



Parliamentary paper  
B.28

# Annual Report 2004-05





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# Annual Report for the year ending 30 June 2005

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

September 2005

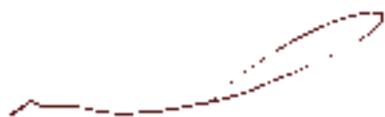
ISBN 0-478-18143-4

Hon Margaret Wilson  
Speaker  
House of Representatives  
Wellington

Madam Speaker

In accordance with section 37 of the Public Audit Act 2001,  
I submit my Annual Report for the year ended 30 June 2005.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K B Brady', written in a cursive style.

K B Brady  
Controller and Auditor-General

30 September 2005

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## Auditor-General's overview



“2004-05 saw us kick-start our research and development programme, and put in place the internal systems and processes we need to support our strategy. We also continued to deliver our core outputs.”

It is with pleasure that I present my Annual Report for the year ended 30 June 2005.

This report sets out our performance – financial and non-financial. It is part of my accountability as an Officer of Parliament.

After the endorsement of my *Strategic Plan* early in 2004, we have been working on our research and development programme, and establishing the “building blocks” to achieve our strategy in the next 5 years.

### Highlights for 2004-05

The biggest highlight for us in 2004-05 was the significant progress we made in research and development:

- for auditing long-term council community plans (LTCCPs);
- determining the audit implications of new legislation in central government; and
- preparing for the introduction of New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

All 3 of these research and development projects were large and demanding pieces of work. When the year started, we underestimated the work and resources they would require. Each project by itself put a huge strain on the organisation. We have, nonetheless, made significant progress in all 3 projects over the year. Our progress is discussed further on pages 27-29.

We successfully completed a pilot project to enhance our Strategic Audit Planning. The pilot resulted in greater involvement of, and communication with, contracted Audit Service Providers, and a better deployment of the full range of our assurance interventions around important issues and risks. We have started making changes, based on what we learned.

Several experienced people joined our Performance Audit Group during 2004-05. It took us longer than we expected to recruit and induct the additional staff. This meant that we did not complete the number of performance audits we had proposed in our strategy. We returned the unused funding to the Crown. We are now adequately resourced in this area, and positioned to carry out the additional performance audits proposed in our strategy. This increase in staff also means we can provide our Performance Audit Group with more training opportunities and support, and further refine our performance audit methodology.

Our “project office” approach to how we manage our work and resources has been well embedded. Already, we have seen the advantages of more robust project management disciplines.

We reviewed how we manage major inquiries, and sought to recruit people to better facilitate the management, conduct, and timeliness of inquiries. We did not make as much progress as we had hoped in improving the timeliness of inquiries. However, we expect the addition of dedicated staff in this area to enable us to do so over the coming year.

We have put in place better ways to gather feedback from our stakeholders, internally and externally. This helps us to be more aware of, and responsive to, our stakeholders' needs – an important part of our strategy.

We put in place ways for my 2 business units – the Office of the Auditor-General and Audit New Zealand – to work more collaboratively with each other, and with contracted Audit Service Providers. We reviewed the sector arrangements in both business units to ensure that we maximise our efforts and provide “one voice”. We also made progress in aligning our corporate policies.

Unexpectedly, we were called in to provide assurance to 6 local authorities, 18 District Health Boards, and one licensing trust, over the accuracy of vote counting following their elections using the Single Transferable Vote (STV) system. Over the course of 25 days, we independently verified the vote count, which enabled their electoral officers to declare the results. It was an unprecedented situation for us, and we hope that the subsequent Select Committee inquiry and reviews will ensure that we have no need to do this again.

We were honoured to host the 19th Commonwealth Auditors-General Conference from 30 January to 2 February 2005. The Conference was well supported by our international counterparts, and centred on the theme of “Raising public sector auditing to the next level”.

## The year ahead

The emphasis now shifts from strengthening the infrastructure that supports the organisation, to development – specifically, we will invest significantly in the people who work for and with the organisation, and in our assurance products and services.

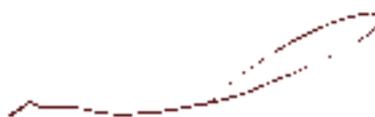
My *Annual Plan 2005-06* set out the actions we propose to take to:

- strengthen our organisational capability, especially in leadership and professional areas;
- adjust to our increased capability, particularly in terms of how we manage our people and how we access additional staff resources;
- further improve the time it takes us to conduct inquiries;
- deliver an effective product mix, with an increased focus on non-financial reporting and on waste, probity, governance, and accountability;
- continue to look for efficiencies in our operational and corporate systems; and
- make real gains in creating a mindset for innovation and collaborative working.

## Summary

I am proud of the progress that we have made in starting to bring into effect my 5-year strategy. I would like to thank my staff and all our contracted Audit Service Providers for their contribution and effort during the past year. In particular, I would like to thank Kevin Simpkins, who left our office after 10 impressive years – the last 3 as a very highly regarded Deputy Controller and Auditor-General.

I am fortunate to have such competent and professional people working for and with the organisation.



Kevin Brady  
Controller and Auditor-General

30 September 2005

## About the Auditor-General

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The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. His mandate and responsibilities are set out in the Public Audit Act 2001.

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

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

The Auditor-General's staff are organised into 2 business units – the Office of the Auditor-General (OAG), and Audit New Zealand (Audit NZ).

The OAG undertakes strategic audit planning, sets policy and standards, appoints auditors and oversees their performance, carries out performance audits, provides reporting and advice to Parliament, and undertakes inquiries and other special studies.

Audit NZ is the operating arm, and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities, within the Auditor-General's mandate and in accordance with the Auditor-General's Auditing Standard relating to the independence of auditors.

The Auditor-General also engages private sector auditing firms (Audit Service Providers) to carry out his statutory functions in relation to public entities.

### Size and scale of operations

The Auditor-General has a statutory duty to conduct an audit of the financial reports of about 4,000 public entities.<sup>1</sup>

The OAG undertakes about 15 performance audits each year, and responds to between 150 and 300 enquiries each year from taxpayers, ratepayers, and Members of Parliament (MPs). A few of these enquiries lead to the Auditor-General undertaking a major inquiry.

The OAG also provides reports and advice to Select Committees and portfolio Ministers. There are about 140 reports prepared for financial reviews of entities and Estimates examinations, and about 120 reports on the results of annual financial report audits.

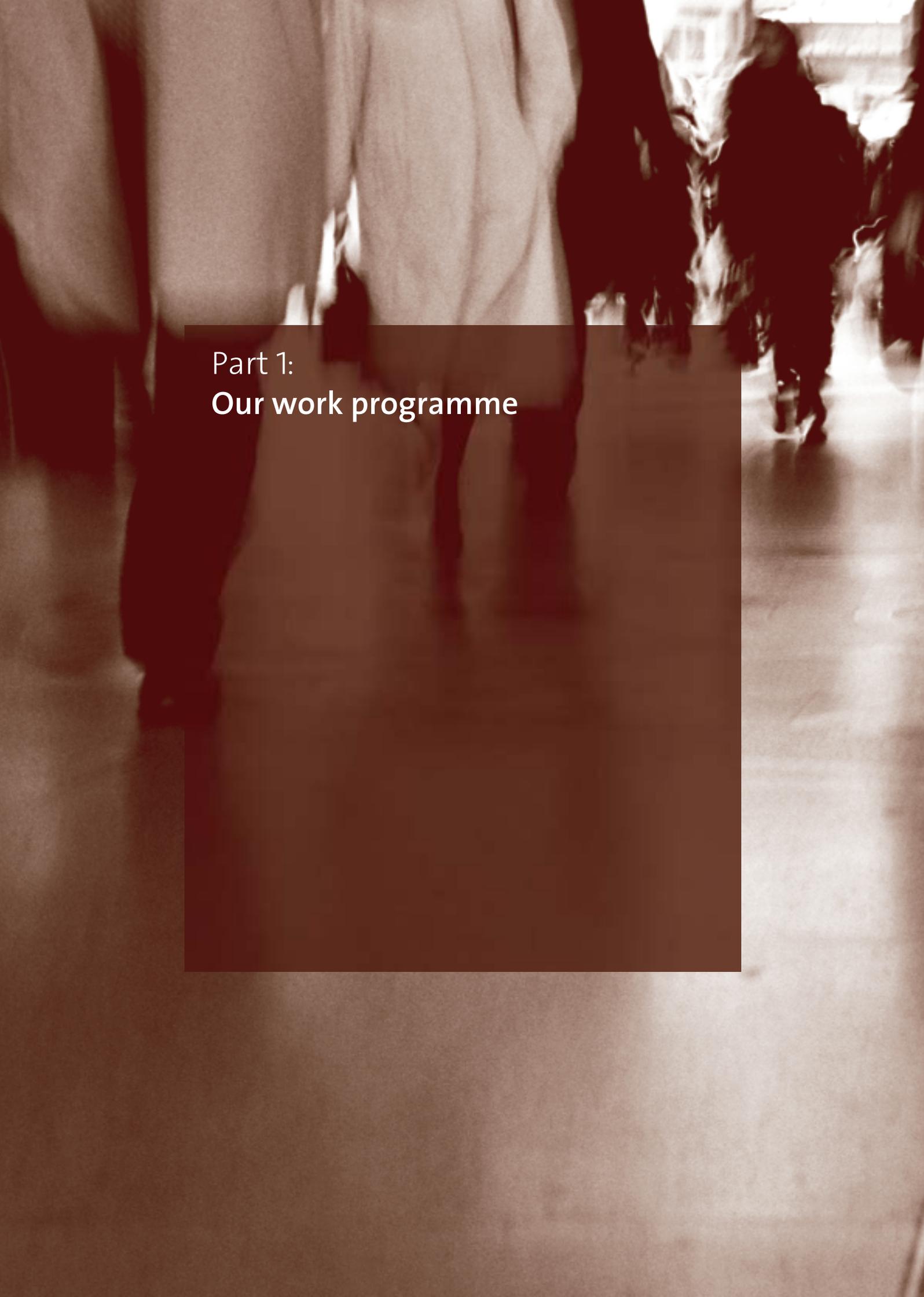
The OAG also administers the provisions of the Local Authorities (Members' Interests) Act 1968. There are 80-100 enquiries each year in relation to this Act.

### Our current capability

As at 30 June 2005, we employed 244 staff, based in 9 locations throughout New Zealand. We also engaged 61 external Audit Service Providers, as well as the Audit NZ staff, to carry out annual audits of public entities.

In 2004-05, we received revenue of \$43.5 million – \$8.2 million from Crown revenue and \$35.3 million from audited entities.

<sup>1</sup> Under the Public Audit Act 2001, the Auditor-General is the auditor of every public entity, and the entities they control.



Part 1:  
**Our work programme**

## Introduction

Our annual planning, particularly our Strategic Audit Planning, identifies our work programme for the coming year. Our Annual Plan sets out our proposed performance audits and special studies, and our proposed programme for research and development. We consult with Parliament to finalise our work programme.

In this Part, we describe:

- the work of our auditors, and the support we provided to them;
- the performance audits and other studies we reported on;
- the inquiries we reported on;
- our research and development programme;
- changes to the Controller function; and
- our advice and liaison.

Full information about our performance against our targets is in Part 3 (Statement of Objectives and Service Performance, pages 61-75).

## The work of our auditors

Most of our effort was in the annual audits of the financial statements of public entities. We carried out 4,121 audits during 2004-05.

### The Auditor-General's Auditing Standards

*The Auditor-General's Auditing Standards* establish the minimum standards to be applied to audits, inquiries and other auditing services conducted on behalf of the Auditor-General. Under section 23 of the Public Audit Act 2001, the Auditor-General must publish the auditing standards, by way of a report to the House of Representatives, at least once every 3 years. Each Annual Report must include a description of any significant changes made to the standards during a financial year. The auditing standards consist of the ethical and professional standards of the Institute of Chartered Accountants of New Zealand (ICANZ), supplemented by the Auditor-General's Statements, and (where an ICANZ standard does not exist) the Auditor-General's Specific Standards.

In May 2005, the Auditor-General republished his Auditing Standards. These standards are available on our website ([www.oag.govt.nz](http://www.oag.govt.nz)).

During the year, we revised and enhanced the Auditor-General's *Statement on Independence* to align it with the ICANZ Code of Ethics. We also revised the Auditor-General's Auditing Standard *The Appropriation Audit and the Controller Function*, because of the legislative changes to the Controller function that took effect from 1 July 2005.

### Reviewing auditor performance

We aim to review the performance of each of our appointed auditors once every 3 years. We may initiate follow-up reviews if we identify a need for improvement.

In 2004-05, we met our target of 45 reviews. Consistent with previous years, the work we reviewed was, with only a few exceptions, of good quality. We followed up on the exceptions.

### Balance of non-financial to financial audit work performed

In our Strategic Plan, we said we wanted to increase, over time, the amount of non-financial audit work relative to financial audit work.

During 2004-05, 87% of Audit NZ's work on annual audits was financial, and 13% was non-financial. This was consistent with the ratio of work performed in the previous 2 years, so we will use this as our benchmark.

### Use of senior and junior audit staff

In our *Strategic Plan*, we also said we wanted to see senior staff more involved in the annual audits. This would better mitigate risk and improve the quality of the audits.

In 2004-05, 26% of the hours involved in annual audits were performed by senior Audit NZ staff, and 74% by junior staff members. We will use this as our benchmark and report changes over time.

## Fewer non-standard audit reports being issued over time

- A non-standard audit report is one issued in accordance with the New Zealand Institute of Chartered Accountants Auditing Standard No. 702: *The Audit Report on an Attest Audit (AS-702)*. A non-standard audit report contains:
  - a qualified audit opinion (i.e. a “disclaimer of opinion”, an “adverse” opinion or an “except-for” opinion); and/or
  - an explanatory paragraph.

A full definition of a non-standard audit report is set out on pages 28-29 of our report *Central Government: Results of the 2003-04 Audits*.

Figure 1 shows the non-standard audit reports issued in 2004-05. Information for the previous year is provided in Figure 2.

Figure 1

### Non-standard audit reports issued, 2004-05

TYPE OF NON-STANDARD AUDIT REPORT			
	SCHOOLS	OTHER	TOTAL
<b>Unqualified opinion</b>			
With explanatory paragraph or reference to a breach of law	148	62	210
<b>Qualified audit opinion</b>			
Disclaimer of opinion	2	6	8
Partial disclaimer of opinion	0	4	4
Adverse opinion	1	9	10
Partial adverse opinion	0	7	7
Except-for opinion	44	33	77
<b>Total</b>	<b>195</b>	<b>121</b>	<b>316</b>
<i>(Total of all audit reports)</i>	<i>2,645</i>	<i>1,476</i>	<i>4,121</i>

Figure 2  
**Non-standard audit reports issued, 2003-04**

<b>TYPE OF NON-STANDARD AUDIT REPORT</b>			
	SCHOOLS	OTHER	TOTAL
<b>Unqualified opinion</b>			
With explanatory paragraph or reference to a breach of law	186	24	210
<b>Qualified audit opinion</b>			
Disclaimer of opinion	2	0	2
Partial disclaimer of opinion	0	29	29
Adverse opinion	0	9	9
Partial adverse opinion	0	6	6
Except-for opinion	65	29	94
<b>Total</b>	<b>253</b>	<b>97</b>	<b>350</b>
<i>(Total of all audit reports)</i>	<i>2,682</i>	<i>1,388</i>	<i>4,070</i>

Fewer non-standard audit reports were issued as a proportion of all audit reports issued during the year – from 8.6% in 2003-04 to 7.7% in 2004-05.

There were a number of reasons for this decrease:

- Fewer school audit reports contained explanatory paragraphs, because fewer schools were closed or merged during 2004-05.
- Fewer school audit reports contained except-for opinions. Fewer school boards had difficulty in complying with FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*. (FRS-15 requires the inclusion of a provision in the Board's financial report about its obligation to maintain the properties – which are owned by the Ministry of Education – in “good order and repair”.)

- Fewer audit reports contained a partial disclaimer of opinion. Fewer entities came under our mandate for the first time in 2004-05, compared to 2003-04. Entities where there has not been an audit in the previous year always receive a partial disclaimer of opinion, because there is no assurance on the closing position of the previous year.

On the other hand:

- Slightly more audit reports contained a disclaimer of opinion. This was because a number of audits in arrears were completed during the year, where we were unable to gain assurance on the financial statements.

- More 'Other' audit reports contained explanatory paragraphs outlining that the financial statements had been appropriately prepared on a disestablishment basis. A greater number of entities were wound up during 2004-05.

### Implementing our allocation, tendering, and fee monitoring systems

The Auditor-General allocates most audits of public entities, and uses competitive tendering for the audits of some entities with a strong commercial focus. During 2004-05, the Auditor-General reappointed existing auditors to conduct the audits of 110 public entities and their subsidiaries.

