

A close-up, black and white photograph of a fountain pen resting on a ledger. The pen is ornate, with a silver-colored barrel and a dark, possibly black, cap. The nib is visible, pointing towards the bottom left. The ledger has a grid of dotted lines and contains several numbers: '6644', '33213', '654', '54666', and '5466'. The background is slightly blurred, emphasizing the pen and the numbers on the ledger.

The Controller and Auditor-General

Tumuaki o te Mana Arotake

Annual Report 2001-02

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The Controller and Auditor-General

Tumuaki o te Mana Arotake

Annual Report

for the year ended 30 June 2002

**Presented to the House of Representatives pursuant to
section 37 of the Public Audit Act 2001**



Rt Hon Jonathan Hunt
Speaker
House of Representatives
WELLINGTON

Mr Speaker

This report has been prepared pursuant to the requirements of section 37 of the Public Audit Act 2001. It covers the operations of the Audit Office for the year ended 30 June 2002.

Yours sincerely

A handwritten signature in blue ink, consisting of a long horizontal stroke followed by a large loop.

K B Brady
Controller and Auditor-General

Wellington
26 September 2002



Contents

	Page
The Year in Review	7
Part One: About the Audit Office	
Purpose and Outcomes	21
Outputs	23
Organisational Arrangements	24
Part Two: Achievement of Goals	
Continuing to Deliver Excellent Audit Services	29
Adjusting to Reflect our Changing Environment	48
Leading by Example	51
Part Three: Management Performance	
Financial Performance	71
Human Resources	74
Office of the Auditor-General	80
Audit New Zealand	83
Part Four: Financial Statements 2001-02	
Statement of Responsibility	90
Audit Report	91
Statement of Objectives and Service Performance	92
Statement of Accounting Policies	113
Statement of Financial Performance	118
Statement of Movements in Taxpayers' Funds	119
Statement of Financial Position	120
Statement of Cash Flows	121
Supplementary Information –	
Statement of Commitments	122
Statement of Contingent Liabilities	123
Statement of Appropriations	124
Statement of Unappropriated Expenditure	125
Statement of Trust Money	125
Notes to the Financial Statements	126

*Page***Appendices**

1 Directory of Offices	136
2 Reports Issued During the Year	138
3 Entities Audited under Section 19 of the Public Audit Act 2001	141

Figures

1 Organisation of the Audit Office	24
2 Management Structure	26
3 Audits Outstanding	37
4 The Audit Tender Process	54
5 The Conduct of Audits	55
6 Audit Tender Outcomes 2001-02	56
7 Composition of Staff by Gender	75
8 Composition of Staff by Ethnicity	76
9 Staff Numbers (FTEs) 1998-2002	78
10 Composition of Staff by Function	79



The Year in Review

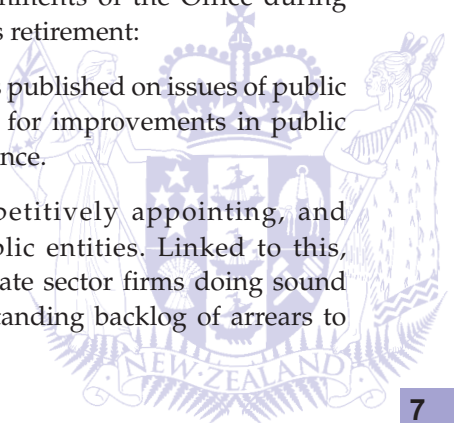


I have much pleasure in presenting my report on the Audit Office's performance for the 2001-02 financial year.

Valedictory: David Macdonald

David Macdonald retired on 3 May 2002 after 7 years as Auditor-General. He took office in 1995 after the resignation of Jeff Chapman, at a time of considerable difficulty for the Office. By the end of his term, he could take considerable satisfaction from the accomplishments of the Office during his tenure, and its position on his retirement:

- Numerous high profile reports published on issues of public concern, and used as a basis for improvements in public sector processes and performance.
- Robust processes for competitively appointing, and monitoring, auditors of public entities. Linked to this, Audit New Zealand and private sector firms doing sound audits, and reducing a longstanding backlog of arrears to a more manageable level.



THE YEAR IN REVIEW

- Passage of the Public Audit Act 2001, which puts the Office on a sound legislative footing for the foreseeable future.
- Internal processes and financial position in sound condition, so we could genuinely say that we “practise what we preach”.
- Both the productivity and the reputation of the Office at very high levels, and the Office generally in good heart.

I am also pleased to be able to report positively on the issues that David identified as high on his list of things to achieve in his final year. The Office:

- largely implemented the portfolio and mandate changes that came into force with the passage of the Public Audit Act;
- largely completed its responses to the recommendations of the external peer review conducted in February-March 2001; and
- increased its productivity and its capability, and demonstrably used the additional funding provided to the Office well.

Public Reports

Highlights			
	2002	2001	2000
Number of public reports	18	12	13
Cost (\$000)	2,937	2,339	2,342

Once again we had a busy and successful year, using additional funding provided by Parliament to publish the greatest number of reports and volume of material on record. We produced 18 substantive public reports – covering the results of annual audits, planned special audits and unplanned special investigations. A number of reports published during the year achieved a high public profile, and some have already resulted in notable changes in public sector processes – in particular:

- *Parliamentary Salaries, Allowances and other Entitlements – Final Report* (published July 2001); and
- *Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operational Vehicles* (August 2001).

