sought feedback on two occasions – once on a preliminary early draft and again on the statutory *Draft Annual Plan*. This feedback:

- largely supported the priority and ranking of proposed studies; and
- provided us with guidance as to the scope and relative emphases we should place on many of our proposed studies.

We thank Parliament for this feedback, and will ensure that it is incorporated into our scoping of the respective studies.

Having regard to the requirements of section 36(3) of the Public Audit Act, we acknowledge that the Finance and Expenditure Committee provided a written response to the statutory *Draft Annual Plan*, and note that neither the Speaker nor any committee of the House requested any change to our work programme priorities.

## Proposed management actions for 2005-06

### Implementing our Strategic Plan

The OPC approved the Auditor-General's 5-year Strategic Plan in 2004. In this *Annual Plan*, we have outlined our strategy to better respond to our stakeholders' needs and the changes in our environment.

In our *Annual Plan 2004-05*, we undertook to include, as part of our proposed annual work programme, a section on Strategic Plan activities to be implemented during the planning period. This is intended to provide the OPC and Parliament with greater detail on how we will use the additional baseline funding that we received to achieve our outcomes. Below, we outline the specific actions we will take in 2005-06 to implement our Strategic Plan.

#### Background

The Office received the first stage of additional Parliamentary baseline funding on 1 July 2004. This has been used to implement the first phase of our Strategic Plan.

During 2004-05, this phase has involved "building the infrastructure" to support the achievement of our Strategic Plan. This has included:

- establishing clear governance and accountability for our Strategic Plan;
- putting in place the mechanisms, processes, and systems to support implementation of our Strategic Plan;
- increasing our resources and capacity in areas where funding has been received;
- looking for ways to maximise efforts across the Office;
- enhancing our capabilities;
- continuing to work together in ways that encourage innovation and collaborative working; and
- delivering what we have committed to.

On 1 July 2005, the Office will receive the second stage of additional parliamentary baseline funding. The emphasis for this second phase of implementation of our Strategic Plan in 2005-06 is to be on "development – of our people, and our products and services".



## Summary of management actions for 2005-06

Throughout this *Annual Plan*, we have identified specific management actions that we propose to take during 2005-06. These have also been integrated into our risk management framework as the “mitigating actions or enhancements to existing strategies” that we intend to implement during the coming year. During 2005-06, we propose to:

### *Develop our people*

- implement Leadership Development initiatives for senior staff within the Office (for example, individual development plans and specific leadership development learning interventions);
- design and implement a technical/professional development programme for performance auditors; and
- devise a strategy for difficult-to-recruit positions, including the consideration of options to extend or rotate existing staff and encourage secondments from overseas.

### *Develop our products and services*

- review our professional methodologies for performance audits and Audit NZ's annual audits;
- implement the outcomes from our review of quality assurance over all our products; and
- implement revisions arising from a review of our enhanced SAP process.

### *Other*

- review the linkages between our Strategic Plan, performance management, and remuneration;
- review the application of our agreed risk management processes, and clarify management accountabilities for risk management;
- complete the implementation of our agreed impact evaluation process for performance audits;
- develop an evaluation framework to assess the impact of the implementation of our Strategic Plan;

- complete the implementation of our stakeholder feedback study;
- develop measures to assess the quality, adequacy, effectiveness, and appropriateness of our governance framework;
- develop a legislative compliance framework for the Office; and
- continue to implement our 5-year Information Systems Technology Plan.

## Other contributions to better public sector administration

### Other contributions we will make during 2005-06

The Office plays an important role in enhancing accountability, and in the development of professional and technical standards for accounting and auditing.

It does this through:

- commenting and making submissions on draft legislation, within our particular expertise and knowledge;
- making senior staff available for membership on committees of ICANZ – including the Professional Practices Board and the Financial Reporting Standards Board;
- considering and making submissions on proposed New Zealand and, where appropriate, international financial reporting, auditing, and ethical standards;
- participating in committees and working groups of public sector auditing bodies – such as INTOSAI and the Australasian Council of Auditors-General (ACAG);
- liaising with the Auditor-General’s appointed auditors (including those in private practice) on accounting, auditing, and policy developments; and
- liaising with, and assisting, government agencies and others (including the Treasury, the State Services Commission and the Society of Local Government Managers) on public sector accountability and reporting issues.