A competitive tender was used to select the auditors of 3 public entities with a strong commercial focus.

Of the 110 public entities, 14 asked us to provide comparative fee information to help resolve concerns about the fee proposed by the appointed auditor. In all cases, the auditor and the entity resolved the matter based on that extra information.

When existing auditors are appointed for a further (normally 3-year) period, they negotiate hours and costs with the audit entity in the first instance. The negotiation happens after we have considered whether the auditor's proposal is consistent with our view of the resources required for the audit, and whether the proposed fees are generally consistent with current market rates.

We established techniques for measuring the comparability of audit fees within the local government sector. Using these techniques to review auditors' audit fee proposals has minimised debate about audit fees, in spite of some substantial fee increases arising from auditor salary costs over the last 3 years. The salary costs have increased around 18% to 25%, and more audit time and effort has been required to meet new accounting and auditing standards.

We continued to examine and determine the status of several subsidiaries of public entities. During 2004-05, 93 entities were added to our audit portfolio (51 as 'controlled entities', and 42 by statute or as subsidiaries of public entities).

An independent reviewer evaluates the integrity of the methods and systems we use to allocate and tender audits. The report of the independent reviewer for 2004-05 is reproduced on pages 14-15.

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18 August 2005

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

Dear Mr Brady

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

1. You have retained me as an independent evaluator of the means by which auditors are appointed to act on your behalf. This is the third year in which I have been retained for that purpose.
2. This is my report on those processes for the financial year ended 30 June 2005. I confirm that I am independent of the Office of the Auditor-General (OAG), Audit New Zealand and all private sector audit firms. No limitation has been placed upon the manner in which I carry out my assignment.
3. My instructions require me to evaluate the processes involved and to report upon the probity and objectivity with which they are implemented.
4. There are three distinct types of process:
  - (a) an appointment of an auditor following a contestable tender;
  - (b) an allocation made by you of an auditor for a given entity, in accordance with "the audit allocation model";
  - (c) a renewal, for a further term, of an approved auditor's contract to audit a particular entity.
5. Appointments following a contestable tender:
  - (a) The tender process is overseen by a panel appointed by you. Each panel comprises an independent chair appointed by you, a representative of the OAG, and a representative appointed by the entity concerned. That panel evaluates the tenders received and makes a recommendation to you as to which should be accepted – and why. The decision is then yours.
  - (b) This process is now reserved largely for organisations with a strong commercial focus. There were three such tenders in the year under review: Television New Zealand Limited, Lyttleton Port Company Limited, and Transpower New Zealand Limited.
  - (c) In the first two cases I received and read all the papers. I then attended the meetings of the panels as an observer, to monitor the process. Occasionally, I asked questions to clarify issues. In the third case, I played no part in the process at all, as I am the Chairman of the Board of the company concerned.

- (d) In each of the three cases, you accepted the recommendation made by the panel.
6. Allocation of an auditor in accordance with the "audit allocation model":
- (a) In the preceding financial year, 2003/2004, extensive use was made of this process. The nature of the model has been well publicised. It does not entail a tender, but is instead an appointment by you in the interests of allocative efficiency.
- (b) In the financial year under review, this process was not used, except where two entities were combined or a new entity was created.
7. Renewal of an existing auditor's contract for a further, defined term:
- (a) In the 2004/2005 financial year, you re-appointed existing auditors to conduct the audits of 110 public entities.
- (b) The process involved, and issues which arose from it, are described in the preceding section of this Annual Report. I regard that description as being fair and accurate.
8. In the instances described in paragraph 6 above (allocations) and in paragraph 7 above (renewals), I spoke to no external parties. But I did seek access to a selection of relevant files and sought explanations from the OAG about points that I thought merited examination.
9. In particular, I reviewed all the files where questions had been raised by entities about the level of audit fees proposed by the auditor for the period following a renewal. There were 14 such cases. In each case, the Director, Auditor Appointments at the OAG provided a detailed analysis of the fee proposed and sought to set it in context with comparable fees. In every case, agreement was reached between the entity and the auditor as to an appropriate fee.
10. I now state my overall conclusions. On the basis of the meetings I have observed, discussions I have had, the papers I have considered and the explanations that I have been given, I consider that the processes adopted by you and the OAG in relation to the tendering, allocation and renewal of audits falling within your mandate during the financial year to 30 June 2005 are appropriate for their purpose, and have been applied in a way which is consistently fair and appropriate, having regard to the rights, interests and obligations of the parties concerned.
11. I indicated above that there were instances where questions were raised by some entities about the level of fees that were proposed following a renewal. Those questions were responded to carefully and professionally. In all cases the points at issue have been resolved. I have seen no basis for being critical of any of the processes which were followed or actions which were taken. My view is that the OAG has acted carefully and professionally throughout.
12. Taking everything into account, my conclusion is that the processes by which audits in the public sector have been allocated in the financial year to 30 June 2005 have been implemented with all due probity and objectivity.

Yours faithfully



**David Gascoigne** CBE LLM

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## Audit New Zealand's client survey

Audit NZ carried out its independently administered survey of clients (that is, public entities for which it is the appointed auditor). Face-to-face interviews conducted with Chief Executives and Chief Financial Officers of a sample of Audit NZ clients considered their perceptions of:

- the quality of the work of Audit NZ;
- the quality of their relationships with Audit NZ;
- the expertise of Audit NZ staff;
- their understanding of Audit NZ's services;
- their intention to buy additional assurance services; and
- their overall degree of satisfaction.

Audit NZ received an average rating of 76% for overall client satisfaction.

As in previous years, clients rated the quality of Audit NZ's work very highly, and indicated that they greatly valued the interaction and relationships they had with senior Audit NZ staff. However, they continued to question the depth of sector and business knowledge of junior staff.

## Performance audits and other studies

In our *Annual Plan 2004-05*, we described the performance audits and other studies that we intended to produce during the year. (A performance audit is a significant audit covering value-for-money or issues of effectiveness and efficiency. We also undertake other studies, which may result in published guidance on governance or topical public sector accounting and auditing issues.)

We were not able to complete all the work we had proposed in our *Annual Plan*, because:

- in some cases, entities had initiated their own internal or independent reviews, or were undergoing legislative or structural change;
- when we undertook full project scoping, it became clear in some cases that our initial proposal needed to be amended; and
- other events happened that changed our priorities.

Also, it took us longer than anticipated to recruit and induct more performance auditors.

The 13 performance audits and other studies that we did complete during 2004-05 are summarised below.

(Based on our *Strategic Plan*, we received funding to increase the number of performance audits and other studies that we do each year, from 10 to 21, by 30 June 2006. We are now in a position to achieve this increase.)

### New Zealand Trade and Enterprise: Administration of grant programmes

New Zealand Trade and Enterprise (NZTE) administers grants to firms, sectors, and regional organisations to promote economic growth in New Zealand. Our audit examined 5 grant programmes to assess whether they were being administered effectively and efficiently, and in keeping with the policy parameters set by Cabinet.

We found:

- variable data collection and reporting practices;
- variable standards of documentation;
- an inconsistent approach to the assessment of risk; and
- inconsistent approaches to monitoring.

### Recommendations

We made 47 recommendations to NZTE, primarily recommending that NZTE review all its grant programmes to ensure that it is administering them appropriately. This includes ensuring that a sound set of administrative principles and standards are applied.

### What happened as a result of our work

NZTE has undertaken a major business process improvement project to improve its administration of grant programmes. We are meeting with NZTE on a quarterly basis to discuss progress.

The Foreign Affairs, Defence and Trade Committee considered our report. In August 2005, we took part in a joint seminar with NZTE to inform other agencies about our audit process and the expectations we have

for the effective and efficient administration of grant programmes.

We intend to conduct a follow-up audit of NZTE in 2 years to determine if our recommendations have been implemented, and to what effect.

We also intend to undertake, every year, an audit of grant programmes administered by other public entities.

## **Ministry of Defence and New Zealand Defence Force: Further report on the acquisition and introduction into service of Light Armoured Vehicles**

This was our second report into issues relating to the acquisition of 105 Light Armoured Vehicles (LAVs) for the New Zealand Army.

In this follow-up audit, we looked to see if progress had been made since our first report in 2001, and also examined issues arising from the introduction into service of the LAVs.

We found that the Army's plan for using the LAVs was significantly different to that originally put to Cabinet, and we saw no evidence that Cabinet had been advised of any change.

We tried to establish whether 105 LAVs were needed to meet current requirements. We were unable to do this because of the large degree of flexibility built into these requirements.

Our first report made specific recommendations about how governance over the LAV project could be improved. We noted in our follow-up audit some problems during the introduction of new governance systems, but are satisfied that

the Defence agencies have generally improved governance over the LAV project.

We also noted that the Defence agencies have introduced a new Capability Management Framework, designed to ensure that future proposals are supported by better analysis. To help achieve this, there has been a significant commitment to life cycle costing analysis throughout all the Defence agencies.

We noted the funding and personnel shortfalls that have faced the LAV project, and the efforts by the Defence agencies to manage these with no additional capital funding.

### **Recommendations**

We made 9 recommendations about the LAV project, military capability acquisition projects in general, and the Capability Management Framework.

### **What happened as a result of our work**

The Foreign Affairs, Defence and Trade Committee considered our report.

We understand that our audit findings and recommendations have been used by the Defence agencies to contribute to the ongoing enhancement of military capability acquisition projects. They have already implemented a number of our recommendations.

## Department of Conservation: Administration of the Conservation Services Programme – Follow-up audit

This was a follow-up to our 2002 report on the administration of the Conservation Services Programme by the Department of Conservation. We looked at those aspects of the Conservation Services Programme that affected commercial fishing, to see what progress had been made since our last report.

The Department of Conservation and the Ministry of Fisheries have implemented most of our earlier recommendations. However, some work remains to be carried out before all our recommendations are implemented in full.

We concluded that more work should be done by the Department of Conservation to improve:

- the methodology for estimating risk to protected species populations from human activities, and
- the accountability for the Conservation Services Programme.

### What happened as a result of our work

The Local Government and Environment Committee and the Primary Production Committee considered our report, and noted the progress made by the Department of Conservation and the Ministry of Fisheries.

This audit was a “good news” audit for the Department of Conservation. We do not propose to follow up this audit.

## Progress in implementing key recommendations of the 1996 Transport Committee inquiry into truck crashes

This was a report of progress in the implementation of recommendations arising from the Transport Committee’s inquiry into causes of fatal truck crashes. The Committee made 67 recommendations, with 7 to be implemented immediately.

Five of the 7 recommendations were implemented in a timely manner, and 2 were not – although substantial progress had been made.

We were disappointed with how slowly some of the other 60 recommendations had been acted upon. However, the number of fatal truck crashes is declining.

We are still concerned about the poor quality of heavy vehicle brakes. In 2003, 65% of trucks surveyed failed the minimum brake requirements.

### Recommendations

We made 2 recommendations:

- that the Ministry of Transport resume its regular progress reports to the Transport and Industrial Relations Committee; and
- that the Ministry of Transport report on action taken to implement the other 60 recommendations from the 1996 inquiry.

### What happened as a result of our work

The Transport and Industrial Relations Committee considered our report, and asked the Ministry of Transport to provide a briefing. The Committee resolved that the Ministry of Transport is to provide an annual status report on truck safety to the Committee.

## Horizons and Otago Regional Councils: Management of freshwater resources

Our audit looked at how the Resource Management Act 1991 framework has been implemented for managing freshwater in the regions managed by the Horizons and Otago Regional Councils. Our aim was to identify good practice by these 2 councils, or where improvements could be made that would be useful for all regional councils.

Overall, good progress had been made in planning and implementing water allocation frameworks. Improvements were needed in compliance and effectiveness and efficiency monitoring.

### Recommendations

We made a number of recommendations, and identified examples of good practice and innovation, in each of the 4 areas studied: planning, implementation, monitoring, and acting on information and informing communities.

### What happened as a result of our work

The Local Government and Environment Committee considered our report. We have briefed regional council Chief Executives, Councillors and senior managers on our report, as well as the Minister for the Environment and staff of the Ministry for the Environment.

One regional council has used our audit criteria for its own audit of its management of freshwater resources.

## Pharmaceutical Management Agency: Changes to the frequency of medicine dispensing

In October 2003, the Pharmaceutical Management Agency (Pharmac) changed the rules for dispensing medicines. At the time, it projected large savings to District Health Boards. One year into the new dispensing regime, we examined whether the projected savings had been achieved, and how well Pharmac had managed the risks to savings and the effects of all-at-once dispensing on patients and others.

Pharmac's calculation of saving was reasonable, although the calculations did not cover the implementation period. We identified opportunities for Pharmac and the wider public sector to improve the quality of information underpinning decision-making.

### Recommendations

We made 6 recommendations, around the need:

- to include assumptions, uncertainties, and limitations around estimates in efficiency proposals, and to include the range of likely results;
- for independent research to assess what effect, if any, dispensing regimes (30-day or 90-day) have on patients' use of medicine; and
- to agree responsibility for monitoring unused medicines.

### What happened as a result of our work

The Health Committee considered our report. The report confirmed that Pharmac had reasonably and accurately calculated projected savings from the change to “all at once” dispensing, so we do not propose to take any further action.

### Ministry of Fisheries: Follow-up report on information requirements for the sustainable management of fisheries

In 1999, we drew attention to the risks involved in managing New Zealand’s fisheries. We were concerned that the Ministry of Fisheries did not have enough information to ensure that the fisheries were being managed in a sustainable way, and to their full economic potential. This was a follow-up audit to our 1999 report, to see how well the Ministry had implemented our 7 recommendations.

We were encouraged by the progress the Ministry has made to date. However, we consider further improvements can be made.

#### Recommendations

We made an additional 4 recommendations to strengthen areas highlighted in our earlier report.

### What happened as a result of our work

A Select Committee did not review the report. However, the Ministry of Fisheries has noted our recommendations.

We propose to follow up with the Ministry later in 2005 on the progress made against our recommendations, especially considering the recent realignment of the Ministry of Fisheries’ strategic direction.

In particular, we will monitor the progress made on our recommendation that, where it is not known if the current levels of fishing, or the current total allowable commercial catch, are sustainable, the Ministry provide an assessment of the risk to the stock if current fishing and catch levels are maintained.

### Civil Aviation Authority: Certification and surveillance functions

This was the third time we reviewed the surveillance function of the Civil Aviation Authority (CAA), because we continued to have concerns about this function. This audit covered both certification and surveillance to assess whether:

- the certification (or entry) function ensured that prospective operators understood, and were capable of complying with, relevant legislation and other conditions; and
- an effective surveillance function was operating to ensure that an acceptable level of civil aviation safety was maintained.

Little action had been taken to address our 1997 and 2000 recommendations. After this audit, we still had significant concerns about the surveillance function, particularly:

- the effectiveness of risk analysis and risk assessment systems;
- ensuring that risk analysis fed through to surveillance systems; and

- ensuring that operators, or groups of operators, that were assessed as “high risk” were appropriately targeted in both the depth and frequency of surveillance undertaken.

We also found that CAA inspectors did not always comply with CAA policy, or record all the hours they worked on surveillance. Further, financial and resource demands meant that only essential training of CAA staff had been carried out over the last 3 years, and CAA operational groups did not always adopt the internal auditors’ recommendations for improving their practices.

### Recommendations

We made 10 recommendations. Among other issues, the CAA needed to:

- continue to establish measures to better assess the effectiveness of its safety interventions;
- improve its analysis of industry information;
- ensure that CAA inspectors follow the policies and procedures for certification;
- further refine the tools used to assess risks; and
- continue with the review of the surveillance function.

### What happened as a result of our work

The Transport and Industrial Relations Committee considered our report and invited us to provide a briefing in the next session of Parliament.

The CAA committed to implementing all our recommendations. We will monitor their progress every 6 months.

## Effectiveness of controls over the taxi industry

In 1997, we reported on how the Land Transport Safety Authority had administered the ‘fit and proper person’ assessment for those hoping to become taxi drivers. This audit was to see how the Authority had responded to our 1997 report, and to address public and Parliamentary concerns about the quality and safety of the taxi industry. This audit had a wider scope than our earlier report.

Little progress had been made since 1997. Similar issues emerged, relating to the effectiveness of entry controls, the monitoring and enforcement of compliance, and the sharing of information with other agencies.

### Recommendations

We made 61 recommendations for improvement.

### What happened as a result of our work

The Transport and Industrial Relations Committee considered the report, and invited us to provide a briefing in the next session of Parliament.

The Authority is regularly meeting with the New Zealand Taxi Federation to discuss the taxi industry and the issues in our report. We will follow-up, in the latter half of 2005, on progress made with our recommendations.

## New Zealand Trade and Enterprise: Administration of the Visiting Investor Programme

The Visiting Investor Programme (VIP) is a managed visit programme for companies and individuals who are considering New Zealand as a location for establishing all or part of their operations. Our audit examined whether New Zealand Trade and Enterprise (NZTE) had in place robust and appropriate policies and procedures, whether these policies and procedures were being followed, and whether there was appropriate monitoring and evaluation of payments. This inquiry was completed in conjunction with our performance audit on NZTE's administration of grant programmes (see page 17).