Delivery of Central Government Programmes

A significant number of our major reports published this year looked at delivery of specific Government programmes. The range of sectors, organisations, and issues across which we reported and made recommendations for improvement is shown by the list below:

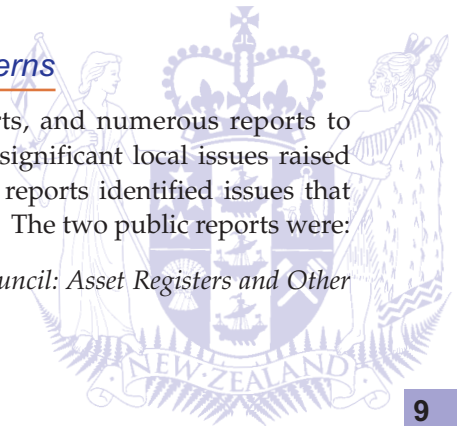
- *Providing and Caring for School Property* (September 2001);
- *The Police: Dealing with Dwelling Burglary* (September 2001);
- *New Zealand Defence Force: Deployment to East Timor* (November 2001);
- *Ministry of Health: Progress in Implementing the Recommendations of the Cervical Screening Inquiry* (February 2002);
- *Purchasing Primary Health Care Provided in General Practice* (March 2002); and
- *Bringing Down the Road Toll: the Speed Camera Programme* (May 2002).

These reports have been considered and responded to at various levels, by the departments concerned, by an Officials' policy group made up of the heads of the central agencies, and by Select Committees. We expect to comment on the impacts of some of these reports in future Annual Reports.

Responding to Local Concerns

We produced two public reports, and numerous reports to individual local authorities, on significant local issues raised during the year. Most of these reports identified issues that the authority needed to address. The two public reports were:

- *Thames Coromandel District Council: Asset Registers and Other Matters* (July 2001); and



- *Taupo District Council: Funding of the Interim Establishment Board and the Lake Taupo Development Trust* (April 2002).

Supporting Better Practice

As well as the *Parliamentary Salaries* report referred to above, we produced three other reports aimed at providing positive guidance for public entities:

- *Reporting Public Sector Performance* (July 2001);
- *Procurement : A Statement of Good Practice* (published only on our web site, July 2001); and
- *Severance Payments in the Public Sector* (May 2002).

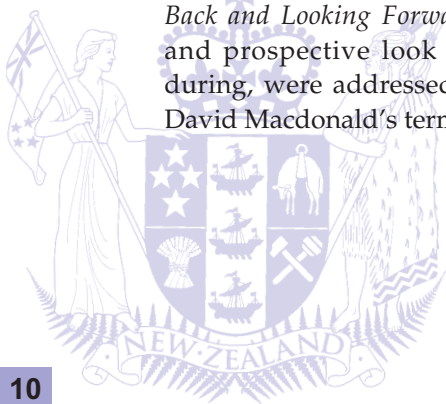
All three of these reports have been well received, and should be influential in improving practice.

Reporting Audit Results and Sectoral Issues

Each year we produce compendium reports, primarily summarising the results of financial statement audits in the Central Government and Local Government sectors. In 2001-02, we published two on Central Government (in December 2001 and June 2002), and substantially completed the Local Government report, which was not published until September 2002.

Highlights of the reports included articles on progress towards an E-society, financial management issues in the New Zealand Fire Service, and regulatory functions and the sustainability of essential services in local authorities.

In May 2002 we also published *Local Government – Looking Back and Looking Forward*. This report took a retrospective and prospective look at issues in the sector which arose during, were addressed, or were outstanding at the end of, David Macdonald's term as Auditor-General.



Financial Report Audits

Highlights			
	2002	2001	2000
Audits completed	3,650	4,007	4,272
Audit costs (\$m)	31.914	31.362	30.407
Timeliness of audit reports (excluding school boards)	68%	68%	61%
Timeliness of management reports	96%	95%	88%
Audits outstanding at year end	543	395	646

Our public reports provide the visible side of our activity. However, about 85% of what we do relates to financial report audits of the more than 3,700 public entities that we audit.

The timeliness of both audit reports and management reports has improved in the last two years. However, there is still a lot of improvement required in the timeliness of audit reports.

I am disappointed to have to report that arrears for financial report audits have not improved. Strenuous efforts have been made over the previous two years by auditors in the field and staff in the Office of the Auditor-General to encourage entities to produce their statements in a more timely manner, enabling our auditors to complete the audits. As a result, we had by last June reduced the number of arrears from over 1,000 to a manageable number.

This year, school boards of trustees had problems with new requirements to account for provisions for cyclic maintenance, which delayed completion of their financial reports. The number of school board audits incomplete at 30 June rose from 153 in 2001 to 326. By 31 August 2002 the number had reduced to 231, and we do not expect the problem to recur next year.

Other audits incomplete reduced from 242 in 2001 to 217, meeting our objective of reducing the number to below 220, although we had hoped for a better result.

Achieving Our Operating Goals

Highlights

- Auditor-General's Auditing Standards published in May 2002.
- Performance audits begun in the Crown sector as a result of extension of our mandate.
- Two audit tender rounds successfully completed.
- A "capability snapshot" developed to describe the OAG's fitness for its role in the immediate future.
- Responses to the 2001 peer review of the Audit Office largely completed.