We intend to continue our contribution in all these areas during 2005-06.





# Part Three

## FORECAST FINANCIAL STATEMENTS for 2005-06

# 3

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## Introduction

The Auditor-General's forecast financial statements have been prepared in accordance with sections 41(1) and 45F of the Public Finance Act 1989, and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate parliamentary consideration of the appropriations for, and planned performance of, the Auditor-General. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented here and that the variations may be material.

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

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

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

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



## Statement of Significant Underlying Assumptions

The forecast financial statements on pages 72-98 have been compiled on the basis of existing Government policies and after consultation by the Auditor-General with the Speaker and the Officers of Parliament Committee. The main assumptions are that:

- The Auditor-General's *portfolio of entities* will remain substantially the same as for the previous year.
- The Auditor-General will continue to deliver the *range of assurance products and services* currently provided and will also be positioned to deliver new products, or existing products in new ways, to cope with changing demands.
- The scale of *annual audits* will remain substantially the same.
- The Auditor-General will for the first time in 2005-06 conduct an audit of Long-Term Council Community Plans, which will require materially increased resources, particularly in this first year.
- The activity involved in performance audits and special reports will increase permanently this year from 17 audits to 21, requiring a substantial increase in resources.
- The balance of activity associated with *advice to Parliament and others, and inquiries* will continue to be variable because of increases in demand and the effects of the Public Audit Act 2001.
- The Auditor-General will continue to utilise audit expertise from both Audit New Zealand and the private sector.

These assumptions are adopted as at 11 April 2005.

## Statement of Forecast Service Performance for Output Class D1

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

#### Description

**Output Class D1 includes the following products and services of the Auditor-General:**

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

Development of a written history of the Audit Office.

The products and services contained in this class of outputs are either demand-driven (e.g. enquiries or advice to Select Committees), or are subject to the discretion of the Auditor-General as to the particular audit undertaken and reported (e.g. performance audits). Given the discretionary element in this class of outputs, we have provided additional detail in our Proposed Work Programme (see Part Two on pages 37-70).



## Planned Activities and Costs

THREE

### Reports to Parliament and Other Constituencies

\$000

Results of annual audits:

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

Results of programmed performance audits and special studies (see pages 49-64 for more detail).

Matters arising from unprogrammed inquiries initiated in response to particular concerns brought to the attention of the Auditor-General during 2005-06.

5,712

### Reports and Advice to Select Committees<sup>3</sup>/Ministers

\$000

Advice to Select Committees/Ministers to assist their financial reviews of:

- Government departments and Offices of Parliament
- State-owned enterprises and Crown entities
- Reports to portfolio Ministers on the results of annual financial report audits.

Advice to Select Committees to assist their examination of the Estimates.

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

770

<sup>3</sup> The extent and cost of these activities is largely determined by the demands made by Select Committees.

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

\$000

Acknowledgement, investigation<sup>4</sup> and reporting the results of enquiries directed to the Auditor-General by:

- Taxpayers
- Ratepayers
- Members of Parliament.

1,200

### Advice to Government Bodies and Other Agencies

\$000

Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including<sup>5</sup>:

- Central agencies
- Government departments, local authorities, and other public entities
- Professional bodies, such as the Institute of Chartered Accountants of New Zealand
- Sector organisations, such as Local Government New Zealand and the Society of Local Government Managers
- Foreign delegations
- Other audit institutions and related organisations, such as INTOSAI.

770

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

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



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

\$000

Responding to specific requests in relation to the Auditor-General's powers to:<sup>6</sup>

- Approve increased limits for contract payments
- Grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest
- Consider alleged breaches of the Act.

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 80

### History of the Audit Office

\$000

Development of a written history of the Audit Office in conjunction with the Ministry for Culture and Heritage.

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 55

<sup>6</sup> This activity is demand-driven. The nature and extent of the activity is determined by the number and complexity of the requests made to the Auditor-General.