NZTE did not have comprehensive and clearly established policies and procedures for administering the VIP. We examined files for visits undertaken between 2002 and 2004. We were unable to examine files for visits in earlier years because of poor record-keeping by Trade New Zealand. For those visits where the supporting documentation was sufficiently detailed, the expenditure was appropriate for the nature of the VIP.

### Recommendations

We recommended that NZTE create guidance that sets out clearly the types and levels of expenditure acceptable under the VIP.

### What happened as a result of our work

NZTE has told us that it is reviewing and updating its guidelines for the VIP. We are meeting with NZTE on a quarterly basis to discuss the progress made to address the

matters raised in our report, together with our other report on the administration of grant programmes.

The Foreign Affairs, Defence and Trade Committee and the Commerce Committee have considered our report.

## Conflicts of Interest – A guide to the Local Authorities (Members' Interests) Act 1968 and non-pecuniary conflicts of interest

This report updated our guidance to organisations covered by the Local Authorities (Members' Interests) Act 1968 about financial conflicts of interests, in time for the local authority elections.

It also provided guidance to members of local authorities about managing their non-financial conflicts of interest. This guidance was new, and was provided in response to demand from the sector.

### What happened as a result of our work

The new guidance was well received by the sector, including elected members, chief executives, and legal advisers of local authorities.

After the 2004 local authority elections, we presented seminars about our guidance to new councillors throughout New Zealand.

## Government and parliamentary publicity and advertising

This report examined the framework of guidance and administrative practices for publicity and advertising undertaken at public expense – including that undertaken by government departments, Ministers, and parliamentary parties.

The area has been in need of reform for some years and our decision to produce this report followed a number of complaints highlighting inconsistent rules that apply to the various forms of advertising and publicity, and associated weaknesses in the administrative framework.

The report outlined a possible new framework for government and parliamentary publicity and advertising.

### What happened as a result of our work

We expect action on our report to occur after the 2005 general election.

## The Local Authorities (Members' Interests) Act 1968: Issues and options for reform

This report highlighted the difficulties we see with the current Local Authorities (Members' Interests) Act, and suggested options for improving the Act. For a long time, we have considered the 37-year-old Act to be in need of an overhaul.

We suggested that the entire Act needs to be rewritten, and, although it was not appropriate for us to draft the provisions of any new Act, we provided our thoughts on areas that could be enhanced. Our aim was for this report to stimulate discussion among stakeholders and policy makers about the future of the Act.

### What happened as a result of our work

The Department of Internal Affairs included the topic on its policy work programme for 2005-06, and we expect to provide the Department with ongoing assistance.

## Major inquiries

25

The OAG responds to enquiries from taxpayers, ratepayers, and individual MPs. We receive between 150 and 300 enquiries every year. A few of these lead to the Auditor-General conducting major inquiries. We also respond to 80-100 enquiries each year in relation to the Local Authorities (Members' Interests) Act 1968.

Based on our *Strategic Plan*, the OAG received additional funding from Parliament to fund our major inquiry work. We have:

- reviewed how we manage major inquiries; and
- sought to recruit people to better facilitate the management, conduct, and timeliness of our major inquiries.

Reports on 2 of the inquiries we carried out during 2004-05 were published and presented to Parliament. A brief summary of these is provided below.

### **Inquiry into the Ministry of Education's monitoring of scholarships administered by the Māori Education Trust**

Concerns were raised about the financial management by the Māori Education Trust of certain publicly funded scholarship schemes, and the quality of the Ministry of Education's monitoring of the Trust. The funds involved were significant. The Secretary for Education asked the Auditor-General to consider investigating the concerns. We decided to conduct an inquiry into the management of, and monitoring arrangements for, the scholarship schemes.

Overall, the serious concerns raised were not substantiated by our inquiry. However, we did find that the Ministry of Education's contract management practices and monitoring of its contracts with the Trust had been variable. Some other improvements were needed, especially in the transfer of responsibilities from the Ministry of Education to the Tertiary Education Commission.

### **Recommendations**

We made 16 recommendations in our report.

### **What happened as a result of our work**

The Ministry of Education and the Tertiary Education Commission are working collaboratively on the recommendations made in our report.

## Christchurch Polytechnic Institute of Technology's management of conflicts of interest regarding the Computing Offered On-Line (COOL) programme

In June 2004, the Auditor-General was asked to inquire into allegations that conflicts of interest existed for certain Christchurch Polytechnic Institute of Technology (CPIT) representatives. The conflicts related to a joint venture business relationship with Brylton Software Limited (BSL), and particularly the Computing Offered On-Line (COOL) programme.

We examined whether CPIT had complied with its internal policies and any contractual obligations. We considered whether CPIT's judgements or actions were reasonable, based on public sector expectations.

We found that a conflict of interest existed for one of CPIT's representatives. We were satisfied that the conflict of interest had been appropriately identified and disclosed. However, this conflict of interest raised a serious management issue for CPIT.

We commended CPIT's policies and procedures on conflicts of interest. However, in this instance, the policies and procedures did not cover the CPIT representative who was a contractor. We recommended that the policies be enhanced.

We also found that the CPIT Council was not sufficiently aware of the representative's conflict of interest. In our view, both CPIT management and the CPIT Council could have managed the situation more prudently.

### Recommendations

We made 3 recommendations for enhancing CPIT's conflicts of interest policies and provisions.

### What happened as a result of our work

CPIT was considering our report's recommendations, and what revisions were needed to its policies and procedures on conflicts of interest.

The report has been widely noted by lawyers and other advisers throughout the public sector as a source of guidance on how to manage conflicts of interest.

## Our research and development programme

We received new funding in 2004-05 for our research and development programme. We want to be more responsive to our stakeholders' needs, and to changes in our environment, through the design and creation of innovative assurance products and services.

In our *Annual Plan 2004-05*, we outlined our initial thinking on a programme of work for research and development. During the year, we made significant progress in 3 areas:

- audits of LTCCPs and Summary Reports;
- audit implications of the new public sector management legislation; and
- auditor readiness in relation to the adoption of standards based on International Financial Reporting Standards.

Our progress in these areas is outlined below.

We also reviewed our capability requirements for research and development, and decided to employ a team to help identify, establish, and complete this work in future years.

### Audits of long-term council community plans

The Local Government Act 2002 created a new audit reporting responsibility for the Auditor-General, which comes into effect in 2006. We will audit councils' LTCCPs.

As part of our research and development programme, we put in place a project to manage this new responsibility.

During 2004-05, we finished our methodology for performing the audits of LTCCPs. We looked internationally for audit techniques that would help us to effectively address the principles provided to guide councils' judgements in consultation and decision-making.

We focused on 3 attributes of LTCCPs:

- *outward focus* – that councils have an active approach to understanding community views, consult with interested people and collaborate with other stakeholders where appropriate, and have a clear logic flow that links community well-being and desired outcomes to the activities of the council.
- *use of best knowledge* – that councils' best knowledge is applied throughout the range of areas in which a council is required to make estimations, including assumptions, and financial and performance target estimates.
- *integration* – that information within the LTCCP presents a coherent and consistent representation of the council's future plans that reflects the underlying information, assumptions and policies, plans, and strategies of the council.

While there are experimental elements to our approach, we have considered techniques used in jurisdictions operating in a similar statutory context to New Zealand's Local Government Act. We have created, consulted on, and tested our approach with local government sector representatives. These representatives have included Local Government New Zealand, the Society of Local Government Managers, and a reference group of council officers and the Department of Internal Affairs.

There are challenges for us in organising and resourcing to perform audits that occur once every 3 years. However, overall we consider that our efforts during 2004-05 place us in a good position to respond to the challenge of the LTCCP audits.

### Summary reports

A long-standing concern about the statutory form of public consultation on long-term plans, annual plans, and on the presentation of annual reports, has been their size and therefore inaccessibility to many members of the public.

The Local Government Act 2002 requires councils to prepare summaries for Statements of Proposal if the special consultative procedure is being used. The Act also requires councils to prepare an audited summary annual report.

In our view, the Local Government Act 2002 intends summaries to be for general use, and therefore readily understood by lay readers. They should also stand alone, as many readers will not refer to the more detailed information.

Councils have told us that members of the public find financial information difficult to understand. We consider that financial information has a valid place in the consultation and accountability processes of a council. We therefore worked with the Society of Local Government Managers to help with its initiative to prepare guidance suggesting principles and good practice in preparing summaries.

### Audit implications of new public sector management legislation

Parliament passed 4 new pieces of public sector management legislation in December 2004:

- the Public Finance Amendment Act 2004;
- the State Sector Amendment Act (No. 2) 2004;
- the Crown Entities Act 2004; and
- the State-Owned Enterprises Amendment Act 2004.

Before the legislation was passed, we started a project to ensure a consistent approach to auditing compliance with the new legislation. Through this project, we have:

- carried out a technical analysis and examined the audit implications of the legislation;
- updated our manuals, standards, and policies to reflect the audit implications of the legislation;
- carried out training in Wellington, Auckland, and Christchurch in March 2005 for all appointed auditors and many staff;
- complemented the training with a supplementary audit brief for 2005 (additional instructions for auditing compliance with the new legislation); and
- communicated with stakeholders, to reduce the risk of poor co-ordination of audit approaches with the legislative requirements and central agency guidelines.

During 2004-05, appointed auditors were required to:

- assess entities' compliance with any new legislative requirements which affected the 2004-05 audit;
- report on entities' compliance or non-compliance with the new legislative requirements; and
- assess and report on entities' awareness of, and preparedness for, changes that will come into effect after 30 June 2005.

We will review the effectiveness of the project after each of the 2005, 2006, and 2007 audits.

- prepared policies on independence issues, covering the work it is appropriate for our auditors to carry out during the transition period, and the type of opinions we will provide on restated opening balances in accordance with NZIFRS;
- sought information from our auditors about how they are planning to prepare for NZIFRS, and assess what we need to do to further support them; and
- worked with the Treasury on planning the transition for the Crown, and with the Society of Local Government Managers on transition planning for local government.

## **Auditor readiness in relation to the adoption of standards based on International Financial Reporting Standards**

The public sector will adopt, from 1 January 2007, New Zealand equivalents of International Financial Reporting Standards (NZIFRS).

During 2004-05, to prepare our auditors and support sector readiness for the adoption of NZIFRS, we have:

- carried out both high-level and detailed training in NZIFRS for our auditors (Audit NZ as well as a number of other Audit Service Providers);
- completed a pilot project on one of the more complex local authorities (with a number of subsidiary companies), to assess the effect of NZIFRS implementation (and shared what we learned with our auditors and the sector, through the Society of Local Government Managers);

## Controller function

The “Controller” function of the Controller and Auditor-General involves monitoring departmental and Crown financial reporting systems, to ensure that the release of funds is supported by Parliamentary appropriations and that all expenditure by the Crown and government departments is for lawful purposes.

The Public Finance Amendment Act 2004 made a number of significant changes to the Controller function, which take effect from 1 July 2005 (see our report *Central Government: Results of the 2003-04 Audits*).

## Advice and liaison

### Advice to Parliament

We report to MPs – in Select Committees, or as Ministers or individual MPs – on the results of audits. Most of this work is done through financial reviews and *Estimates* examinations. During 2004-05, we noted an increased demand for our services.

We have also:

- acted as advisors to Select Committees on the Public Finance (State Sector Management) Bill and the Members of Parliament (Pecuniary Interests) Bill;
- provided comments to the Parliamentary advisors considering the Land Transport Management Amendment Bill, because of our performance audit on controls over the taxi industry; and
- commented on other draft legislation, and assisted with the review of regulations and policy proposals.

### International liaison and involvement

During 2004-05, we:

- hosted the 19th Commonwealth Auditors-General Conference, from late-January to early-February 2005;
- completed a peer review of the Indonesian Audit Office;
- participated in the fourth meeting of the Steering Committee of the International Organization of Supreme Audit Institutions (INTOSAI) Working Group on Environmental Auditing;
- organised and chaired the third meeting of the South Pacific Regional Working Group on Environmental Auditing;
- were appointed to the Steering Committee of the newly formed INTOSAI Professional Standards Committee;
- participated on the INTOSAI working group on the development of International Standards on Auditing (ISAs);
- played a full role in the Australasian Council of Auditors-General (ACAG); and
- hosted a range of visitors from our international counterparts and other public sector bodies.

In our *Strategic Plan*, we acknowledged both the value and cost of maintaining this international involvement and liaison. We intend to keep our involvement at similar levels.

We reviewed our efforts during 2004-05 to ensure that we were maximising the benefits for the whole organisation.



Part 2:  
Progress with our management  
and business strategies

## Introduction

In this Part, we report on our progress to implement our management and business strategies, and their effect on our outcomes, governance, risk, and capability objectives.

We aim to demonstrate good practice in these areas of reporting, and provide Parliament and the public with a fuller picture of our non-financial performance.

## Outcome report

We seek to create, through our work, trust in an effective and efficient public sector.<sup>2</sup> We do this by providing independent assurance and advice, and control over Parliamentary expenditure.

We assess our contribution to these outcomes through performance measures that consider:

- the extent of improvements over time in Parliamentary and public perceptions of public sector performance and trustworthiness;
- whether real change and improvement is happening as a result of our work;
- whether the Auditor-General is perceived by stakeholders as an essential part of the system; and
- whether breaches of Parliamentary control of expenditure have occurred.

### Results for 2004-05

#### Measure 1: New Zealand maintaining or improving its Transparency International ranking

In 2004, New Zealand was ranked second (behind Finland) on the Transparency International (TI) Corruption Perceptions Index. This is an improvement on the result for 2003 (when New Zealand was ranked third equal). New Zealand's score was 9.6 (up 0.1 on the previous year), while the top score was 9.7, and the lowest was 1.5.

The index ranks countries by the degree to which corruption is perceived to exist among public officials and politicians. In 2004, 145 countries were ranked, drawing on 18 surveys and assessments carried out among business people and country analysts, including residents.

#### Measure 2: The actions others take as a result of our work

We measure in 2 ways the actions others take because of our work:

- whether Select Committees adopt the advice we provide; and
- the extent to which public entities accept the recommendations we make in our annual audit reports.

#### Select Committee adoption of our advice

We reviewed a sample of reports provided to Select Committees, and looked to see whether the 'lines of enquiry' that we had suggested had been adopted by the Committee.

Figure 3 sets out the data for 2004-05, and shows comparable data for the previous year.

<sup>2</sup> Our Outcome Framework was set out in our *Annual Plan 2004-05*, pages 20-21.

Figure 3

### Select Committees' adoption of our advice

	2004-05	2003-04
Number of reports reviewed	35	19
Proportion of lines of enquiry adopted	59%	74%
Range of rates	13-100%	33-100%

The way Select Committees use our reports is variable, and largely beyond our control. While it appears from Figure 3 that there has been a decrease in the adoption of our advice, we know that our advice continues to be considered highly valuable, and we feel there is a far greater uptake by Select Committees than indicated in the percentages shown above. During 2005-06, we intend to review the way we assess the Select Committees' adoption of our advice.

#### Entity adoption of our recommendations

We assess whether public entities accept our recommendations by reviewing a sample of the entities that Audit NZ audits, by fee and by region. We look at the extent to which

the recommendations made in our reports as part of annual audits have been accepted, rejected, considered, or not responded to.

Figure 4 sets out the data for 2004-05, and shows comparable data for last year.

We reported on this for the first time in 2003-04. We know that the nature and volume of Audit NZ's recommendations to entities will vary from year to year, and that this measure is largely subjective. However, in our view it is still useful to observe trends. We will consider this further in next year's Annual Report, when we have data available for 3 financial years.

Figure 4

### Public entities' acceptance of our formal recommendations

	2004-05		2003-04	
	Number		Number	
Recommendations accepted	163	75%	110	48%
Recommendations rejected	18	8%	17	8%
Recommendations noted or under consideration by management	23	11%	60	26%
Client made no response	14	6%	41	18%
<b>Total recommendations (from sample of 30 entities)</b>	<b>218</b>	<b>100%</b>	<b>228</b>	<b>100%</b>

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### Measure 3: Stakeholder assessment of our relevance and timeliness, and the value we add

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This was a new measure for 2004-05, and formed part of a broader review of our stakeholder feedback mechanisms. An independent assessor carried out a pilot study to gather feedback from stakeholders, from 3 interviews – one with a Select Committee chairperson, and 2 with representatives of sector organisations.

On a scale from 1 (“strongly disagree”) to 5 (“strongly agree”) the average results were:

- We focus on issues of importance: 4.33
- We are responsive to our stakeholders: 4.33
- Our staff have an excellent sector understanding: 5.00
- Our staff work effectively with our stakeholders: 4.33

The results were based on very small sample. We will fully implement the stakeholder feedback study during 2005-06.