Part Two of this report (starting on page 27) details our performance in achieving the three operating goals we set ourselves for 2001-02. Items that deserve special mention here are:

Continuing to Deliver Excellent Audit Services

We published the *Auditor-General's Auditing Standards* by way of a report to the House of Representatives in May 2002, as required by section 23 of the Public Audit Act 2001. The *Standards* establish the minimum requirements for annual audits conducted on behalf of the Auditor-General, by supplementing the Institute of Chartered Accountants of New Zealand's ethical and professional standards with additional statements and specific standards where Institute standards do not exist.

We aim to carry out quality assurance reviews of each Appointed Auditor's performance once during their three-year contract period. We remain on target to achieve this

coverage. Our reviews found that, generally, work was of a good quality. For the few exceptions, we took appropriate follow-up action.

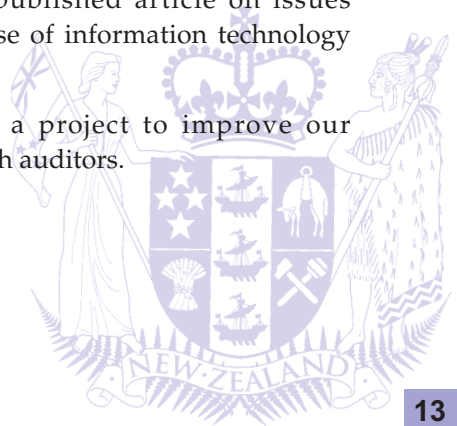
We continued to place emphasis on communicating effectively with those interested in our work. We gave numerous briefings to select committees and other audiences on our reports, and continued to consider how we can better evaluate the impact of the reports.

The Public Audit Act extended our mandate so that we can now plan and conduct performance audits across the whole public sector. We identified five possible audits in our *Forecast Report* for 2001-02, made good progress on one of these (infection control in publicly owned hospitals), and began to determine the scope of three others.

Adjusting to Reflect our Changing Environment

Obtaining and processing intelligence about developments in the public sector is a core part of our business. This year, we put special effort into:

- setting up a Health Advisory Group to act as a sounding board for the Auditor-General on developments in the health sector;
- advising the Local Government and Environment Select Committee on the Local Government Bills it has been considering;
- keeping contact with central agency initiatives on developing government structure and processes;
- developing papers and a published article on issues associated with increasing use of information technology in government; and
- making good progress on a project to improve our electronic communication with auditors.



Leading by Example

We continue to try to demonstrate best practice as a public entity in the areas of performance, financial management and accountability. Highlights for the year were:

- We continued with our policy of exposing a significant part of our audit portfolio to competitive tendering. Two tender rounds were held this year – resulting in 9 tenders being won by Audit New Zealand, 4 by private sector auditing firms, and 73 entities electing to renegotiate with their existing audit service provider.
- We continued to develop processes for measuring our own outcomes, and made progress on measuring and reporting our capability. We report on these measures in this report – including (for the first time) an experimental “capability snapshot” of the Office of the Auditor-General (pages 60-65).
- We made good progress on responding positively to the findings and recommendations of a peer review of our activities undertaken by member officers of the Australian Council of Auditors-General in February-March 2001.

Management Performance

Highlights

- We spent \$36,808,000, and are returning to the Crown the operating surplus of \$679,000.
- New funds provided by Parliament were successfully applied to an increased number of special studies and, consequently, an increased number of reports.
- Audit New Zealand implemented substantial changes in its governance, performance management, and audit approach.

Part Three of this report (starting on page 69) highlights our performance under the headings of:

- financial performance; and
- human resources.

It then discusses how the two business units of the Audit Office – the Office of the Auditor-General (OAG) and Audit New Zealand – have met their respective key objectives for 2001-02 as set out in our *Forecast Report*.

Our results continue to demonstrate success in achieving our goal of being a leading example of a public sector organisation in terms of performance, financial management and accountability.

Financial Performance

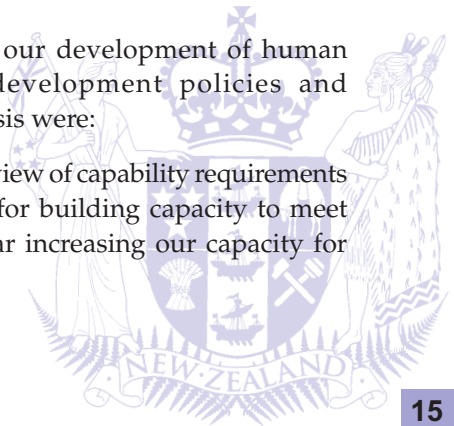
Our total spending for the year was \$36,808,000, compared with \$35,543,000 in 2000-01. We will return an operating surplus of \$679,000 to the Crown, compared with a forecast of \$270,000.

We approached the Officers of Parliament Committee with a new business plan late in 2000. The plan successfully sought additional funding to help us satisfy the increasing demands from Parliament and external enquirers, and the impact of increased responsibilities under the Public Audit Act. The first tranche of additional funding in the 2001-02 year enabled us to achieve our highest year on record for number of reports, and volume of material, published.

Human Resources

In the past year we continued our development of human resource and professional development policies and practices. Major areas of emphasis were:

- for the OAG, following up a review of capability requirements by carrying out action plans for building capacity to meet future needs, and in particular increasing our capacity for innovation and learning;



- for Audit New Zealand, completing work on the second phase of its people strategy, *Project Enable*. This project focused on four areas:
 - refocusing the audit approach;
 - reshaping the business;
 - improving business processes; and
 - leading change in culture, competencies and behaviour.