### Performance Measures and Targets

Output	Quantity <sup>7</sup>	Cost \$000	Timeliness <sup>8</sup>	Quality
<p>1. Reports to Parliament and other constituencies, comprising results of:</p> <ul style="list-style-type: none"> <li>• annual audits</li> <li>• performance audits and special studies</li> <li>• inquiries</li> <li>• other activities.</li> </ul>	<p>We expect to deliver at least:</p> <ul style="list-style-type: none"> <li>• 2 reports on the results of annual audits.</li> <li>• 19 to 21 reports covering performance audits or special studies, and inquiries.</li> </ul> <p>Performance auditors will spend a minimum of 20,500 hours undertaking performance audits.</p>	5,712	<p>All reports will be provided within the deadlines agreed in the:</p> <ul style="list-style-type: none"> <li>• terms of reference for enquiries where applicable;</li> <li>• performance audit plans.</li> </ul>	<p>We will have an independent review of 2 performance audits and special studies.</p> <p>We will conduct a study covering a range of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice.</p>
<p>2. Reports and advice to Select Committees/Ministers, comprising:</p> <ul style="list-style-type: none"> <li>• financial reviews</li> <li>• Estimates examinations</li> <li>• reports to portfolio Ministers on the results of annual financial report audits</li> <li>• other reports.</li> </ul>	<p>We expect to deliver:</p> <ul style="list-style-type: none"> <li>80-90 reports</li> <li>40-50 reports</li> <li>120-130 reports</li> <li>20-30 reports</li> </ul>	770	<p>All reports will be provided:</p> <ul style="list-style-type: none"> <li>• at least 2 days before an examination, unless otherwise agreed with a Committee.</li> <li>• to Ministers before Select Committee scrutiny of departmental and Crown entity performance.</li> <li>• according to the terms of reference for other reports.</li> </ul>	

<sup>7</sup> The quantity of reports and enquiries handled, and their consequent cost, are largely demand-driven. Accordingly, these figures have been estimated based on past experience.

<sup>8</sup> "Working days" are as defined in the Official Information Act 1982.



## FORECAST FINANCIAL STATEMENTS FOR 2005-06



Output	Quantity <sup>7</sup>	Cost \$'000	Timeliness <sup>8</sup>	Quality
3. Responses to enquiries from: <ul style="list-style-type: none"> <li>• taxpayers</li> <li>• ratepayers</li> <li>• Members of Parliament.</li> </ul>	60 enquiries 180 enquiries 30 enquiries	1,200	We will: <ul style="list-style-type: none"> <li>• provide an initial response within 5 working days</li> <li>• complete 80% within 30 working days</li> <li>• advise 100% if the enquiry will take longer than 30 working days.</li> </ul>	
4. Advice to government bodies and other agencies.	We will provide advice on demand	770	We will deliver the advice in accordance with any terms of reference agreed.	
5. Administration of the provisions of the Local Authorities (Members' Interests) Act 1968.	80 enquiries	80	We will: <ul style="list-style-type: none"> <li>• provide an initial response within 5 working days</li> <li>• complete 80% within 30 working days</li> <li>• advise 100% if the enquiry will take longer than 30 working days.</li> </ul>	
6. Audit Office history.	Over the next 3 years we will produce a written history of the Audit Office, in conjunction with the Ministry for Culture and Heritage.	55	The written history will have achieved the agreed project milestone by 30 June 2006.	We will use personnel with the appropriate professional skills, qualifications and experience to undertake the history project.
<b>TOTAL COST</b>		<b>8,587</b>		

THREE

# Statement of Forecast Service Performance for Output Class D2

## The Controller Function

### Description

Output Class D2 relates to the Controller function under sections 65Y to 65ZA of the Public Finance Act 1989 (the Act).

The function of Controller is to provide independent assurance to Parliament that expenses or capital expenditure of departments and offices of Parliament have been incurred (or public money spent) for purposes that are lawful, and within the scope, amount and period of the appropriation or other statutory authority. Where there is reason to believe that a breach of appropriation or unlawful action has occurred or may occur, the Auditor-General has the power to direct the relevant Vote Minister to report to the House of Representatives and/or to stop payments from Crown or departmental bank accounts, as the case may be.

### Performance Measures and Targets

#### Quality

The Auditor-General will, consistent with his powers under the Act and his published auditing standards:

- Examine monthly statements provided by the Treasury to ensure that expenses or capital expenditure have been incurred for purposes that are lawful and within the scope, amount and period of the appropriation or other statutory authority.
- Where there is reason to believe that a breach of appropriation or unlawful action has occurred or may occur:
  - draw the matter to the attention of the Vote Minister;
  - If the matter is not addressed satisfactorily, consider whether to exercise the power to direct the Minister to report to the House of Representatives and/or to stop payments out of the relevant bank account.