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### Measure 4: Reduction over time in the recurrence of key themes in enquiries we receive

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We responded to 238 enquiries from taxpayers, ratepayers and MPs in 2004-05, and 106 enquiries relating to the Local Authorities (Members’ Interests) Act 1968.

Many of these were about:

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

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

- conflicts of interest – both financial and non-financial; and
- advertising and publicity undertaken at public expense.

These themes were common in 2003-04 too.

During 2004-05, we produced guidance on conflicts of interest for local authorities, and published a report on Government and parliamentary publicity and advertising (refer to page 24).

We would expect to see these 2 themes recurring less often in the future.

## Measure 5: Improvements in aspects of entity management (as measured by our assessments)

In the central government sector we have, since 1994, analysed trends in the assessments our auditors make about certain aspects of financial and service performance management – known as “the 5 management aspects”.

Figures 5 and 6 show changes in assessments of the 5 management aspects for 2003-04 compared with 2002-03, and for 2002-03 compared with 2001-02. (The data

is always one year behind the year of the Annual Report.)

We looked at this data in terms of net changes (that is, the number of higher assessments compared with the number of lower assessments). Overall, for the 87 entities in the 4 classes reviewed, there had been another net improvement in the assessments of the 5 management aspects from 2002-03 to 2003-04 (there were 29 higher assessments and 22 lower). While this indicated some improvement in the management of public sector entities generally, the results on a class-by-class basis varied.

Figure 5  
**Changes in 5 management aspect assessments, overall results**

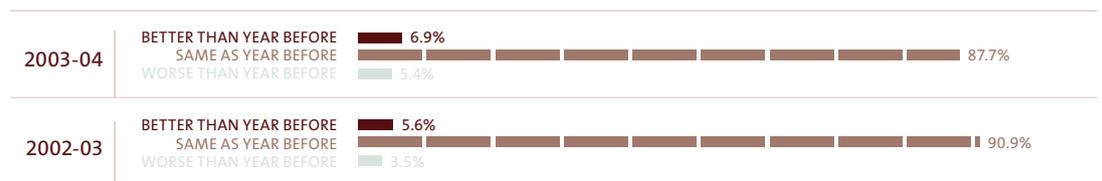
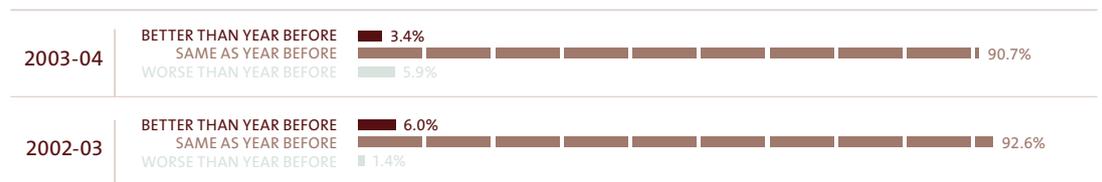
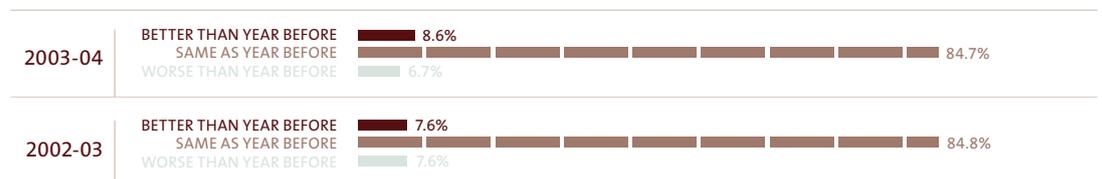


Figure 6  
**Changes in 5 management aspect assessments, class-by-class**

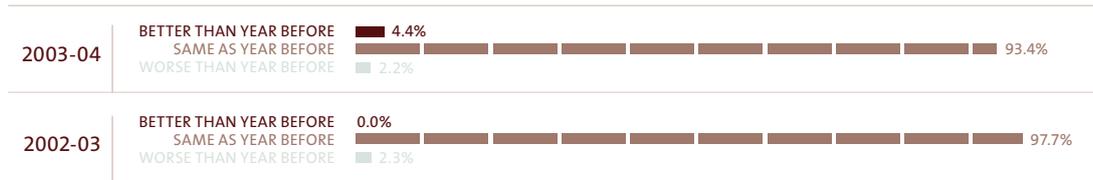
Government departments – 2003-04 results worse than 2002-03 results.



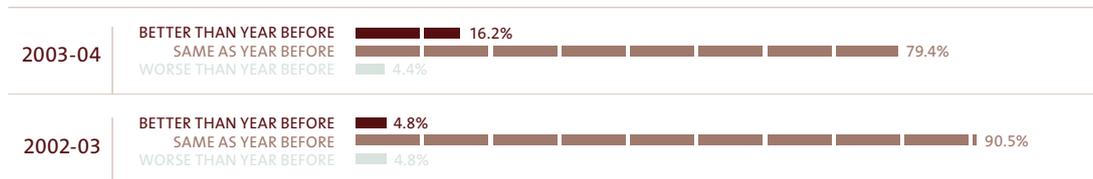
District Health Boards – 2003-04 results slightly better than 2002-03 results.



Crown Research Institutes – marginally better than the previous year.



State-owned Enterprises – marked improvement.



In government departments, 12 of the 205 assessments worsened, and only 7 improved. Of the 105 District Health Board assessments, 9 were higher but 7 were lower than the previous year’s results. Of the 45 Crown Research Institutes, one assessment was worse and 2 improved. However, 11 of the 68 assessments for State-owned Enterprises were higher, and only 3 were lower than those for the previous year.

Note: Changes to the Controller function, which take effect from 1 July 2005, will make this measure redundant.

**Measure 6:**

**All funds released from the Crown Bank Account will have appropriate parliamentary approval (100% compliance)**

There were no breaches during 2004-05 – all warrants issued by the Governor-General for the release of funds, and daily amounts released to departments to fund their activities, were supported by appropriations and were for lawful purposes.

**Did our work maintain or improve our desired outcomes?**

We consider that, because of our work in 2004-05, our desired outcomes have been maintained at existing levels:

- New Zealand improved its ranking on the Transparency International Corruption Perceptions Index.
- Public entities accepted more of our recommendations arising from annual audits.
- A pilot study to gather feedback from our stakeholders indicated that our work is considered relevant and timely.
- We produced guidance about conflicts of interest, and a report on Government publicity and advertising, which may reduce the number of enquiries we receive on these topics in future years.
- Overall, the management of entities stayed at similar levels (measured through our assessments of “the 5 management aspects”).

## Governance report

We have in place a sound framework for governance.<sup>3</sup> Our framework incorporates the culture, structures, and processes for decision-making, accountability, control, and behaviour, and provides the system within which:

- the Auditor-General performs his statutory functions;
- the Auditor-General is accountable to Parliament for his stewardship of the resources entrusted to him;
- the strategies and goals of the organisation are set, promoted and achieved;
- important risks to the organisation are identified and managed; and
- ethical values and behaviours and responsible decision-making are promoted, and inappropriate actions and behaviours are dealt with.

### Decision-making

We reviewed our leadership model after 6 months of operation, and made some changes to ensure greater role clarity of the various leadership groups.

We established a framework for stakeholder feedback, then implemented a pilot feedback study and an organisation-wide staff survey.

### Accountability

We created an evaluation framework, endorsed by the Officers of Parliament Committee, to measure the effect of our performance audits.

We aligned our organisation-wide corporate and Strategic Audit Planning processes.

### Control

We made good progress in aligning the corporate policies for human resources, finance and information technology of the OAG and Audit NZ.

We reviewed our employee fraud policy, and aligned our internal independence processes.

We reviewed and published the Auditor-General's *Statement on Independence* for our auditors, and continued to refine and implement our project management approach.

### Behaviour

We reviewed our Code of Conduct during 2004-05, and used our staff survey to explore certain aspects of staff behaviour. The survey was one of the tools we used to measure our governance, so the results are discussed below.

## Measuring governance

We continued to work on suitable measures for governance. We started with measures around the "effectiveness" of our governance framework. Specifically, in the staff survey, we sought staff perceptions on ethics, values, and clarity of performance expectations.

The staff survey questions on ethics considered:

- how consistently staff apply our policies and procedures;
- whether staff do all that is necessary to deliver a quality piece of work;
- whether staff act with professional independence in providing advice; and
- whether staff act with integrity.

The average rating for these questions, for both the OAG and Audit NZ, was 4.6 out of 6.

<sup>3</sup> We described our governance framework in detail in our *Annual Report 2003-04*, pages 40-55.

The survey questions on values considered:

- whether staff trust their colleagues;
- whether staff understand how they are expected to behave to support the organisation's values;
- whether their manager behaves in ways which support the organisation's values;
- whether senior management acts in ways which support the organisation's values; and
- whether staff are honest in their interactions.

The average rating for these questions was 4.5 out of 6.

- The survey questions on performance expectations considered:
- how consistently the organisation communicates its performance expectations to staff;
- whether staff understand what is expected of them in their role;
- whether staff receive useful feedback in how well they are performing; and
- how clear goals and objectives are for staff to operate effectively in their roles.

The average rating for these questions was 4.1 out of 6.

The Audit Committee has also signalled its intention to review our governance framework during 2005-06. The Audit Committee report for 2004-05 is on page 41.

### **Did we maintain or improve our governance objectives?**

We consider that, through our work in 2004-05, we strengthened our governance framework and made some progress on measuring and reporting on the effectiveness of our governance arrangements. We will continue to refine our measurement in this area during 2005-06.

## Report of the Audit Committee for the year to 30 June 2005

### Members:

Anthony N Frankham FCA, FAMINZ, FIOD  
(Chairman), *Director, Frankham Lyne Limited*

Brigid McArthur BA, LLB (Hons), *Partner,  
Chapman Tripp, Barristers & Solicitors*

Ross Tanner MA (Hons), MPA (Harvard),  
*Director, Cranleigh Strategic Limited*

Robert Buchanan LLB (Hons) (from 20 May  
2005), *Assistant Auditor-General, Legal*

Kevin Simpkins FCA, CPFA, CA (S.A.)  
(to 20 May 2005), *Deputy Controller  
and Auditor-General*

The Audit Committee is an independent committee established by and reporting directly to the Auditor-General. The Committee was established in 2003.

The purpose of the Committee is to oversee:

- risk management and internal control;
- audit functions (internal and external) for the office;
- financial and other external reporting;
- the governance framework and processes;
- compliance with legislation, policies and procedures.

The Committee has no management functions.

During the past year the Committee:

- met on four occasions to fulfil its duties and responsibilities;
- received briefings from the Auditor-General and other senior managers on key business activities of the Office, as a basis for ensuring risks facing the Office are being appropriately addressed;

- reviewed the Office's risk management framework and quarterly reports on the status of risks facing the Office;
- recommended, for the Auditor-General's endorsement, the internal audit programme for the year and monitored both the implementation of the programme and the timely implementation of endorsed recommendations;
- discussed with the external auditors their audit plan for the year and findings from their audit work;
- monitored the implementation of recommendations made by the external auditors;
- reviewed the annual plan and annual financial statements of the Office prior to their approval by the Auditor-General, having particular regard to the accounting policies adopted, major judgmental areas, and compliance with legislation and relevant standards;
- commenced a review, through the Internal Audit function, of the governance framework of the Office.

The Committee has reported to the Auditor-General on the above and other matters it has seen fit to do so. There are no outstanding or unresolved concerns which the Committee has brought to the attention of the Auditor-General.

Anthony N Frankham  
Chairman

for the Audit Committee  
16 September 2005

## Risk report

The organisation has a comprehensive framework for risk management, which was introduced in 2003-04 and integrated within our strategic and business planning.<sup>4</sup>

We have yet to fully apply this framework to all our management activities. In our *Annual Plan 2005-06*, we said we would “review the application of our risk management processes, and clarify management accountabilities for risk management” during 2005-06.

### Measuring risk

In our *Annual Plan 2004-05*, we set out the measures we would use to assess how widely we have implemented our risk mitigation strategies, and their quality. Our results are reported below.

---

#### Strategic risk 1: Not maintaining our credibility and reputation

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In assessing this strategic risk, we considered whether there has been any real or perceived damage to the credibility or reputation of the Auditor-General, and whether our mitigation strategies relating to this risk have been effectively implemented. The measures we used and the results for 2004-05 are:

*Measure: No instances where our credibility/reputation is badly damaged or litigation action taken against the Auditor-General.*

There were no instances where our credibility or reputation was badly damaged, and no litigation was taken against the Auditor-General.

*Measure: Sample stakeholders' assessment of perceptions of the organisation's credibility and reputation.*

We carried out a pilot implementation of our stakeholder feedback study. Through this, our stakeholders indicated that they continue to see the organisation as credible and reputable. We will refine this measure further as we implement the stakeholder study more fully.

*Measure: Our risk mitigation strategies are substantially implemented (90% completed).*

We agreed 7 more mitigation strategies for 2004-05 to enhance our existing strategies.

We fully completed or made substantial progress on 5 of those strategies. The other 2 strategies have been carried forward to 2005-06.

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#### Strategic risk 2: Not meeting our stakeholders' expectations

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In assessing this strategic risk, we considered whether or not our stakeholders think the organisation adds value, and is timely and relevant.

*Measure: Sample stakeholder assessment of the value we add, our timeliness and our relevance.*

<sup>4</sup> Our risk management framework was outlined in our *Annual Report 2003-04*, pages 60-61.

As discussed earlier, we carried out a pilot study to gather feedback from our stakeholders. We received the following average ratings in relation to this strategic risk:

- The organisation focuses on issues of importance: 4.3 out of 5
- The organisation is responsive to our needs: 4.3 out of 5

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### **Strategic risk 3:** **Not maintaining and building our capability**

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In assessing this strategic risk, we considered the Auditor-General's ability to attract and retain suitably qualified staff, and invest in their training. We assessed this through our capability measures – see pages 45-54.

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### **Strategic risk 4:** **Failing to successfully implement our 5-year strategic plan**

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In assessing this risk, we considered how widely we had implemented the activities set out in our *Strategic Plan*.

*Measure: Our Strategic Plan is substantially implemented (90% completed).*

We successfully implemented more than 80% of the actions arising from our strategy.<sup>5</sup> However, we did not make as much progress as we would have liked in 3 areas:

- innovation systems and processes;
- aligning our accountability frameworks throughout the organisation; and
- implementing ways to better access capacity for major inquiries.

<sup>5</sup> See our *Annual Plan 2004-05*, pages 62-65.

These actions have been carried forward into our plans for 2005-06.

Our progress in all of the actions arising from our strategy is described on page 52.

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### **Strategic risk 5:** **Not maintaining our independence**

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In assessing this risk, we considered whether there were any failures of independence of the Auditor-General – including breaches in the work we undertake and breaches by the people working for the Auditor-General.

*Measure: Our risk mitigation strategies are substantially implemented (90% completed).*

We agreed 2 more mitigation strategies for 2004-05, and completed them both.

*Measure: There are no failures in terms of the Auditor-General's Statement on Independence.*

During the year, several instances were identified that would have resulted in a breach of the Auditor-General's Statement on Independence, if appropriate interventions had not been put in place. All situations were resolved to the satisfaction of the Auditor-General.

*Measure: Independence Declarations for all OAG and Audit NZ staff are completed every 6 months.*

We aligned our independence processes, and implemented this for the 6 months ending May 2005.

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## Strategic risk 6: Serious audit failure

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We considered whether we have robust professional standards, quality assurance regimes, audit methodologies, peer review and substantiation processes. We also considered whether we have suitably qualified and trained personnel, and sufficient Professional Indemnity Insurance.

*Measure: Our risk mitigation strategies are substantially implemented (90% completed).*

We added 5 more mitigation strategies during 2004-05.

We fully completed or made substantial progress on 3 of these strategies, and carried 2 forward to 2005-06.

## Did we maintain or improve our risk management objectives?

In our view, during 2004-05 we strengthened our risk management framework and improved our measurement and reporting of risk.

During 2005-06, we will review how we apply our risk management framework, and make sure that it is fully embedded into all our management activities.

## Capability report

During the past 3 years, we have attempted to provide a more complete picture of our capability. This year, we again provide:

- base information – the number of staff, and the distribution of our staff by function, gender, and ethnicity;
- other information on current capability – particularly related to “supply” characteristics; and
- information on how we have maintained and enhanced our capability – including how much we spent on training and development, turnover levels, experience levels, sick leave taken, and staff satisfaction.

We report on the specific capability measures set out in our *Annual Plan 2004-05*, and our implementation of the actions required by our *Strategic Plan*. We also report on other capability initiatives we have put in place.

Based on this information and measurement, we make some tentative conclusions about the adequacy, quality, and effectiveness of our current capability.