OAG and Audit New Zealand Management Objectives

The OAG and Audit New Zealand have reported against their key management and development objectives set out in the *Forecast Report*. The highlights have been covered above.

Input to Public Sector Accounting and Auditing Development

The Office continues to play a leading role in the development of public sector accounting and auditing standards – both in New Zealand and internationally.

This year has again been a busy one. Highlights include:

- Continuing participation by our Deputy Auditor-General (Kevin Simpkins) as New Zealand's representative on the Public Sector Committee of the International Federation of Accountants.
- Continuing participation in international working groups on environmental auditing and the development of accounting standards.
- Continuing duties as Secretary of the South Pacific Association of Supreme Audit Institutions (SPASAI).
- Continuing participation of senior staff in the technical committees of the Institute of Chartered Accountants of New Zealand.



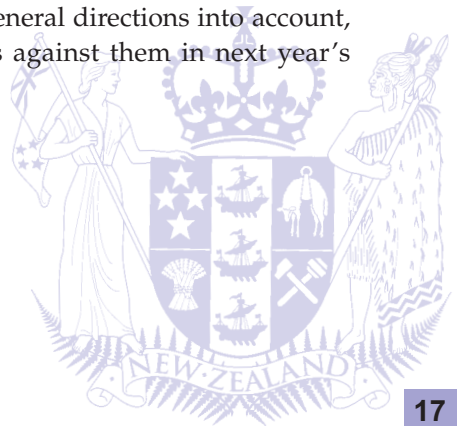
In addition, we hosted the third meeting of the Auditors-General Global Working Group in Wellington in February 2002. This working group was set up to promote informal dialogue among Auditors-General of countries facing similar issues and challenges. The Auditors-General of the United States, Canada, the United Kingdom, Australia, South Africa, Japan, India, Germany, the Netherlands, and Sweden attended.

Looking Forward to 2002-03

Our *Annual Plan 2002-03* sets out our plans for achievement for the coming year. During my tenure as Auditor-General, I intend to emphasise the following areas of performance and development:

- maintaining a viable and strong Audit New Zealand;
- maintaining an attest audit function that stakeholders can have confidence in;
- continuing to practise what we preach, particularly in terms of our own capability;
- maintaining our credibility and independence;
- being seen as an essential part of the system of government;
- engendering real change and improvement in the public sector; and
- making a major contribution to improving public sector accountability.

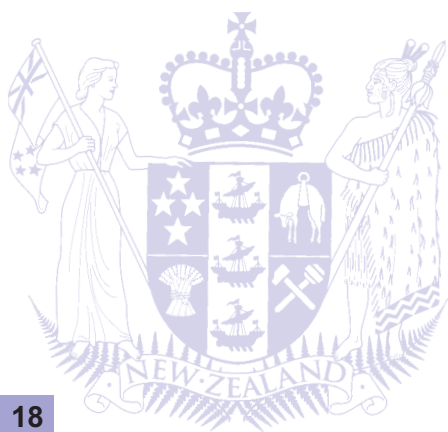
In implementing our 2002-03 *Annual Plan*, I have asked my senior managers to take these general directions into account, and we will report on progress against them in next year's Annual Report.



Appreciation

Mr Tony Frankham of Auckland has acted as independent evaluator of the integrity of our regime for tendering audits since it was set up in 1992. He has provided valuable advice and assurance over the decade. At the conclusion of his time as evaluator, I have asked him to become chairperson of the Audit Committee I am setting up for the Office.

Finally, for both David Macdonald and myself, I thank all the staff of both the OAG and Audit New Zealand for their hard work and dedication in contributing to a very successful year for the Office.



Part One

About the Audit Office

Purpose and Outcomes

Purpose

The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government.

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

- Public entities (as defined in section 5 of the Public Audit Act 2001) are *accountable* to Parliament and to other constituencies for their use of the resources and powers conferred by Parliament.
- The Audit Office provides *assurance* to Parliament and to other constituencies that the entities are operating, and accounting for their performance, in a manner consistent with Parliament's intentions. We also seek to foster *improvement* in their performance and accountability.

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



Desired Outcomes

If the Audit Office has done a good job:

- Parliament and the public will be *confident* that public entities:
 - are delivering what they have been asked to;
 - have operated lawfully and honestly, and have not been wasteful;
 - have fairly reported their performance;

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

- The Government and public entities will effect *improvements* in public sector performance and accountability in areas where we have advised that there is potential for improvement.



Outputs

The Audit Office provides assurance through:

Parliamentary and Public Reports –

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

Controller Certifications –

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

Audit and Assurance Reports –

Which express opinions on the financial statements and results of the audit of over 3,700 public entities, and also provide further assurance on aspects of management performance at the request of the entities.

Flowing from the conduct of audits, the Audit Office provides advice to:

Parliamentary select committees
Taxpayers and ratepayers
The Government
Audited entities
Related professional bodies.