#### Quantity

Monthly (12) statements will be obtained from the Treasury showing expenses and capital expenditure incurred with or without appropriation or other statutory authority.



#### Timeliness

- The monthly statements from the Treasury will be reviewed and provided to Appointed Auditors for their use in the audit of appropriations within 5 working days of receipt of the statement.
- Where a breach has occurred or may occur, the relevant Ministers will be informed within 2 days of it being verified.

#### Cost

- The cost will not exceed \$131,000.

## Statement of Forecast Service Performance for Output Class D3

### Provision of Audit and Other Assurance Services

#### Description

This output class relates to the conduct of the annual audits of public entity financial reports.

The Auditor-General is the statutory auditor of approximately 4000 public entities.

These audits are undertaken by either Audit New Zealand or private sector auditors.

Output Class D3 is funded mainly by fees paid by the entities being audited or to which other assurance services are being provided.

Annual audits result in:

#### Audit Reports –

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

#### Management Reports –

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



## Performance Measures and Targets for Output Class D3 – Audit and Other Assurance Services

### Performance Measures and Targets

Group	Total Entities in Group	Estimated Number of Audits in Arrears as at 30/6/05	Planned Audit Completions in 2005-06	Expected Number of Audits in Arrears as at 30/6/06	Timely Issue of Audit Reports Target <sup>9</sup>	Timely Issue of Management Reports Target <sup>10</sup>
Government Departments and Offices of Parliament	45	-	45	-	100%	100%
Major Statutory Bodies <sup>11</sup>	114	5	114	5	100%	100%
Regional, City and District Councils	86	-	86	-	100%	100%
Other Local Authorities <sup>12</sup>	441	25	441	25	100%	100%
School Boards of Trustees	2544	250	2594	200	50%	100%
Miscellaneous Public Bodies <sup>13</sup>	571	80	571	80	75%	100%
Audits for which fees are not directly charged <sup>14</sup>	149	36	185	-	75%	100%
<b>Totals</b>	<b>3950</b>	<b>396</b>	<b>4036</b>	<b>310</b>		

<sup>9</sup> Audits will be completed and audited financial statements available within statutory deadline or within 5 months of balance date.

<sup>10</sup> Management reports and letters will be issued within 6 weeks of the date of audit report.

<sup>11</sup> State-owned Enterprises, Tertiary Education Institutions, Producer Boards, District Health Boards, Crown Research Institutes and major Crown entities.

<sup>12</sup> Licensing Trusts, Airports, LATEs, Energy Companies, Port Companies and Sinking Fund Commissioners.

<sup>13</sup> Mainly Māori Trust Boards, smaller Crown Entities, and subsidiaries of major Crown entities.

<sup>14</sup> Those entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee. These entities include Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees and Patriotic Funds. (From 2004-05, the Crown has funded up to \$190,000 of the cost of these audits.)



## Performance Measures and Targets

(continued)

### *Audits in Arrears*

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

We measure and report the number of audit entities with one or more audits in arrears as at each balance date as well as the total number of audits in arrears.

### *Performance Measures of Quality*

#### **Quality Assurance Reviews**

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

Compliance with these standards is tested by a programme of quality assurance reviews conducted by the Office of the Auditor-General. The programme seeks to review every approved auditor at least once during their 3-year contract period. We intend to review the work of 40-50 auditors during the year, the results of which will be reported in our Annual Report for the year ending 30 June 2006.

#### **Stakeholder Satisfaction**

As the largest audit service provider (ASP), Audit New Zealand independently administered a survey of its clients’ satisfaction with the quality of work completed. We will measure and report on the levels of satisfaction achieved by Audit New Zealand audits.

### Performance Measures of Timeliness

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

We therefore measure:

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

### Performance Measures of Effectiveness

We will report on the trend in types of non-standard audit reports issued up to and including the current year.<sup>15</sup>

### Cost

	\$000
<ul style="list-style-type: none"> <li>• Cost of services for Output Class D3 – Audit and Other Assurance Services</li> </ul>	34,792

15 Non standard audit reports are those where the auditor has:

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



## Statement of Accounting Policies

### Reporting Entity

These are the prospective financial statements of the Auditor-General, prepared in accordance with sections 41(1) and 45F of the Public Finance Act 1989.