### Base information

The OAG increased its staff numbers by 26% between 1 July 2004 and 30 June 2005, in response to the challenges raised in our *Strategic Plan*. Audit NZ maintained its staff numbers at a similar level to the previous year. However, it had trouble retaining and recruiting staff. This is discussed further on page 50.

The distribution of staff by function, gender and ethnicity remained largely the same as previous years.

Figure 7  
**Numbers and distribution of our staff – by function, gender, and ethnicity**  
– during the last 3 years

As at 30 June	2005	2004	2003
<b>Staff numbers (full-time equivalents)</b>			
Office of the Auditor-General	66.2	52.4	54.5
Audit New Zealand	177.6	178.4	194.2
<b>Total</b>	<b>243.8</b>	<b>230.8</b>	<b>248.7</b>
<b>Functional distribution</b>			
Audit/assurance	69%	65%	65%
Technical and advisory	4%	4%	7%
Corporate support	23%	27%	23%
Management	4%	4%	5%
<b>Gender distribution</b>			
All staff			
Women	48%	46%	49%
Men	52%	54%	51%
Management staff*			
Women	30%	-	-
Men	70%	-	-
<b>Ethnicity distribution</b>			
NZ European	53%	56%	62%
NZ Māori	4%	3%	3%
Pacific Islander	2%	1%	2%
Asian	14%	13%	9%
Other European	7%	8%	13%
Other ethnic groups	2%	4%	7%
Undeclared	18%	15%	4%

\* This figure represents the staff reporting directly to the Auditor-General. It is not comparable to data shown in previous years' Annual Reports.

### Contracted resources

We need additional people to help with our workload at certain times of the year. In 2004-05, we seconded 25 staff from international peer organisations and from our Audit Service Providers.

In return, during the year, we provided 6 staff to other audit offices, Audit Service Providers, or government departments.

### Other information

While we were, generally, able to attract applicants for operationally important vacancies, we struggled in some locations and for some technical positions. There were fewer internal promotions during 2004-05, because there were fewer vacancies at management level.

Figure 8

#### Applicants for operationally important vacancies, and promotions to managerial positions

Year ended 30 June	2004-05	2003-04
<b>Graduates – Audit NZ</b>		
Number of vacancies	25	13
Number of applicants	163	113
<b>Senior operational staff – OAG</b>		
Number of vacancies	7	Not reported
Average number of applicants for each externally advertised vacancy	11	Not reported
<b>Senior operational staff – Audit NZ</b>		
Number of vacancies	5	Not reported
Average number of applicants for each externally advertised vacancy	39	Not reported
<b>Internal staff promotions</b>		
Total number of internal staff promoted to management positions*	5	13

\* Directors, Managers, Sector Managers, Senior Performance Auditors, and Corporate Managers.

### Capability management

In 2004-05, we introduced an organisation-wide Capability (Talent) Management System to help attract, train, retain, and deploy our senior personnel.

As a result, we have been able to draw some tentative conclusions about the extent of, depth of, and challenges to, the future capability of the organisation. These were:

- we have several individuals with the potential to take on more senior roles, and a very strong base of technical expertise;
- there are skill gaps in leadership and innovation;
- there are some risks to our organisation if we fail to retain certain people and knowledge – especially for specialist technical positions; and
- we need to do more to promote understanding of, and alignment with, our strategy.

### External acknowledgement

Audit NZ was named the 2005 winner of the inaugural Talent Excellence Awards. The Talent Excellence Awards are designed to acknowledge excellence in identifying and managing talent. A panel of business and human resources leaders judged:

- the innovation and robustness of each organisation's approach to identifying and managing its talent; and
- the alignment within each organisation of individual expectations and organisational practice for factors such as leadership, feedback, remuneration and work/life balance.

## Maintaining and enhancing our capability

Data on our staff's experience, qualifications, and training is presented in Figure 9.

Figure 9  
**Staff experience, qualifications and training**

		2004-05	2003-04
<b>Experience</b>			
Average "time in job"	OAG	4.3 years	4.5 years
	Audit NZ	3.5 years	5.8 years
<b>Tertiary qualifications</b>			
Positions requiring tertiary qualifications	OAG	76%	76%
	Audit NZ	87%	87%
% of those positions filled by staff with tertiary qualifications	OAG	96%	95%
	Audit NZ	96%	98%
Staff with post-graduate qualifications	OAG	63%	61%
<b>Training and development</b>			
Average spent on formal training (each employee)	OAG	\$2,356	\$1,243
	Audit NZ	\$3,699	\$1,878
Average hours spent on upgrading skills (each employee)	OAG	57.3	Not reported
	Audit NZ	102	60.5*
Pass rate of staff undertaking ICANZ accreditation		100%	94%

\* Last year, we mistakenly reported the average as 149 hours.

The decrease in the average "time in job" reflects the new staff recruited to the OAG, and the higher staff turnover for Audit NZ.

### Training and development

During 2004-05, we doubled our investment in training and development, and sought to apply this budget more evenly throughout the year. (Historically, Audit NZ waited until the second half of the financial year to spend money on training, and the extent of training depended on business performance.)

Professional development within the organisation centred on the implementation

of our research and development projects: LTCCPs, the audit implications of new public sector management legislation, and NZIFRS.

In relation to personal and leadership development, we implemented:

- 4 workshops for senior staff, with an emphasis on emotional intelligence;
- a development pool for Associate Directors, incorporating learning and experiential development opportunities;
- a leadership development initiative for selected managers;
- individual development plans for senior staff based on 360° feedback;

- the start of an 18-month programme for selected staff below manager level, to equip them for future leadership roles; and
- Team Development Planning for each group.

Within the organisation, a number of senior staff also participated in local and international leadership programmes.

We continued to provide other courses, including presentation skills, media handling skills, writing skills, and health and safety.

Figure 10

### Organisational health and staff satisfaction

		2004-05	2003-04
<b>Organisational health</b>			
Turnover	OAG	8.0%	16.9%
	Audit NZ	34.8%	20.0%
Average sick leave taken for each employee	OAG	4.9 days	5.7 days
	Audit NZ	5.5 days	4.6 days
<b>Staff survey results (scores out of 6)</b>			
Job satisfaction		4.5	4.4*
Organisational satisfaction		4.6	4.5*
Satisfaction with management		4.4	4.6*
Understanding of vision and purpose		4.1	4.6*

\* Audit NZ only

Turnover in Audit NZ increased significantly during 2004-05, mostly within audit staff and corporate business support staff. A buoyant job market and a shortage of qualified staff were the main contributors.

There was a reduction in the average amount of sick leave taken. This reflected the increase in new staff, together with fewer individuals with long-term health issues.

### Measuring capability

Some of our measures to assess the success of our capability strategies were discussed above. For this reason, they have not been included in the following Figure.

Figure 11  
**Capability measures**

<b>PEOPLE – STAFF DEVELOPMENT, RETENTION AND USE</b>	
WE MEASURED HOW WE HAVE BUILT CAPABILITY FOR THE FUTURE BY	
Assessing our ongoing ability to attract, develop, and retain suitably qualified staff	
MEASURES WE HAVE USED	AS AT 30 JUNE 2005
% of ready successors for key roles	From our initial capability management assessments, there is a good supply of ready successors within the organisation for key roles
EEO initiatives substantially implemented (i.e. 90%)	Substantially achieved (see page 52)
EFM initiatives substantially implemented (i.e. 90%)	Substantially achieved (see page 52)
New resources (for performance audits) substantially recruited	Achieved (see pages 5 and 62)
Audit NZ ratio of senior to junior staff hours	Benchmark established (see page 10)
<b>CULTURE – CHANGES TO THE WAY PEOPLE WORK TOGETHER</b>	
WE MEASURED HOW WE HAVE BUILT CAPABILITY FOR THE FUTURE BY	
Assessing whether our staff perceive that the organisation creates an environment which supports them to be innovative and work collaboratively	
MEASURES WE HAVE USED	AS AT 30 JUNE 2005
Staff assessment of the extent of innovation and collaborative working that occurs and is encouraged	From the staff survey, the average rating out of 6 for the: <ul style="list-style-type: none"> <li>• extent of innovation was 2.9</li> <li>• environment for innovation was 4.0</li> <li>• extent of collaboration was 3.0</li> <li>• environment for collaboration was 4.5</li> </ul>
<b>PROCESSES AND SYSTEMS</b>	
WE MEASURED HOW WE HAVE BUILT CAPABILITY FOR THE FUTURE BY	
Assessing how effective the organisation’s processes and systems are in supporting the work of the organisation (including the governance and accountability mechanisms)	
MEASURES WE HAVE USED	AS AT 30 JUNE 2005
International peer comparators	No peer comparators were established
<i>Strategic Plan</i> implementation substantially achieved	80% achieved (see page 52)
Staff assessment of quality and usefulness of business processes/systems	In the staff survey, the average rating for overall perceptions of the organisation’s internal processes and systems was 4.4 out of 6

We substantially achieved most of our capability measures during 2004-05. Of interest, in relation to the new measures around culture, we saw staff rate the organisation highly in creating an environment which encouraged both innovation and collaboration, but rate the extent to which they thought innovation and collaboration were actually happening much lower. We are exploring these differences with staff.

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

During the year, we reviewed our Equal Employment Opportunity (EEO) and Effectiveness for Māori (EFM) programmes. We wrote our draft EEO programme for 2005-2007, and updated our EFM programme.

We continued to implement our existing EEO and EFM programmes. The main initiatives in 2004-05 were:

- we piloted an on-line, self-learning *Te Reo Māori* course;
- we prepared a pilot series of seminars to raise staff awareness of aspects of tikanga Māori and kaupapa Māori, including basic language skills, basic understanding of the Treaty of Waitangi, and general cultural awareness (the pilot seminars will be presented in 2005-06);
- we broadened our recruitment advertising, and ensured that the language in our advertisements was appropriate for diverse audiences;
- we learned 2 waiata, and welcomed our international counterparts to the 19th Commonwealth Auditors-General Conference with a pōwhiri; and

- we continued to consult with Te Puni Kōkiri on proposals for performance audits. We note that this consultation is becoming increasingly difficult for Te Puni Kōkiri, given its other work priorities. We intend to identify an alternative solution.

### Strategic Plan implementation

In our *Annual Plan 2004-05*, we set out our intentions for implementing our *Strategic Plan*. We said we would:

- embed our new governance and leadership structure;
- align our accountability frameworks throughout the organisation;
- implement a “project office” approach;
- develop strategies, processes, and systems for turning ideas into action;
- put more resources into our Performance Audit Group and implement ways to better access capacity for inquiries;
- pilot a revision of our Strategic Audit Planning process;
- continue to streamline our corporate support strategies and processes;
- fully implement the “Associate Director” pilot in Audit NZ;
- continue to implement our EEO and EFM initiatives;
- review our capability development model for senior staff; and
- implement a project to maximise our sector efforts.

We have completed, or made significant progress in, most of these.

## Other capability initiatives

Through our internal business planning process, we identified a number of other capability initiatives.

### Communications Strategy

We made good progress in implementing the projects under our Communications Strategy. Our achievements included:

- creating a shared intranet for the OAG and Audit NZ. This has improved communication between our 2 business units and provided a common reference point for internal information about the organisation and our strategy;
- reviewing our publications approach and implementing a new publishing strategy;
- starting to improve the accessibility and usability of the OAG's website;
- drafting revised policies for media relations, crisis management, and publishing; and
- documenting our existing internal communication mechanisms.

### Information Systems and Technology Plan

We wrote an Information Systems and Technology Plan during 2004. Based on this Plan, we:

- improved the e-mail and scheduling connections between the premises of the OAG and Audit NZ; and
- started a project to provide online the database we use to record and report information from Audit Service Providers on the conduct and outcomes of annual audits.

We started a review to make sure we have the systems, tools, and capability to support our internal and external accountability

measures. We finished a user-needs analysis, and called for registrations of interest in the implementation of a national resourcing system.

### Sustainable Development

We are committed to practices that enhance sustainability. In 2004-05 we:

- agreed an "Environmental Statement" about our commitment to sustainability, and agreed a Sustainability Plan for 2004-05;
- changed the design and printing of the Auditor-General's reports, based on the "green publishing guidelines" produced by the Ministry for the Environment (we were a case study for the Ministry, and talked to others about our changes) – we will go further in 2005-06, and redesign all our publications with sustainability in mind;
- made double-sided photocopying and printing the default setting for our copiers and printers;
- conducted another waste audit at the OAG, and reduced our waste by 1.3 tonnes since our audit in 2003 (or 45% for each person in the OAG);
- started a waste audit at Audit NZ's Wellington premises;
- set benchmarks for energy efficiency within the organisation;
- promoted the use of video conferencing facilities instead of travel; and
- used the Ministry for the Environment's sustainability guidelines when we refurbished a number of Audit NZ offices.

## Did we maintain or improve our capability outcomes?

As we did last year, we have formed some tentative conclusions based on the information and measures provided on the previous pages about the adequacy, quality, and effectiveness of our current capability.

### Adequate staff numbers

During 2004-05, the OAG has increased staff numbers in response to the issues identified in our *Strategic Plan*. Between April and June 2005, staff numbers in Audit NZ returned to levels similar to those at 30 June 2004 (even though, for the 6 months to 31 March, staff numbers had fallen by 11%). It was difficult to attract suitably qualified staff in tight labour market conditions.

We asked, as part of the staff survey, whether people felt there were enough skilled people to do the work. Audit NZ staff rated this as 3.7 out of 6, while OAG staff rated this more positively – 4.2 out of 6. Audit NZ's result reflects the staff shortages described above.

In our view, we generally have, or have access to, the staff we need to meet our current and future needs. However, we continue to have trouble recruiting suitably qualified staff in some locations, and for some specialist positions.

### Quality of our staff

Our average spending for each employee on training and development has increased by 50%. However, we have acknowledged that we need to do more, and this will be our emphasis for 2005-06.

In our staff survey, 78% of the staff who responded said they are committed to the organisation and intend to remain, and 75% indicated that they are happy with their job.

In our view, during 2004-05 we have strengthened the quality of our staff.

### Effectiveness of our staff and systems

The results from our pilot stakeholder study, and Audit NZ's client survey, indicated continuing high levels of satisfaction with the expertise of our senior staff and the quality of our relationships with our stakeholders. However, public entities continue to question the depth of sector and business knowledge of junior Audit NZ staff.

In our staff survey, we asked about the perceptions of staff on the availability and usefulness of our internal systems and processes, and access to the information they need to do their jobs. Staff rated this on average as 4.4 out of 6.

Therefore, we consider that we have at least maintained the effectiveness of our staff and systems.

### Capability outcomes

In conclusion, we consider that, through our implementation of the *Strategic Plan* and through our additional capability initiatives, we have enhanced the capability of our people and systems.

## International financial reporting standards

The Accounting Standards Review Board announced in December 2002 that reporting entities must adopt NZ International Financial Reporting Standards (NZIFRS) for periods beginning after 1 January 2007, with earlier adoption optional. The Minister of Finance announced in 2003 that the Crown will first adopt NZIFRS for its financial year beginning 1 July 2007.

Treasury is managing the adoption of NZIFRS for the consolidated financial statements of the Government reporting entity. Individual entities included within the consolidated financial statements of the Government reporting entity are responsible for ensuring their own NZIFRS preparedness. Treasury provides guidance to these entities and facilitates implementation on common issues.