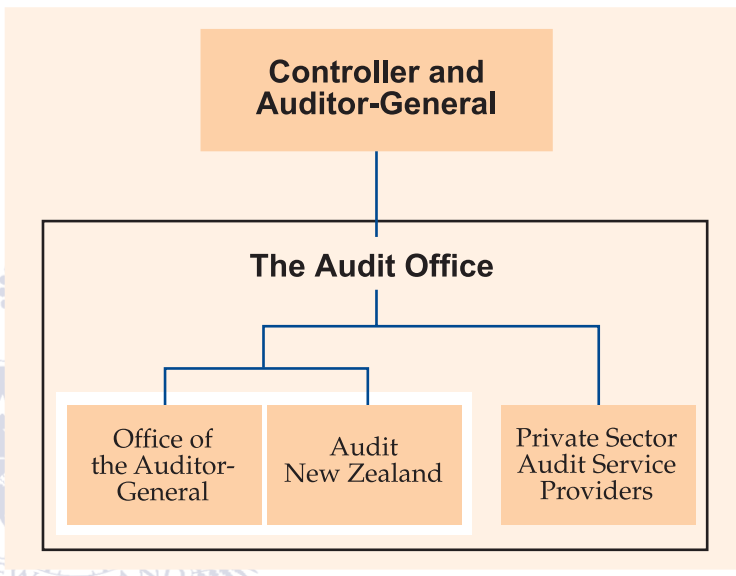
Organisational Arrangements

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.

To plan, conduct and report on the results of over 3,700 audits each year, the Controller and Auditor-General has three major sources of assistance: two internal business units (the Office of the Auditor-General and Audit New Zealand) and private sector auditing firms.

“The Audit Office” is the term used in this report to refer to the whole of these resources and activities. It includes the Controller and Auditor-General as a person¹, the Deputy Controller and Auditor-General, and all those authorised by the Controller and Auditor-General to carry out any particular function, duty or power.

Figure 1
Organisation of the Audit Office



¹ Usually abbreviated to “Auditor-General” (consistent with the Public Audit Act 2001).

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

The Office of the Auditor-General –

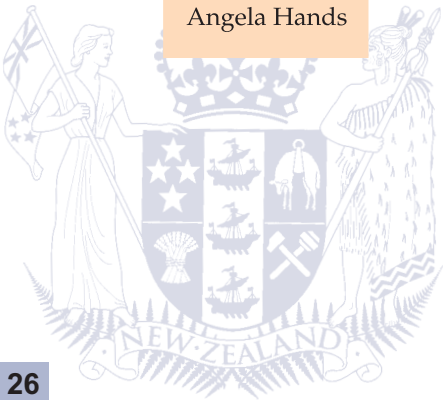
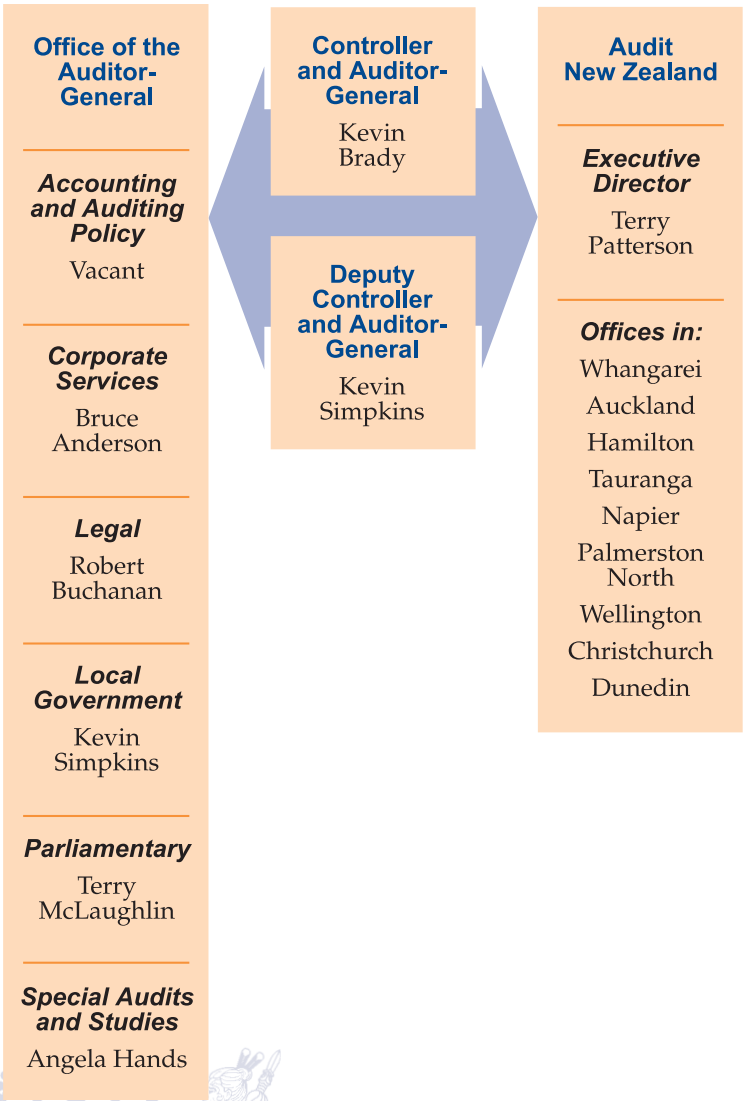
Is responsible for providing strategic audit planning, setting standards, determining who will undertake audits, overseeing auditor performance, carrying out special audits and studies, and parliamentary reporting and advice.

Audit New Zealand –

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



Figure 2
Management Structure



Part Two

Achievement of Goals

Part Two of our *Forecast Report 2001-2002* set out our three goals for the year and the strategies we considered appropriate for achieving those goals.² This part of this report describes what we achieved.