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

The 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 Auditor-General).

### Measurement Base

The prospective 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 fees 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 Auditor-General and the Deputy 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.

## 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 cost 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 D3 – Provision of Audit and Other Assurance Services.
- Indirect costs are allocated according to the proportion of direct labour costs 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 leases assets and the corresponding lease liabilities are recognised in the Statement of Prospective 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 leases costs are expensed on a systematic basis over the period of the lease.

## Physical Assets

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

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

## Depreciation

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

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

## Provision for Employee Entitlements

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

## Foreign Currency

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

### *Financial Instruments*

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

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

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

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

### *Income Tax*

The Auditor-General is exempt from the payment of income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

### *Changes In Accounting Policies*

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the annual financial statements of the Auditor-General for the year ended 30 June 2004 as laid before the House of Representatives under section 37 of the Public Audit Act 2001.



# Statement of Prospective Financial Performance

For the Year Ending 30 June 2006

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## Description Of Statement

The Statement of Prospective Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Office. A supporting statement showing the revenue and expenditure of each output class appears on page 97.

	2004-05		2005-06
	Budgeted <sup>16</sup>	Estimated Actual <sup>17</sup>	Forecast
	\$000	\$000	\$000
<b>Continuing Activities</b>			
<b>Revenue</b>			
Crown	8,183	8,183	8,905
Departments	6,947	6,947	6,947
Other	26,884	26,884	27,902
<b>Total Revenue</b>	<b>42,014</b>	<b>42,014</b>	<b>43,754</b>
<b>Expenses</b>			
Personnel costs	19,879	19,542	21,211
Operating costs	20,510	20,147	20,782
Depreciation	1,156	1,156	1,230
Capital charge	222	222	287
<b>Total Expenses</b>	<b>41,767</b>	<b>41,067</b>	<b>43,510</b>
<b>Surplus</b>	<b>247</b>	<b>947</b>	<b>244</b>

<sup>16</sup> Budgeted figures incorporate both the Main Estimates and Supplementary Estimates appropriations for 2004-05.

<sup>17</sup> The amounts in this column reflect actual results to 28 February 2005 and the forecast results for the remaining 4 months to 30 June 2005.

## Statement of Prospective Movements in Taxpayers' Funds (Equity)

For the Year Ending 30 June 2006

### Description of Statement

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

	2004-05		2005-06
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
<b>Taxpayers' Funds brought forward at 1 July</b>	3,586	3,586	3,586
<b>Movements during the year</b>			
Surplus	247	947	244
<b><i>Total Recognised Revenues and Expenses for the Year</i></b>	247	947	244
<b>Flows to and from the Crown</b>			
Provision for payment to the Crown	(247)	(947)	(244)
<b>Taxpayers' Funds at 30 June</b>	<b>3,586</b>	<b>3,586</b>	<b>3,586</b>



# Statement of Prospective Financial Position

As at 30 June 2006

THREE

## Description of Statement

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

	Budgeted Financial Position as at 30/6/05 \$000	Estimated Actual Financial Position as at 30/6/05 \$000	Forecast Financial Position as at 30/6/06 \$000
<b>Taxpayers' Funds</b>			
General funds	3,586	3,586	3,586
<b>Total Taxpayers' Funds</b>	<b>3,586</b>	<b>3,586</b>	<b>3,586</b>
Represented by:			
<b>Current Assets</b>			
Cash and bank balances	1,194	3,694	1,251
Prepayments	290	290	290
Work in progress	1,750	1,150	1,750
Receivables	3,650	3,050	3,650
<i>Total Current Assets</i>	<i>6,884</i>	<i>8,184</i>	<i>6,941</i>
<b>Non-current Assets</b>			
Physical assets	2,149	2,149	2,089
<i>Total Non-current Assets</i>	<i>2,149</i>	<i>2,149</i>	<i>2,089</i>
<b>Total Assets</b>	<b>9,033</b>	<b>10,333</b>	<b>9,030</b>
<b>Current Liabilities</b>			
Payables and provisions	1,511	2,111	1,941
Provision for payment to the Crown	247	947	244
Provision for employee entitlements	2,140	2,140	2,140
Other short term liabilities	345	345	173
<i>Total Current Liabilities</i>	<i>4,243</i>	<i>5,543</i>	<i>4,498</i>
<b>Term Liabilities</b>			
Provision for employee entitlements	860	860	860
Property lease liabilities	171	171	86
Other term liabilities	173	173	-
<i>Total Term Liabilities</i>	<i>1,204</i>	<i>1,204</i>	<i>946</i>
<b>Total Liabilities</b>	<b>5,447</b>	<b>6,747</b>	<b>5,444</b>
<b>Net Assets</b>	<b>3,586</b>	<b>3,586</b>	<b>3,586</b>