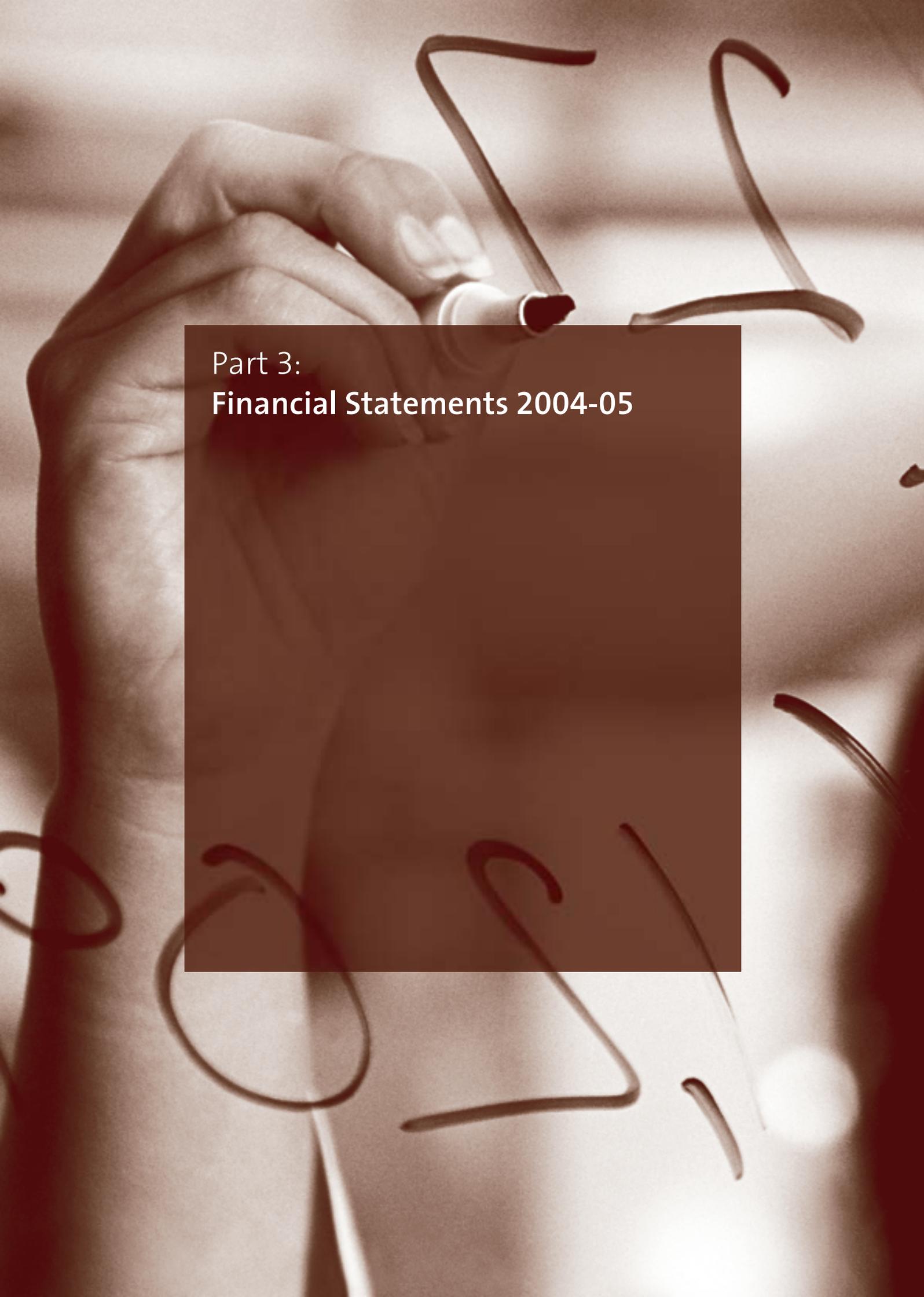
The phases for implementing NZIFRS for the Crown financial statements are:

- *Submissions on standards* – reviewing and commenting on NZIFRS exposure drafts to ensure they are applicable to the public sector. While a significant amount of this phase's work has been completed, exposure drafts continue to be issued for revisions and additions to approved NZIFRS.
- *Policy choice* – developing NZIFRS accounting policies for the Crown financial statements and implementation guidance. Policy development is nearly complete with draft NZIFRS policies recently provided to entities for consultation. Developing implementation guidance will be ongoing as issues arise in implementing NZIFRS.

- *Systems and transition* – updating disclosures and systems to capture the policy changes. These systems and transition tasks are currently underway. The intention is to capture comparative NZIFRS data throughout the 2006-07 financial year in parallel with current reporting requirements.
- *Full adoption* – refining forecasting policies under NZIFRS, preparing the 2007 Budget on an NZIFRS basis, and publishing NZIFRS financial reports for the Crown. The first interim report will be for the period ending 30 September 2007. The first audited financial statements will be for the year ending 30 June 2008.

The potential areas of impact from adoption of NZIFRS may change materially as implementation unfolds.

As part of the Government reporting entity, the office is adopting the Treasury timetable to implement NZIFRS and we expect little impact upon our financial statements.



Part 3:  
**Financial Statements 2004-05**

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## AUDIT REPORT

### TO THE READERS OF THE CONTROLLER AND AUDITOR-GENERAL'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

We have been appointed by the House of Representatives to carry out the audit of the financial statements of the Controller and Auditor-General for the year ended 30 June 2005.

#### Unqualified Opinion

In our opinion the financial statements of the Controller and Auditor-General on pages 61 to 96:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Controller and Auditor-General's financial position as at 30 June 2005;
  - the results of its operations and cash flows for the year ended on that date; and
  - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 30 September 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Controller and Auditor-General and our responsibilities, and explain our independence.

#### Basis of Opinion

We carried out the audit in accordance with New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.



Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Controller and Auditor-General;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

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

The Controller and Auditor-General is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Controller and Auditor-General as at 30 June 2005. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. This responsibility arises from section 37 of the Public Audit Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 38 of the Public Audit Act 2001 and the Public Finance Act 1989.

#### **Independence**

When carrying out the audit we followed the independence requirements of the New Zealand Institute of Chartered Accountants.

We carry out audit assignments on behalf of the Controller and Auditor-General. The level of work from these assignments is no greater than the level of work prior to our appointment as auditor. Other than the audit and these assignments, we have no relationship with or interests in the Controller and Auditor-General.

*CST NEXIA Audit*

**CST NEXIA Audit  
Chartered Accountants  
Manukau City, New Zealand**

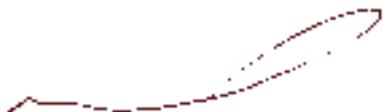
## Statement of Responsibility

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

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

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

In my opinion, the information set out in the statements and attached notes to those statements fairly reflects our service performance, financial activities, and cash flows for the year ended 30 June 2005, and our financial position as at that date.



K B Brady  
Controller and Auditor-General

30 September 2005



(countersigned)

D E Atkin  
Finance Manager

30 September 2005

# Statement of Objectives and Service Performance

## for the year ended 30 June 2005

61

We set out our statement of objectives and service performance for each output class in our *Annual Plan 2004-05*. Our performance during 2004-05 in each output class is set out below.

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

#### Description

This output class includes:

- 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; and
- preparation of a written history of the Audit Office.

For descriptions of our work under each output class, refer to Part 1 of this report.

#### 1 Reports to Parliament and other constituencies (reports on the results of annual audits, performance audits, major inquiries, and other activities)

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Reports on the results of annual audits	2	At least 2	2
Other reports (performance audits, major inquiries, other)	15	At least 17	16
Hours undertaking performance audits	17,159 hours	At least 22,100 hours	-
Research and development implementation plans	Substantially achieved	At least 90%	
Pilot project to enhance Strategic Audit Planning	Implemented (see pages 5 and 39)	Achieve implementation	-
<b>Cost (\$000)</b>	<b>3,914</b>	<b>4,005</b>	<b>3,287</b>
<b>Timeliness</b>			
All inquiry reports provided within the deadlines agreed in the terms of reference	Achieved	Achieve measure	Achieved

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
All performance audit and special study reports provided within the deadlines agreed in audit plans	Partly achieved	Achieve measure	Partly achieved
Pilot project to enhance Strategic Audit Planning	Completed (see pages 5 and 39)	Complete by 30 June 2005	-
<b>Quality</b>			
Complete an independent review of performance audits and special studies	Completed	Complete review	Completed
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

During 2004-05, we recruited additional staff to our Performance Audit Group. Delays in the new staff starting, and their training requirements, had an effect on the number of performance audits we completed. Funding not used for the planned increase in the number of performance audits has been returned to the Crown.

In December 2004, we revised our original budget of 22,100 hours to 17,700 hours, because recruiting appropriately qualified people proved extremely difficult. We achieved 17,159 actual hours against the revised budget.

On average, it took us 12.3 months to complete the performance audits we published in 2004-05, which we consider is too long. However, the 6 most recently completed performance audits took, on average, 7.9 months. This improved timeliness resulted from:

- better internal governance procedures;
- better scoping of audits;
- improved relationship management; and
- improved capability.

In 2004-05, Dr Marilyn Waring and the Office of the Auditor General of Canada were the independent external reviewers for 2 of our performance audit reports.

## 2 Reports and advice to Select Committees/Ministers (on financial reviews, *Estimates* examinations, annual financial audits, and other matters)

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Financial reviews	70	100	81
<i>Estimates</i> examinations	49	40	43
Reports to portfolio Ministers	128	120	142
Other	6	20	29
<b>Cost (\$000)</b>	<b>794</b>	<b>783</b>	<b>699</b>
<b>Timeliness</b>			
All reports provided at least 2 days before an examination, unless otherwise agreed with a Committee	97%	100%	100%
All reports provided to Ministers before Select Committee scrutiny of departmental and Crown entity performance	100%	100%	100%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

In 2004-05, the Finance and Expenditure Committee allocated 137 entities to Select Committees for financial review, and allocated 67 Votes for *Estimates* examination. While the Select Committees consider all the entities and Votes allocated to them, only a selection are subjected to a full financial review or *Estimates* examination each year. The Select Committees decide which, and how many, entities and Votes receive such scrutiny, and therefore how many briefings we have to prepare.

The yearly variation that arises from this approach gives rise to the difference between the number of briefings provided in 2004-05, and the target number of briefings for that year. The variation is also reflected in the difference between the number of briefings provided in 2004-05, and the number provided in 2003-04.

Under the *Code of practice for the provision of assistance by the Auditor-General to select committees and members of Parliament*, the Auditor-General (unless otherwise directed by a Select Committee) must provide a written brief for every financial review conducted, and every Vote examined, as directed by a Select Committee. In 2004-05, we met this expectation.

### 3 Responses to enquiries from taxpayers, ratepayers, and Members of Parliament

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Taxpayers	59	60	37
Ratepayers	157	180	129
Members of Parliament	22	60	13
<b>Cost (\$000)</b>	<b>1,315</b>	<b>1,114</b>	<b>484</b>
<b>Timeliness</b>			
Provide initial response within 5 working days	82%	100%	92%
Complete within 30 working days	57%	80%	60%
Advise if the response will take longer than 30 working days	95%	100%	86%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

#### Comments

While the number of enquiries received was higher than last year (but less than our forecast), they continue to be increasingly complex.

Costs were higher than our forecast, because we needed to assign more senior staff to deal with the complexities of the enquiries we received.

We still need to improve our timeliness in this area, and in 2004-5 we have:

- reviewed how we manage enquiries; and
- sought to recruit people to better facilitate the management, conduct and timeliness of enquiries, in line with our *Strategic Plan*.

#### 4 Advice to government bodies and other agencies

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Provide advice on demand	*	*	*
<b>Cost (\$000)</b>	1,351	1,457	634
<b>Timeliness</b>			
We will deliver the advice in accordance with the terms of reference agreed, and meet the deadline in the terms of reference	Substantially achieved	Achieve measure	Substantially achieved
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

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

- the State Services Commission and the Treasury;
- local government sector groups;
- the Financial Reporting Standards Board, and various other Committees;
- the International Federation of Accountants – International Public Sector Accounting Standards Board;
- delegations from overseas countries; and
- INTOSAI – Working Group on Environmental Auditing.

#### Comments

During 2004-05, we undertook significant work in this activity both domestically and internationally. We acted as advisors to Select Committees, provided comments on draft legislation and policy proposals, and worked with various sector groups on improvements to public sector accountability and reporting.

A full description of the activities is detailed on page 31. We intend to maintain our involvement at similar levels.

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

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Enquiries	106	80	80
<b>Cost (\$000)</b>	<b>70</b>	<b>81</b>	<b>138</b>
<b>Timeliness</b>			
Provide initial response within 5 working days	92%	100%	95%
Complete within 30 working days	96%	80%	89%
Advise if the response will take longer than 30 working days	100%	100%	100%
<b>Quality</b>			
Prepare and pilot a survey of stakeholders to ascertain the quality, relevance and responsiveness of our reporting and advice	Pilot survey undertaken (see page 36)	Undertake pilot survey	-

### Comments

The higher than usual number of enquiries arose largely from the triennial local government elections, held in October 2004. A number of candidates for election, and local authorities themselves, sought guidance on how to interpret the rule about a candidates' eligibility for election to an authority with which they had an existing contractual relationship. A small number of candidates withdrew upon becoming aware of the rule.

We are pleased to report that we did not become aware of any significant breaches of the Act during the year, and did not have to undertake any formal investigations with a view to prosecution.

## 6 History of the Audit Office

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Produce a written history of the Audit Office, in conjunction with the Ministry for Culture and Heritage	-	-	-
<b>Cost (\$000)</b>	25	26	-
<b>Timeliness</b>			
Project milestones achieved	100%	100%	-
<b>Quality</b>			
Use people with appropriate professional skills	Achieved	-	-

### Comments

We have made good progress in preparing a written history of the Audit Office. While we had originally intended to complete the project over a 3-year period, we have extended it to 5 years after discussions with the Ministry for Culture and Heritage. Phase one of the project has been completed according to schedule during 2004-05, including:

- identifying and retrieving from Archives New Zealand all relevant files;
- completing most of the oral interviews; and
- starting to research specific periods.

### Financial performance of Output Class D1

Measure	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	7,914	7,863	5,285
Other	2	4	7
<b>Expenditure</b>	(7,469)	(7,466)	(5,242)
<b>Surplus</b>	<b>447</b>	<b>401</b>	<b>44</b>

### Comments

Our spending is well below our forecast because we could not fully staff the Performance Audit Group for the whole year. We agreed with the Officers of Parliament Committee, in February 2005, to return the surplus funding to the Crown.

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

### Description

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

The Controller function includes monitoring departmental and Crown financial reporting systems, to ensure that the releases of funds are supported by appropriations and are for lawful purposes.

### Performance against output targets

Measure	2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quantity</b>			
Number of warrants and controller statements expected to be certified:			
Governor-General warrants	8	6	7
Controller statements	248	245	249
<b>Quality</b>			
The Controller and Auditor-General will ensure that:			
Warrants and controller statements are certified only once correct documentation provided by the Treasury (to support the certification of a warrant or the release of funds from the Crown Bank Account)	Achieved	Meet measure	Met
Issues from the Crown Bank Account will be certified only if the issue is supported by appropriation by Parliament or other lawful authorities granted by Parliament	Achieved	Meet measure	Met
All payments not within a warrant from the Governor-General will be refused	No payments made without authority	Meet measure	No payments made without authority
<b>Timeliness</b>			
All valid certifications provided promptly on day that documentation is provided by the Treasury for certification	100%	100%	100%
<b>Cost (\$000)</b>			
Value of resources applied	83	130	252

### Comments

While the volume of controller statements issued continued at a similar level to that of previous years, and the quality of statements presented remained sound during 2004-05, we applied fewer resources because the Treasury's performance was maintained.

### Financial performance of Output Class D2

Measure	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	83	130	252
<b>Expenditure</b>	(83)	(130)	(252)
<b>Surplus</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

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

### Description

This output class relates to the provision of audit services to public entities. The work in this output class is carried out solely by Audit NZ and the OAG. The 2 significant outputs of this class are:

- *audit reports* – on whether the financial statements fairly reflect the financial and non-financial performance of these entities; and
- *management reports* – to the management and governing bodies of these entities, on issues arising from the audit.

From 1 July 2005, Output Class D3 will be combined with Output Class D4 to form one output class for the provision of audit and other assurance services.

### Performance – in quantity and timeliness – against Output Class D3 targets

Group	Audit status			Timely issue of audit reports		Timely issue of management reports	
	Entities in group <sup>1</sup>	Carried out	Arrears at year end	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
<b>Government departments and Offices of Parliament</b>	<b>8</b>	<b>8</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
2003-04	11	11	-	100%	100%	100%	100%
<b>Major statutory bodies<sup>4</sup></b>	<b>18</b>	<b>21</b>	<b>1</b>	<b>100%</b>	<b>83%</b>	<b>100%</b>	<b>86%</b>
2003-04	19	17	3	100%	79%	100%	100%
<b>Other local authorities<sup>5</sup></b>	<b>19</b>	<b>19</b>	<b>3</b>	<b>100%</b>	<b>74%</b>	<b>100%</b>	<b>94%</b>
2003-04	21	19	3	100%	81%	100%	100%
<b>Miscellaneous public bodies<sup>6</sup></b>	<b>87</b>	<b>111</b>	<b>21</b>	<b>75%</b>	<b>55%</b>	<b>100%</b>	<b>95%</b>
2003-04	101	129	36	75%	57%	100%	99%
<b>Audits for which fees will not be charged<sup>7</sup></b>	<b>146</b>	<b>160</b>	<b>49</b>	<b>75%</b>	<b>33%</b>	<b>100%</b>	<b>100%</b>
2003-04	154	162	73	75%	23%	100%	100%
<b>Totals</b>	<b>278</b>	<b>319</b>	<b>74</b>		<b>48%</b>		<b>97%</b>
2003-04	306	338	115		44%		100%

1 Figures may not balance exactly, or may vary from those presented in the *Annual Plan 2004-05* and the *Annual Report 2003-04*, because of in-year changes to the audit portfolio.

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

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

4 State-owned Enterprises, tertiary education institutions, producer boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

5 Licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners.

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

7 Entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee – Cemetery Trustees, Hall and Reserve Boards, Racecourse Trustees, and Patriotic Councils. During 2004-05, the Crown funded up to \$190,000 of the cost of these audits.