Goal 1: Continuing to Deliver Excellent Audit Services

Strategy 1: *We will continue to plan and conduct all audits professionally, and having regard to the full mandate of the Office.*

The Auditor-General's Auditing Standards

The *Auditor-General's Auditing Standards* were published, as required by section 23 of the Public Audit Act 2001, by way of a report to the House of Representatives in May 2002. The *Standards* consist of the Institute of Chartered Accountants of New Zealand's (ICANZ) ethical and professional standards, supplemented by the Auditor-General's Statements and Auditor-General's Specific Standards (where an ICANZ standard does not exist). They establish the minimum standards to be applied to annual audits conducted on behalf of the Auditor-General.

No changes have been made to the *Standards* since their publication in May 2002. They can be seen on our web site (www.oag.govt.nz).

² Parliamentary paper B.28FR(01), pages 26-28.

Training and Support for Our Auditors

Manual for Audit Service Providers

Our primary vehicle for formally communicating with Appointed Auditors³ is our *Manual for Audit Service Providers*. The *Manual* was first published in 1993 and includes:

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

The *Manual* also contains guidance for auditors in the form of statements of general policy on matters that, for example, affect entities in more than one sector or are unique to the public sector. Audit Service Providers contribute to these statements by reporting issues that they encounter during audits, and raising issues at periodic Technical Forum meetings.

The *Manual* will be available to our Audit Service Providers in electronic form in the 2002-03 year.

Support for Audit Service Providers

During 2001-02 we continued to provide advice and support to Appointed Auditors – both individually on request and collectively – on a range of accounting and auditing issues. We conducted seven seminars for school auditors throughout the country and eight special seminars for auditors undertaking local government audits.

We keep in touch with Appointed Auditors in a less formal way through a periodic newsletter – *The Watchdog* – five editions of which were published in 2001-02.

³ An “Appointed Auditor” is the person in charge of and responsible for all aspects of a particular audit. An “Audit Service Provider” is the party formally engaged by the Auditor-General to carry out a particular audit – either Audit New Zealand or a private sector auditing firm.

Reviewing Our Auditors' Performance

We aim to review each Appointed Auditor's performance once during their three-year contract period. Follow-up reviews may be initiated if we identify a need for improvement.

Our quality assurance programme:

- focuses on ensuring that auditors fulfil the requirements of the *Auditor-General's Auditing Standards*⁴ and relevant audit briefs;
- is part of the continuous improvement programme within the OAG; and
- provides feedback to our policy, sector, and technical managers.

We undertake desk reviews of audit files, and also visit Appointed Auditors in their offices to:

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

During 2001-02 we proposed to review the quality of the work of 45 Appointed Auditors, and we achieved this target (2000-01: 50 reviews).

We visited 38 auditors (2000-01: 41 visits) to review their work, and we conducted desk reviews on a further 7 auditors (2000-01: 9 desk reviews) involved primarily in the audit of schools. Consistent with previous years, the work we reviewed was, with only a few exceptions, of good quality. For the exceptions, we took appropriate follow-up action.

Another way of reviewing the quality of auditor performance is in the process of issuing a non-standard audit report.⁴ If an Appointed Auditor is considering modifying the audit

4 See footnote 17 on page 106.

ACHIEVEMENT OF GOALS

Goal 1: Continuing to Deliver Excellent Audit Services

report because of a major issue (for example, where there are doubts that the going concern assumption is appropriate), they submit the matter to the OAG, stating the grounds for the proposed modification. Thirty-eight such submissions were made and responded to during the year (2000-01: 47). Overall, the quality of the submissions was sound.

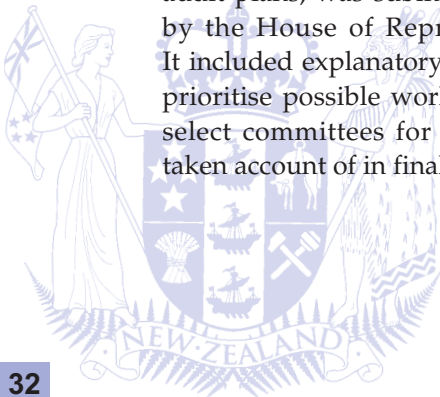
Strategy 2: *We will continue to target our audits at critical areas of performance and accountability in the public sector.*

Strategic Audit Plans

Information to prepare a strategic audit plan for each broad sector group is gathered from the results of previous audits, developments in different parts of the public sector, changes in legislation, and other environmental factors. We supplement this information with formal papers on environmental and E-Government issues.

The plans cover a period of three years, and are updated annually. They are subject to internal critical review so that priorities can be determined – given the limited resources we have available to do discretionary work. We publish planned and likely projects annually for scrutiny by parliamentarians and other interested stakeholders.

For 2002-03, our first draft Annual Plan prepared under the Public Audit Act 2001, containing material from the strategic audit plans, was submitted to the Speaker for consideration by the House of Representatives before it was finalised. It included explanatory material on the process, and how we prioritise possible work. The material was circulated to all select committees for comment, and their responses were taken account of in finalising the plan.



In all special audit projects we identified the skills needed and, where appropriate, made use of advisers to ensure that specialist skills were available to the team undertaking the project. This is especially important during both the planning and the report-drafting stages of a project.