## Statement of Prospective Cash Flows

For the Year Ending 30 June 2006

### Description Of Statement

The Statement of Prospective 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 Prospective Financial Performance.

	2004-05		2005-06
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
<b>Operating Activities</b>			
Cash received from:			
The Crown	8,183	8,183	8,905
Departments	6,947	6,947	6,947
Others	13,745	14,945	14,627
Cash disbursed on:			
Production of outputs <sup>18</sup>	(29,256)	(27,956)	(30,518)
Capital charge	(222)	(222)	(287)
<b>Net Cash Flow from Operating Activities</b>	<b>(603)</b>	<b>1,897</b>	<b>(326)</b>
<b>Investing Activities</b>			
Cash received from:			
Sale of physical assets	160	160	170
Cash disbursed on:			
Purchase of physical assets	(1,245)	(1,245)	(1,340)
<b>Net Cash Flow from Investing Activities</b>	<b>(1,085)</b>	<b>(1,085)</b>	<b>(1,170)</b>
<b>Financing Activities</b>			
Cash disbursed on:			
Payment to the Crown	(158)	(158)	(947)
<b>Net Cash Flow from Financing Activities</b>	<b>(158)</b>	<b>(158)</b>	<b>(947)</b>
<b>Total net increase/(decrease) in cash held</b>	<b>(1,846)</b>	<b>654</b>	<b>(2,443)</b>
Add Opening cash balance at 1 July	3,040	3,040	3,694
<b>Closing cash balance at 30 June</b>	<b>1,194</b>	<b>3,694</b>	<b>1,251</b>

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



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

For the Year Ending 30 June 2006

### Description of Statement

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Prospective Financial Performance on page 89 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Prospective Cash Flows on page 92.

	2004-05		2005-06
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
<b>Surplus</b>	247	947	244
<b>Non-cash Items</b>			
Depreciation	1,156	1,156	1,230
<b>Total Non-cash Items</b>	1,156	1,156	1,230
<b>Working Capital Movements</b>			
(Increase)/decrease in prepayments	245	245	-
(Increase)/decrease in receivables	(586)	14	(600)
(Increase)/decrease in work in progress	(478)	122	(600)
Increase/(decrease) in payables	(1,361)	(761)	(170)
Increase/(decrease) in current employee entitlements	129	129	-
<b>Total Net Working Capital Movements</b>	(2,051)	(251)	(1,370)
<b>Other Items</b>			
Increase/(decrease) in property lease liabilities	45	45	(430)
<b>Total Other Items</b>	45	45	(430)
<b>Net Cash Flow from Operating Activities</b>	<b>(603)</b>	<b>1,897</b>	<b>(326)</b>

## Forecast Capital Expenditure

For the Year Ending 30 June 2006

	Actual June 02 \$000	Actual June 03 \$000	Actual June 04 \$000	Estimated Actual* June 05 \$000	Forecast June 06 \$000
Furniture and fittings	44	61	69	479	305
Office equipment	149	94	29	72	35
Motor vehicles	234	366	283	361	380
Computer hardware	192	80	623	227	310
Computer software	170	164	188	56	310
<b>Total</b>	<b>789</b>	<b>765</b>	<b>1,192</b>	<b>1,195</b>	<b>1,340</b>

\* Actual for the 8 months to 28 February 2005 plus budget for the period March-June 2005.