## Performance – in quality – against Output Class D3 targets

Measure		2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quality</b>				
Audit reports	Work will be conducted with due professional care, ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the ICANZ standards and other standards which the Auditor-General deems appropriate for the public sector	Achieved	Achieve measure	Achieved
Management reports				
Quality assurance reviews	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see page 10)	Undertake programme	Programme undertaken
Stakeholder satisfaction	Audit New Zealand will survey a range of its clients to ascertain satisfaction with the quality of work completed	Completed (see page 16)	Undertake survey	-
Balance of non-financial and financial audit work	We will set a benchmark of non-financial audit work to financial audit work	Completed (see page 10)	Set benchmark	-
Balance of senior and junior staff involved in annual audits	We will determine the proportion of senior to junior audit staff involved in annual audits	Completed (see page 10)	Determine proportion	-
Effectiveness	We will report on trends in non-standard audit reports issued up to and including the current year	See pages 11-12	-	See page 30 of the <i>Annual Report 2003-04</i>

### Comments

Audit arrears are 36% less than the previous year, reflecting our concerted effort to reduce arrears.

### Financial performance of Output Class D3

	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Crown	186	190	100
Other	3,973	4,076	3,477
<b>Expenditure</b>	(3,928)	(4,110)	(3,474)
<b>Surplus</b>	<b>231</b>	<b>156</b>	<b>103</b>

### Comments

The financial result for this output class is within our forecast.

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

### Description

This output class relates to the provision of audit services to public entities, and is appropriated on a Mode B net basis. Audit NZ and contracted Audit Service Providers carry out the work in this output class.

The 2 significant outputs of this class are:

- *audit reports* – on whether the financial statements fairly reflect the financial and non-financial performance of these entities; and
- *management reports* – to the management and governing bodies of these entities, on issues arising from the audit.

From 1 July 2005, Output Class D4 will be combined with Output Class D3 to form one output class for the provision of audit and other assurance services.

### Performance – in quantity and timeliness – against Output Class D4 targets

Group	Audit status			Timely issue of audit reports		Timely issue of management reports	
	Entities in group <sup>1</sup>	Carried out	Arrears at year end	Target <sup>2</sup>	Actual	Target <sup>3</sup>	Actual
<b>Government Departments and Offices of Parliament</b>	<b>37</b>	<b>37</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
2003-04	36	36	-	100%	100%	100%	100%
<b>Major statutory bodies<sup>4</sup></b>	<b>97</b>	<b>97</b>	<b>5</b>	<b>100%</b>	<b>93%</b>	<b>100%</b>	<b>95%</b>
2003-04	99	99	3	100%	91%	100%	100%
<b>Regional, city and district councils</b>	<b>86</b>	<b>86</b>	<b>-</b>	<b>100%</b>	<b>98%</b>	<b>100%</b>	<b>95%</b>
2003-04	86	86	-	100%	100%	100%	99%
<b>Other local authorities<sup>5</sup></b>	<b>422</b>	<b>443</b>	<b>41</b>	<b>100%</b>	<b>74%</b>	<b>100%</b>	<b>90%</b>
2003-04	397	415	39	100%	79%	100%	95%
<b>School boards of trustees</b>	<b>2,548</b>	<b>2,645</b>	<b>155</b>	<b>50%</b>	<b>20%</b>	<b>100%</b>	<b>98%</b>
2003-04	2,591	2,682	178	50%	26%	100%	97%
<b>Miscellaneous public bodies<sup>6</sup></b>	<b>488</b>	<b>494</b>	<b>68</b>	<b>75%</b>	<b>58%</b>	<b>100%</b>	<b>96%</b>
2003-04	390	414	62	75%	60%	100%	99%
<b>TOTALS</b>	<b>3,678</b>	<b>3,802</b>	<b>269</b>		<b>35%</b>		<b>97%</b>
2003-04	3,599	3,732	282		40%		97%

1 Figures may not balance exactly, or may vary from those presented in the *Annual Plan 2004-05* and the *Annual Report 2003-04*, because of in-year changes to the audit portfolio.

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

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

4 State-owned enterprises, tertiary education institutions, producer boards, District Health Boards, Crown Research Institutes, and other major Crown entities.

5 Licensing trusts, airports, council-controlled organisations, council-controlled trading organisations, energy companies, port companies, and Sinking Fund Commissioners.

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

## Performance – in quality – against Output Class D4 targets

Measure		2004-05 actual	2004-05 forecast	2003-04 actual
<b>Quality</b>				
Audit reports	Work will be conducted with due professional care, ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the ICANZ standards and other standards which the Auditor-General deems appropriate for the public sector	Achieved	Achieve measure	Achieved
Management reports				
Quality assurance reviews	A quality assurance programme will be carried out on all audit arrangements and work undertaken	Programme undertaken (see page 10)	Undertake programme	Programme undertaken
Stakeholder satisfaction	Audit New Zealand will survey a range of its clients to ascertain satisfaction with the quality of work completed	Completed (see page 16)	Undertake survey	-
Balance of non-financial and financial audit work performed	We will set a benchmark of non-financial audit work to financial audit work	Completed (see page 10)	Set benchmark	-
Balance of senior and junior staff involved in annual audits	We will determine the proportion of senior to junior audit staff involved in annual audits	Completed (see page 10)	Determine proportion	-
Effectiveness	We will report on trends in non-standard audit reports issued up to and including the current year	See pages 11-12	-	See page 30 of the <i>Annual Report 2003-04</i>

## Comments

Audit arrears are slightly lower than the previous year.

Overall, in relation to Audit Reports and Management Reports, the results are similar to the previous year in that there remain timeliness issues. Under the Public Finance Act 1989, school boards of trustees have to provide their audited financial statements by 30 April each year. In most cases, they are completed by 31 May. With the passing of the Crown Entities Act 2004, schools have 5 months to produce audited financial statements, which will be reflected in improved performance from next year.

The quality of work within this output class remains at similar levels to the previous year.

## Financial performance of Output Class D4

	2004-05 actual \$000	2004-05 forecast \$000	2003-04 actual \$000
<b>Revenue</b>			
Other	31,327	29,751	31,697
<b>Expenditure</b>	(31,229)	(29,361)	(31,686)
<b>Surplus</b>	<b>98</b>	<b>390</b>	<b>11</b>

## Comments

The result for this output class is above our forecast. However, as revenue is greater than expenses, there is no unappropriated expenditure. The output is appropriated on a Mode B net basis.

## Financial Performance Indicators

### for the year ended 30 June 2005

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Details of our performance against measures established in the *Annual Plan 2004-05* are summarised below.

Measure	2004-05 actual \$000	2004-05 forecast \$000	Annual Plan 2004-05 \$000	2003-04 actual \$000
<b>Operating results</b>				
Revenue: other than Crown	35,302	33,831	33,325	35,175
Output expenses	42,709	41,067	41,155	40,654
Surplus before capital charge	863	1,169	541	356
Surplus	776	947	254	158
<b>Working capital management</b>				
Current assets less current liabilities	1,693	2,641	2,527	2,446
Current ratio	124%	148%	154%	145%
Average receivables and work in progress	42 days	45 days	59 days	45 days
<b>Resource use</b>				
Physical assets:				
Total physical assets at year-end	2,347	2,149	2,005	2,220
Additions as % of physical assets	65%	58%	67%	54%
<b>Taxpayers' funds</b>				
Level at year-end	3,586	3,586	3,586	3,586
<b>Net cash flows</b>				
Surplus on operating activities	3,005	1,897	1,484	2,844
Deficit on investing activities	(1,310)	(1,085)	(1,170)	(1,068)
Deficit on financing activities	(422)	(158)	(254)	(151)
Net increase in cash held	1,273	654	60	1,625

# Statement of Accounting Policies

## for the year ended 30 June 2005

### Reporting entity

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

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

The Controller and Auditor-General's activities include work undertaken by the OAG and Audit NZ, and contracted Audit Service Providers.

### Measurement base

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

### Accounting policies

#### Revenue

The office derives revenue from the Crown for outputs provided to Parliament, from audit fees for the audit of public entities' financial statements, and from other assurance work carried out by Audit NZ at the request of public entities.

Crown revenue is recognised in the period to which it relates. Audit fee and other assurance revenue earned by the OAG and Audit NZ is recognised as the work progresses and time is allocated within work in progress to public entities.

Audit fee revenue from audits carried out by contracted Audit Service Providers is recognised in the period that the OAG is notified of the audits' completion. Contracted Audit Service Providers invoice and collect audit fees directly from public entities.

#### Expenses

Fees paid to contracted Audit Service Providers are recognised in the period that the OAG is notified of the audit completion. Contracted Audit Service Providers invoice and collect audit fees directly from public entities.

#### Revenue in advance

Revenue in advance is recognised where invoiced audit fees exceed the value of time allocated within work in progress to public entities.

#### Output cost allocation

**Direct costs** are those costs that are directly attributable to a single output.

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 contracted Audit Service Providers is charged directly to Output Class D4.

**Indirect costs** are all other costs. These costs include: payroll costs; variable costs such as travel; and operating overheads such as property costs, depreciation, and capital charges.

Indirect costs are allocated according to the time charged to a particular activity.

### Receivables and work in progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.

### Leases

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

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as **operating leases**. Operating lease costs are expensed on a systematic basis over the period of the lease.

### Physical assets

Physical assets are recorded at cost, which is the value of the consideration given to acquire or create the asset, plus any directly attributable costs of bringing the asset into 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 to allocate the cost of the assets, less their residual value, over their expected useful lives. The estimated useful lives are:

Furniture and fittings	4 years
Office equipment	2.5-5 years
IT hardware	2.5-5 years
IT software	2.5-5 years
Motor vehicles	3-4 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 or resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

### Foreign currency

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

### Financial instruments

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

### Goods and Services Tax (GST)

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

- payables and receivables in the Statement of Financial Position, which include GST; and
- figures in the Statement of Appropriations, which include GST unless noted.

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

### Income tax

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

### Commitments

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

### Contingent liabilities

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

### Changes in accounting policies

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

## Statement of Financial Performance

### for the year ended 30 June 2005

80

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement reports the revenue and expenses relating to all outputs (goods and services) produced by the office. Supporting statements showing the revenue and expenditure of each output class are on pages 67, 69, 72 and 75.

	Notes	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
<b>Continuing activities</b>				
<b>Revenue</b>				
Crown	2	8,183	8,183	5,637
Other	3	35,302	33,831	35,175
Total revenue		<u>43,485</u>	<u>42,014</u>	<u>40,812</u>
<b>Expenses</b>				
Personnel costs		20,143	19,542	19,278
Operating costs	4	21,357	20,147	20,222
Depreciation	5	1,122	1,156	956
Capital charge	6	87	222	198
Total expenses		<u>42,709</u>	<u>41,067</u>	<u>40,654</u>
<b>Surplus</b>		<u><b>776</b></u>	<u><b>947</b></u>	<u><b>158</b></u>

\* See note 1 on page 88.

## Statement of Movements in Taxpayers' Funds (Equity) for the year ended 30 June 2005

81

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement combines information about the surplus with other aspects of the financial performance of the office, to give a measure of comprehensive income.

	Notes	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
Taxpayers' funds brought forward at 1 July		3,586	3,586	3,586
<b>Movements during the year</b>				
Surplus		776	947	158
Total recognised revenues and expenses for the year		776	947	158
<b>Flows to and from the Crown</b>				
Surplus payment due to the Crown	7	(776)	(947)	(158)
		(776)	(947)	(158)
<b>Taxpayers' funds at 30 June</b>		<b>3,586</b>	<b>3,586</b>	<b>3,586</b>

\* See note 1 on page 88.

## Statement of Financial Position

### as at 30 June 2005

82

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement reports total assets and liabilities. The difference between the assets and liabilities is called taxpayers' funds.

	Notes	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$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	8	4,313	3,694	3,040
Prepayments		388	290	535
Work in progress		430	1,150	1,272
Receivables	9	3,633	3,050	3,064
Total current assets		8,764	8,184	7,911
<b>Non-current assets</b>				
Physical assets	10	2,347	2,149	2,220
Total non-current assets		2,347	2,149	2,220
<b>Total assets</b>		<b>11,111</b>	<b>10,333</b>	<b>10,131</b>
<b>Current liabilities</b>				
Payables and accruals	11	3,531	2,554	2,872
Surplus payment due to the Crown	7	776	947	158
Provision for employee entitlements	12	2,491	2,140	2,076
Property lease liabilities	13	111	84	108
Finance lease liabilities	14	162	162	251
Total current liabilities		7,071	5,887	5,465
<b>Non-current liabilities</b>				
Provision for employee entitlements	12	454	860	795
Property lease liabilities	13	-	-	110
Finance lease liabilities	14	-	-	175
Total non-current liabilities		454	860	1,080
<b>Total liabilities</b>		<b>7,525</b>	<b>6,747</b>	<b>6,545</b>
<b>Net assets</b>		<b>3,586</b>	<b>3,586</b>	<b>3,586</b>

\* See note 1 on page 88.

# Statement of Cash Flows

## for the year ended 30 June 2005

83

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement summarises the cash movements in and out of the office during the year. It takes no account of money owed to the office or owing by the office, and therefore differs from the Statement of Financial Performance.

	Notes	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
<b>Operating activities</b>				
<b>Cash received from:</b>				
The Crown		8,077	8,183	5,637
Others**		22,589	21,892	23,373
<b>Cash disbursed on:</b>				
Production of outputs**		(24,900)	(25,490)	(23,430)
Net GST paid		(2,572)	(2,645)	(2,538)
Finance charges		(102)	-	-
Capital charge		(87)	(222)	(198)
Net cash flow from operating activities	15	<u>3,005</u>	<u>2,797</u>	<u>2,844</u>
<b>Investing activities</b>				
<b>Cash received from:</b>				
Sale of physical assets		209	160	124
<b>Cash disbursed on:</b>				
Purchase of physical assets		(1,519)	(1,881)	(1,192)
Net cash flow from investing activities		<u>(1,310)</u>	<u>(1,721)</u>	<u>(1,068)</u>
<b>Financing activities</b>				
<b>Cash disbursed on:</b>				
Surplus payment to the Crown		(158)	(158)	(151)
Repayment of finance lease		(264)	(264)	-
Net cash flow from financing activities		<u>(422)</u>	<u>(422)</u>	<u>(151)</u>
Total net increase in cash held		1,273	654	1,625
Add opening cash balance at 1 July		3,040	3,040	1,415
<b>Closing cash balance at 30 June</b>		<b><u>4,313</u></b>	<b><u>3,694</u></b>	<b><u>3,040</u></b>

\* See note 1 on page 88.

\*\* The Statement of Cash Flows does not include the contracted Audit Service Provider audit fees, as these do not involve any cash transactions within the office.

## Statement of Commitments

as at 30 June 2005

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement records those expenditures to which the office is contractually committed at 30 June 2005, and which will become liabilities if and when the terms of the contracts are met.

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

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

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Capital commitments</b>		
Less than one year	-	61
<b>Total capital commitments</b>	<u>-</u>	<u>61</u>
<b>Operating lease commitments</b>		
<b>Property lease commitments</b>		
Less than one year	1,600	1,537
One to 2 years	966	1,454
2 to 5 years	704	1,316
More than 5 years	-	64
<b>Total property lease commitments</b>	<u>3,270</u>	<u>4,371</u>
<b>Equipment lease commitments</b>		
Less than one year	278	279
One to 2 years	257	251
2 to 5 years	54	230
<b>Total equipment lease commitments</b>	<u>589</u>	<u>760</u>
<b>Total operating lease commitments</b>	<u>3,859</u>	<u>5,192</u>

## Statement of Contingent Liabilities

### as at 30 June 2005

85

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement discloses situations that exist at 30 June 2005, the ultimate outcome of which is uncertain and will be confirmed only on the occurrence of one or more future events after the date of approval of the financial statements.

The office did not have any contingent liabilities as at 30 June 2005 (nil as at 30 June 2004). There is potential for claims to arise against the office because of defalcations and other losses within entities of which the Auditor-General is the auditor. No demands for compensation have been made by any party as at the date of these financial statements. It is therefore impracticable to estimate any potential financial effect. The office has professional indemnity insurance.

There were no contingent assets as at 30 June 2005 (nil as at 30 June 2004).

## Statement of Appropriations for the year ended 30 June 2005

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

This statement reports actual expenses incurred against each appropriation administered by the office.