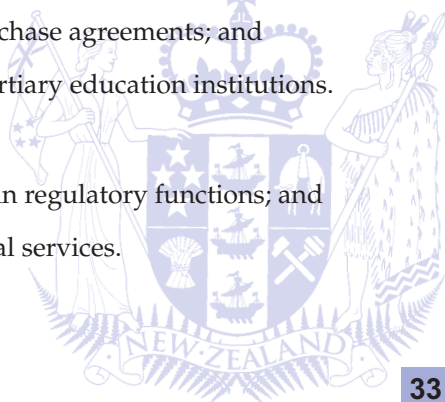
In the local government sector, as in previous years, we consulted widely with individual councils, sector groups and a number of organisations with an interest in local government. We analysed the issues raised through consultation as well as the complaints that have been brought to our attention, to ensure we have focused on areas where we are able to add the greatest benefit by our audit work in the sector. Our strategic audit plan was also subject to review by the Auditor-General's Local Government Advisory Group.

Audits of Annual Financial Reports

Some 85% of our work relates to conducting audits of annual financial reports. Elements of that audit programme are subject to explicit direction by way of audit briefs issued by the Auditor-General.

The prime objective of each audit is to perform the work necessary to form an opinion and issue an audit report on the financial report. In addition, however, audit briefs may identify matters of particular interest on which we require the Appointed Auditor to look into and report back. Typical examples of matters we looked at during 2001-02 were:

- Central Government –
 - departmental risk management policies and practices;
 - timing of departmental purchase agreements; and
 - the financial condition of tertiary education institutions.
- Local Government –
 - the integrity of procedures in regulatory functions; and
 - the sustainability of essential services.



ACHIEVEMENT OF GOALS

Goal 1: Continuing to Deliver Excellent Audit Services

Special Audits and Studies

Apart from any additional coverage required as part of the annual financial statement audits, we develop a programme of special audits and studies from our office-wide and sector strategic audit planning processes.

The Crown funds the costs of special audits and studies. The results are reported either in one of our general reports to Parliament⁵ or in a separate report (which is usually also presented to the House).

The areas we looked at in 2001-02 are set out on pages 40-47.

Inquiries

We receive numerous unsolicited enquiries from members of Parliament, taxpayers, and ratepayers about issues in public entities. If these issues raise questions which fall within our mandate, we may investigate them. Our choice of whether or not to investigate is based on the nature and scale of the issue raised, and our assessment of the public benefit of pursuing it at the expense of other (programmed) work.

We report on the work done, to the enquirer, or to the entity concerned, or publicly, depending on the nature of the issue. Reports on unprogrammed investigations issued in 2001-02 are listed in Appendix 2 on pages 138-139.

Each year, when preparing our Strategic Audit Plans, we consider the nature of enquiries we have responded to, to assess whether there are themes or issues emerging that we should look at more systematically.



⁵ Those bearing the shoulder number series B.29.

Strategy 3: *We will place particular emphasis on making effective arrangements for audits and public reporting on new entities in our portfolio, and the use of our broader powers to conduct performance audits under the Public Audit Act.*

Making Arrangements for New Audits

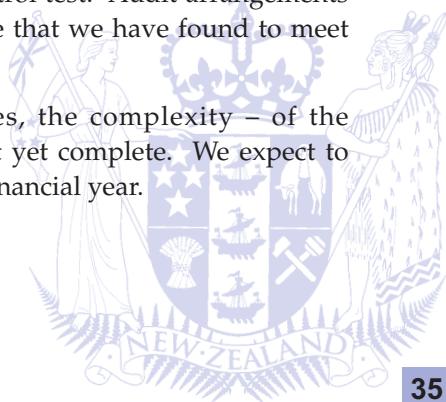
One of the aims of the Public Audit Act is to enable a consistent and coherent approach to defining the Auditor-General's portfolio. It achieves this by making the Auditor-General the auditor of every "public entity" – a term that is defined exhaustively in section 5 of the Act.

Section 5 recognises that many public entities conduct parts of their business through subsidiary or other related entities. It uses a three-limbed test of "control" to bring those entities within the definition.

Many "controlled" entities were previously within our portfolio. However, a substantial number were not – including a large array of trusts and other entities controlled by local authorities and institutions in the tertiary education sector.

Identifying the full range of controlled entities has proved to be no easy task. We have relied on help from parent entities, and our Appointed Auditors, to identify possible candidates and assess them against the control test. Audit arrangements have been put in place for those that we have found to meet the test.

The scale and – in some cases, the complexity – of the exercise has meant that it is not yet complete. We expect to complete it in the forthcoming financial year.



Using Our Powers to Conduct Performance Audits More Widely

As from 1 July 2001 the Public Audit Act has given us the ability to conduct performance audits in Crown entities and State-owned enterprises. Our Strategic Audit Plans have been broadened to include potential new work under our new mandate.

In the Health sector, we established a Health Advisory Group to provide sector input and perspective into this new and developing area of work for the Office.

In our 2001-02 *Forecast Report*, we signalled our intent to start work on five performance audits, based on the extension of our mandate under the Public Audit Act, in the areas of:

- Infection control in publicly owned hospitals;
- Housing New Zealand Limited;
- Injury prevention by ACC and OSH;
- Case management by ACC; and
- Fee-setting in tertiary education institutions.

We discuss progress made in these audits on pages 46-47 of this report.

Strategy 4: *We will place particular emphasis on completing all audits that we are required to perform.*

Audits Completed

We completed 3,650 audits of public entities in 2001-02. The main reason why this figure was not higher was that we completed 174 fewer audits of school board audits than the number of boards in our audit portfolio at year-end. This was partly because many school boards had difficulty finalising their financial statements in compliance with a new

reporting standard issued by ICANZ, which required them to change their methods of providing for cyclical maintenance.