## Forecast Details of Physical Assets by Category

As at 30 June 2006

THREE

	As at 30 June 2005		Forecast Position as at 30 June 2006		
	Budgeted Net Book Value \$000	Estimated Actual Net Book Value \$000	Cost \$000	Accumulated Depreciation \$000	Net Book Value \$000
Furniture and fittings	135	135	2,969	2,215	754
Office equipment	285	285	2,357	2,061	296
Motor vehicles	391	391	653	457	196
Computer hardware	889	889	2,187	1,410	777
Computer software	449	449	1,860	1,794	66
<b>Totals</b>	<b>2,149</b>	<b>2,149</b>	<b>10,026</b>	<b>7,937</b>	<b>2,089</b>

# Prospective Appropriation Statement

For the Year Ending 30 June 2006

## Description of Statement

This statement breaks down the expenditure reported in the Statement of Prospective Financial Performance (on page 89) and the Forecast Output Class Operating Statements (on the next page) with the corresponding appropriations appearing in Part B1 of Vote Audit for 2005-06 in the Estimates of Appropriations (parliamentary paper B.5 Vol.1).

		\$000
<b>Departmental Output Classes</b>		
<b>Mode B Gross</b>		
Output Class D1		
• Annual appropriation		7,966
• Other appropriation		621
		8,587
Output Class D2		131
Output Class D3		34,792
		43,510
<b>Total Departmental Output Classes</b>		
<b>Repayment of Debt</b>		
Net Overdraft Repayment		500
		500
<b>Total Repayment of Debt</b>		
		500
<b>Total Appropriations</b>		<b>44,010</b>

## FORECAST FINANCIAL STATEMENTS FOR 2005-06



# Forecast Output Class Operating Statements<sup>19</sup>

## For the Year Ending 30 June 2006

Departmental Output Class	Scope	Revenue		Revenue		Total		Surplus	
		Crown \$'000	Depts \$'000	Other \$'000	Revenue \$'000	Expenditures \$'000	Revenue \$'000	Expenditures \$'000	Surplus \$'000
<b>Mode B Gross</b>									
D1 Reports and advice arising from the exercise of the function of legislative auditor.	The Auditor-General has a constitutional function in assisting Parliament in its role of ensuring accountability for public resources.	8,584	-	4	8,588		(8,587)		1
D2 The Controller function and the appropriation audit.	Providing independent assurance to Parliament that expenses or capital expenditure have been incurred (or public money spent) within the scope, amount and period of the appropriation or other statutory authority, and are for lawful purposes.	131	-	-	131		(131)		-
D3 Provision of audit and other assurance services.	Conducting and reporting on audits by Audit New Zealand and private sector audit providers, and audit-related assurance services undertaken by Audit New Zealand.	190	6,947	27,898	35,035	(34,792)		243	
<b>Totals</b>		<b>8,905</b>	<b>6,947</b>	<b>27,902</b>	<b>43,754</b>	<b>(43,510)</b>		<b>244</b>	

<sup>19</sup> Details of the forecast performance for each class of outputs are set out on pages 74-84 of this report.

## Forecast Financial Indicators

For the Year Ending 30 June 2006

	2004-05 Budgeted (after Supplementary Estimates) \$000	Estimated Actual \$000	2005-06 Forecast \$000
<b>Operating Results</b>			
Revenue: other than Crown	33,831	33,831	34,849
Output expenses	41,767	41,067	43,510
Surplus before capital charge	469	1,169	531
Surplus	247	947	244
<b>Working Capital</b>			
Net current assets <sup>20</sup>	2,641	2,641	2,443
<i>Current ratio</i> <sup>21</sup>	162%	148%	154%
<i>Average receivables and work in progress</i>	58 days	58 days	57 days
<b>Resource Utilisation</b>			
Physical assets			
Total physical assets at year-end	2,149	2,149	2,089
<i>Additions as % of physical assets</i>	58%	58%	64%
<b>Taxpayers' Funds</b>			
Level at year-end	3,586	3,586	3,586
<b>Forecast Net Cash Flows</b>			
Surplus on operating activities	(603)	1,897	(326)
Deficit on investing activities	(1,085)	(1,085)	(1,170)
Deficit on financing activities	(158)	(158)	(947)
Net increase/(decrease) in cash held	(1,846)	654	(2,443)

20 Current assets minus current liabilities.

21 Current assets as a proportion of current liabilities.





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

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**Annual Plan 2005-06**

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