	Output Expenses		Appropriations
	GST exclusive \$000	GST inclusive <sup>1</sup> \$000	GST inclusive \$000
Operating flows			
<b>Annual appropriations</b>			
<b>Mode B Gross</b>			
D1 Reports and advice to Parliament	6,848	7,760	8,151
D2 Controller function	83	93	146
D3 Non-contested audit services	3,928	4,448	4,703
Total annual appropriations	<u>10,859</u>	<u>12,301</u>	<u>13,000</u>
<b>Other appropriations</b>			
<b>Mode B Gross</b>			
D1 Reports and advice to Parliament <sup>2</sup>	<u>621</u>	<u>621</u>	<u>621</u>
<b>Mode B Net</b>			
D4 Contested audit services <sup>3</sup>	<u>31,229</u>	<u>35,145</u>	<u>33,320</u>
Total other appropriations	<u>31,850</u>	<u>35,766</u>	<u>33,941</u>
Total output expenses as reported in the Statement of Financial Performance	<u><u>42,709</u></u>		
<b>Capital flows</b>			
<b>Non-departmental annual appropriation</b>			
Repayment of debt			
Overdraft repayment <sup>4</sup>		-	500
<b>Total appropriations</b>		<u><u>48,067</u></u>	<u><u>47,441</u></u>

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

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

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

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

## Statement of Unappropriated Expenditure for the year ended 30 June 2005

The office incurred no unappropriated expenditure during the year ended 30 June 2005 (nil for the year ended 30 June 2004).

## Statement of Trust Money

### for the year ended 30 June 2005

87

The accounting policies on pages 77-79, and notes on pages 88-96, form part of these statements.

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

A trust account records the financial transactions the office undertakes on behalf of SPASAI. All trust money transactions are recorded on a cash basis.

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

	2004-05 actual \$000	2003-04 actual \$000
Opening balance at 1 July	36	304
Receipts	124	350
	160	654
Payments	(135)	(618)
<b>Closing balance at 30 June</b>	<b>25</b>	<b>36</b>

# Notes to the Financial Statements

## for the year ended 30 June 2005

### Note 1: Budget estimates

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

	2004-05 Main budget estimates \$000	2004-05 Supplementary estimate changes \$000	2004-05 Final forecast estimates \$000	2004-05 Estimated actuals (forecast) \$000
<b>Revenue</b>				
Crown	8,084	99	8,183	8,183
Other	33,325	506	33,831	33,831
Total revenue	<u>41,409</u>	<u>605</u>	<u>42,014</u>	<u>42,014</u>
<b>Expenses</b>				
Personnel costs	20,135	(293)	19,842	19,542
Operating costs	19,158	1,389	20,547	20,147
Depreciation	1,575	(419)	1,156	1,156
Capital charge	287	(65)	222	222
Total expenses	<u>41,155</u>	<u>612</u>	<u>41,767</u>	<u>41,067</u>
<b>Surplus</b>	<u><b>254</b></u>	<u><b>(7)</b></u>	<u><b>247</b></u>	<u><b>947</b></u>

Forecasts represent the estimated actuals prepared in March 2005 as part of the 2006 Central Government budget process. The figures are unaudited.

### Note 2: Crown revenue

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

### Note 3: Other revenue

	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
Audit fees - departments	7,841	6,947	7,343
Audit fees - other	27,459	26,880	27,822
Miscellaneous	2	4	10
<b>Total other revenue</b>	<u><b>35,302</b></u>	<u><b>33,831</b></u>	<u><b>35,175</b></u>

\* See note 1 on page 88.

## Note 4: Operating costs

Operating costs include:

	2004-05 actual \$000	2004-05 forecast*	2003-04 actual \$000
Loss on sale of physical assets	61	-	36
Write-off of physical assets	-	-	60
Increase in provision for doubtful receivables	89	-	161
Fees to auditors for the audit of the office's financial statements	73	73	58
Fees to auditors for other services provided to the office	2	2	8
Finance lease costs	102	102	-
Equipment lease costs	69	69	452
Property lease costs	1,588	1,568	1,488
Fees paid to contracted auditors for audits of public entities	13,223	12,861	12,861

\* See note 1 on page 88.

## Note 5: Depreciation charge

	2004-05 actual \$000	2004-05 forecast*	2003-04 actual \$000
Furniture and fittings	147	173	130
Office equipment	98	116	110
IT hardware	314	231	136
IT software	365	486	477
Motor vehicles	198	150	103
<b>Total depreciation charge</b>	<b>1,122</b>	<b>1,156</b>	<b>956</b>

\* See note 1 on page 88.

## Note 6: Capital charge

The office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2005 was 8.0 percent (in 2004, it was 8.5 percent).

During the financial year, the office continued to participate in a pilot differential capital charge scheme. Under the scheme, interest earned on cash bank balances and term deposits (at 5.1%) was offset against the capital charge. For the year ended 30 June 2005, the capital charge reduced by \$200,000 (in 2004, it reduced by \$107,000) because of the scheme.

## Note 7: Surplus payment due to the Crown

The office is not permitted to retain operating surpluses under the Public Finance Act 1989.

Thus, the surplus for the year of \$775,146 is repayable to the Crown.

	30 June 2005 actual \$000	30 June 2004 actual \$000
Surplus	776	158
<b>Total provision for payment to the Crown</b>	<b>776</b>	<b>158</b>

## Note 8: Overdraft facility

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

During this financial year, no funds were drawn down under the facility (and none were drawn down in 2003-04).

## Note 9: Receivables

	30 June 2005 actual \$000	30 June 2004 actual \$000
Trade receivables	3,937	3,389
Provision for doubtful receivables	(422)	(333)
Net trade receivables	3,515	3,056
Crown debtor	106	-
Other receivables	12	8
<b>Total receivables</b>	<b>3,633</b>	<b>3,064</b>

## Note 10: Physical assets

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Freehold assets</b>		
<b>Furniture and fittings</b>		
At cost	2,543	2,040
Accumulated depreciation	(1,811)	(1,857)
<i>Furniture and fittings at net carrying value</i>	<u>732</u>	<u>183</u>
<b>Office equipment</b>		
At cost	1,067	1,011
Accumulated depreciation	(899)	(840)
<i>Office equipment at net carrying value</i>	<u>168</u>	<u>171</u>
<b>IT hardware</b>		
At cost	1,428	1,466
Accumulated depreciation	(1,062)	(973)
<i>IT hardware at net carrying value</i>	<u>366</u>	<u>493</u>
<b>IT software</b>		
At cost	2,529	2,361
Accumulated depreciation	(2,096)	(1,733)
<i>IT software at net carrying value</i>	<u>433</u>	<u>628</u>
<b>Motor vehicles</b>		
At cost	826	726
Accumulated depreciation	(225)	(148)
<i>Motor vehicles at net carrying value</i>	<u>601</u>	<u>578</u>
<b>Leased assets</b>		
<b>IT hardware</b>		
At cost	426	426
Provision for write-down	(259)	(259)
At cost less write-down	167	167
Accumulated depreciation	(120)	-
<i>Leasehold office equipment at net carrying value</i>	<u>47</u>	<u>167</u>
<b>Total physical assets at net carrying value</b>	<u><u>2,347</u></u>	<u><u>2,220</u></u>

## Note 11: Payables and accruals

	30 June 2005 actual \$000	30 June 2004 actual \$000
Trade payables	1,964	1,720
Revenue in advance	1,282	1,047
Accruals	285	105
<b>Total payables and accruals</b>	<b><u>3,531</u></b>	<b><u>2,872</u></b>

## Note 12: Provision for employee entitlements

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Current liabilities</b>		
Annual leave	1,237	1,167
Long service leave	52	45
Time off in lieu of overtime worked	63	34
Salary and other accruals	836	780
Retiring leave	303	50
<i>Total current liabilities</i>	<b><u>2,491</u></b>	<b><u>2,076</u></b>
<b>Non-current liabilities</b>		
Long service leave	75	87
Retiring/resigning leave	379	708
<i>Total non-current liabilities</i>	<b><u>454</u></b>	<b><u>795</u></b>
<b>Total provision for employee entitlements</b>	<b><u>2,945</u></b>	<b><u>2,871</u></b>

## Note 13: Property lease liabilities

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

	30 June 2005 actual \$000	30 June 2004 actual \$000
Current liabilities (payables and accruals)	111	108
Non-current liabilities	-	110
<b>Total property lease liabilities</b>	<b><u>111</u></b>	<b><u>218</u></b>

## Note 14: Finance lease liabilities

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Finance leases</b>		
Current	162	251
Non-current	-	175
<b>Total</b>	<b>162</b>	<b>426</b>
Repayable as follows		
One to 2 years	171	502
2 to 5 years	-	-
	171	502
Future finance charges	(9)	(76)
<b>Recognised as a liability</b>	<b>162</b>	<b>426</b>

The office leases laptop computers and the effective interest rate on the finance lease is 6.5%. Ownership of the asset remains with the lessor.

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

## Note 15: Reconciliation of surplus to net cash flow from operating activities

This reconciliation discloses the non-cash adjustments applied to the surplus reported in the Statement of Financial Performance on page 80, to arrive at the net cash flow from operating activities disclosed in the Statement of Cash Flows on page 83.

	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
<b>Surplus</b>	<b>776</b>	<b>947</b>	<b>158</b>
<b>Non-cash items</b>			
Depreciation	1,122	1,156	956
Write-off of physical assets	-	-	60
Write-down of leased assets	-	-	259
<i>Total net non-cash items</i>	<b>1,122</b>	<b>1,156</b>	<b>1,275</b>
<b>Working capital movements</b>			
(Increase)/decrease in prepayments	147	245	(191)
(Increase)/decrease in receivables	(569)	14	614
(Increase)/decrease in work in progress	842	122	530
(Decrease)/increase in payables	659	318	603
(Decrease)/increase in employee entitlements	415	64	(124)
(Decrease)/increase in property lease liabilities	3	(24)	24
<i>Total net working capital movements</i>	<b>1,497</b>	<b>739</b>	<b>1,456</b>
<b>Investing activity items</b>			
Loss/(profit) on sale of physical assets	61	-	36
<i>Total investing activity items</i>	<b>61</b>	<b>-</b>	<b>36</b>
<b>Other items</b>			
Increase/(decrease) in non-current employee entitlements	(341)	65	(24)
Increase/(decrease) in non-current property lease liabilities	(110)	(110)	(57)
<i>Total other items</i>	<b>(451)</b>	<b>(45)</b>	<b>(81)</b>
<b>Net cash flow from operating activities</b>	<b>3,005</b>	<b>2,797</b>	<b>2,844</b>

\* See note 1 on page 88.

## Note 16: Financial instruments

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

### Credit risk

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

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

### Interest rate risk

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

### Currency risk

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

### Fair values

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

## Note 17: Related party information

The Crown provides 18.8% of the office's revenue directly (see note 2 on page 88), and a further 18% is provided indirectly through fees for the audit of Government departments (see note 3 on page 88). Also, the office obtains revenue through fees for the audit of other public entities included in the financial statements of the Government of New Zealand.

The revenue provided by the Crown is for the operation of the office, including the provision of outputs to Parliament, which is provided within a normal supplier/recipient relationship.

Fees for the audit of public entities, including Government departments, are charged on a commercial basis at "arm's-length".

There are numerous other transactions the office enters into with entities controlled by the Crown – for example, travel with Air New Zealand and postage with New Zealand Post. All of these other transactions are carried out on a commercial basis at "arm's-length".

## Note 18: Office accommodation statistics

The following statistics are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

	30 June 2005 actual	30 June 2004 actual
Area	6,522m <sup>2</sup>	6,125m <sup>2</sup>
Number of staff	244	231
Space allocation per person	27m <sup>2</sup>	27m <sup>2</sup>
Total costs of leased office accommodation	\$1,707,863	\$1,575,146
Rent costs per person	\$5,907	\$5,838
Utility costs per person	\$376	\$291
Vacant accommodation	-	-

# Appendix 1

## Senior management

Controller and Auditor-General	Kevin Brady
Deputy Controller and Auditor-General	Kevin Simpkins (until 20 May 2005)

### OAG Leadership Team

Assistant Auditor-General, Accounting & Auditing Policy	Greg Schollum (from September 2004)
Assistant Auditor-General, Corporate Business Services	Gary Lewis
Assistant Auditor-General, Legal	Robert Buchanan
Assistant Auditor-General, Local Government	Bruce Robertson
Assistant Auditor-General, Local Government Development (now Assistant Auditor-General, Research and Development)	Ann Webster
Assistant Auditor-General, Parliamentary Group	Wendy Venter
Assistant Auditor-General, Performance Audit Group	Craig Neil
Assistant Auditor-General, Strategy	Denise Cosgrove

### Audit NZ Executive Leadership Team

Executive Director, Audit New Zealand	Terry McLaughlin
General Manager, Northern	Allan Frost (until February 2005)
	Miriam Taris (Acting, from February 2005)
General Manager, Central	Chris Fabling
General Manager, Southern	Devan Menon
General Manager, Corporate Business Services	Grahame Muir

## Appendix 2

### Directory of offices

#### Office of the Auditor-General

Level 5  
Hitachi Data Systems House  
48 Mulgrave Street  
Private Box 3928  
Wellington  
Telephone: (04) 917 1500  
Facsimile: (04) 917 1549  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

#### Audit New Zealand

##### National Office

Level 8  
St Paul's Square  
45 Pipitea Street  
Private Box 99  
Wellington  
Telephone: (04) 496 3099  
Facsimile: (04) 496 3095  
Website: [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

##### Auckland

Level 10  
Wollongong University College House  
155 Queen Street  
Private Box 1165  
Auckland  
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## Appendix 3

### Reports published in 2004-05

#### Reports to Parliament

5 July 2004	<i>Central Government: Results of the 2002-03 audits – B.29[04a]</i>
13 October 2004	<i>Inquiry into the Ministry of Education's monitoring of scholarships administered by the Māori Education Trust</i>
14 October 2004	<i>Annual Report 2003-04 – B.28</i>
30 November 2004	<i>Christchurch Polytechnic Institute of Technology's management of conflicts of interest regarding the Computing On-Line (COOL) Programme</i>
7 December 2004	<i>New Zealand Trade and Enterprise: Administration of grant programmes</i>
7 December 2004	<i>New Zealand Trade and Enterprise: Administration of the Visiting Investor Programme</i>
2 February 2005	<i>Ministry of Defence and New Zealand Defence Force: Further report on the acquisition and introduction into service of Light Armoured Vehicles</i>
9 February 2005	<i>Department of Conservation: Administration of the Conservation Services Programme – Follow-up audit</i>
22 February 2005	<i>Assurance Audit of the Annual Performance Report of the Electricity Commission for the period ended 30 June 2004</i>
15 March 2005	<i>Progress in implementing key recommendations of the 1996 Transport Committee inquiry into truck crashes</i>
30 March 2005	<i>Central Government: Results of the 2003-04 audits – B.29[05b]</i>
6 April 2005	<i>Draft Annual Plan 2005-06</i>
19 May 2005	<i>Annual Plan 2005-06 – B.28AP(05)</i>

19 May 2005	<i>The Auditor-General's auditing standards</i>
31 May 2005	<i>Horizons and Otago Regional Councils: Management of freshwater resources</i>
31 May 2005	<i>Pharmaceutical Management Agency: Changes to the frequency of medicine dispensing</i>
7 June 2005	<i>Ministry of Fisheries: Follow-up report on information requirements for the sustainable management of fisheries</i>
21 June 2005	<i>Civil Aviation Authority: Certification and surveillance functions</i>
21 June 2005	<i>Government and parliamentary publicity and advertising</i>
23 June 2005	<i>Effectiveness of controls over the taxi industry</i>
30 June 2005	<i>The Local Authorities (Members' Interests) Act 1968: Issues and options for reform</i>

## Other reports and publications

6 September 2004	<i>Conflicts of Interest – A Guide to the Local Authorities (Members' Interests) Act 1968 and Non-pecuniary Conflicts of Interest</i>
11 April 2005	<i>Raising public sector auditing to the next level: Proceedings of the 19th Commonwealth Auditors-General Conference</i>

## Accessing our reports

Most of these reports and publications can be viewed on our website ([www.oag.govt.nz](http://www.oag.govt.nz)). Copies may be ordered from:

Reports Group, Office of the Auditor-General, Private Box 3928, Wellington  
Telephone: (04) 917 1534  
Facsimile: (04) 917 1609  
E-mail: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)

## Appendix 4

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

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

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

- Campus Services Limited
- Chatham Islands Enterprise Trust
- Corporate Property Investments Limited
- Enterprise Hamilton Trust Board
- France Trust
- Ngati Whatua o Orakei Organisation Limited
- Ngati Whatua o Orakei Limited
- Ngati Whatua o Orakei Corporate Limited
- Ngati Whatua o Orakei Health and Social Needs Limited
- Ngati Whatua o Orakei Health Clinic Limited
- Ngati Whatua o Orakei Tourism Limited
- Orakei Management Services Limited
- Orakei Retirement Care Limited
- Tamaki Management Services Limited
- Tamaki Retirement Care Limited
- Te Runanga o Ngati Awa
- Te Wheke Atawhai Limited
- The Quit Group
- Unipol Recreation Limited
- University Union Limited
- Waikato Polytechnic Student Residence Trust Board



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