Apart from school boards, audit reports and management letters have been issued in as timely a way as in the previous year – in most sectors and overall.

The tables on page 104 for Output Class D3 and on page 109 for Output Class D4 show the results on a sector basis.

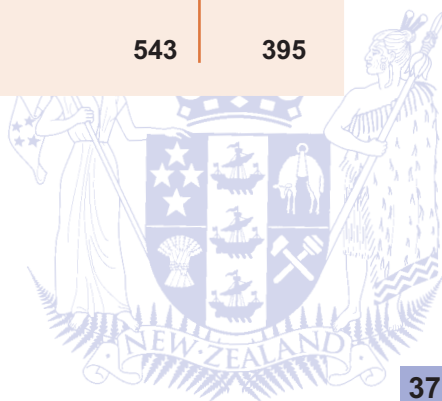
Audits Outstanding

The audits outstanding (i.e. in arrears) increased from 395 at 30 June 2001 to 543 at 30 June 2002. The increase is attributable to an additional 173 school boards of trustees audits outstanding as at 30 June 2002. We expect this situation to reverse next year.

The outstanding audits were made up as shown in Figure 3 below:

Figure 3
Audits Outstanding

	As at 30 June	
	2002	2001
Major Statutory Bodies	5	6
Other Local Authorities	21	38
School Boards of Trustees	326	153
Miscellaneous Public Bodies	82	74
Audits without fees	109	124
TOTAL	543	395



Strategy 5: *We will place particular emphasis on communicating effectively with those who have a key interest in the results of our work.*

Emphasis on Communication

We place great emphasis on effective communication with our various audiences. Liaison arrangements with stakeholders (such as select committees, individual enquirers, and sector groups), and operating on a professional “no surprises” basis with public entities when we are reporting on them, take significant effort and time.

This section of the report describes progress on, and the contents of, our reports to Parliament and other stakeholders.

Annual Audits

Government Departments, Crown Entities, and State-owned Enterprises

We reported the results of our audits of the 2000-01 *Financial Statements of the Government* and the financial reports of government departments in *Central Government: Results of the 2000-2001 Audits*⁶ and *Central Government and Other Issues 2001-02*⁷. These reports also contained the results of the following audit examinations carried out during 2001-02:

- Forecasting Capital Expenditure;
- Risk Management Policies and Practices;
- Accident Compensation Corporation – Investment Policies and Practices;
- Timing of Purchase Agreements;
- Accountability to Parliament for Health Sector Expenditure;

⁶ Parliamentary paper B.29[01b], December 2001.

⁷ Parliamentary paper B29[02b], June 2002.

- Forecasting and Control – Appropriations and Adjustments to Estimates;
- Maori Trustee – Governance and Accountability;
- Financial Condition of Tertiary Education Institutions;
- Use of Professional Fund-raisers by School Boards of Trustees;
- Public Sector Progress Towards an E-society;
- Strategic Human Resource Management;
- Accountability Requirements for Closed or Merged Schools;
- Financial Management Issues in the Fire Service Act 1975;
- Procurement – A Statement of Good Practice; and
- Status of Follow-up Action on Previous Reports.

Local Government

We reported the results of our audits of the 2000-01 financial reports of regional and territorial local authorities in *Local Government: Results of the 2000-01 Audits*.⁸ The report was issued after the end of the 2002 financial year, but reference to it is included here to maintain the currency of the information. The report also contained the results of other audit examinations carried out, or issues identified, during the 2000-01 audits:

- Management of and Accounting for Infrastructural Assets;
- Transitional Resource Consents
- Regulatory Functions – Integrity of Procedures;
- Separate Properties and Rating Apportionments;
- Sustainability of Services;
- Contracting Procedures;
- Commercial Activities on Cemetery Land;
- Advertising and Publicity by Local Authorities; and
- Rates on School Houses.

8 Parliamentary paper B29[02c], September 2002.

Special Audits and Studies

We completed work from our *Forecast Report* for 2001-02 and earlier years in the following areas:

Reporting Public Sector Performance

In July 2001 we issued *Reporting Public Sector Performance*⁹ as a follow-up to *The Accountability of Executive Government to Parliament*¹⁰, focusing on performance reporting in the public sector as a whole. The report describes the current situation and suggests future directions for non-financial reporting to stakeholders. It includes practical advice for entities or individuals being required to produce performance reports, as well as more general advice on the way forward. We published an expanded version of the report, with more complete case studies, on our web site only (www.oag.govt.nz) in February 2002.

Procurement: A Statement of Good Practice

The updated good practice guidelines that we issued in draft last year¹¹ were made final in July 2001.

New Zealand Defence Force: Deployment to East Timor

Our report was presented in November 2001. It examines the preparedness of the New Zealand Defence Force (NZDF) for the first part of the multinational deployment known as INTERFET. The study covers the period from early 1999 to February 2000, when the INTERFET phase was replaced by the United Nations Transitional Administration in East Timor. We assessed whether NZDF met its stated capability requirements in practice, including:

- planning effectively for a possible military operation; and
- assembling and deploying a force which would enable it to carry out its assigned mission, in accordance with the Government's objectives.

9 ISBN 0 477 02877 2.

10 Parliamentary paper B.29[99c], June 1999.

11 *Annual Report 2000-01*, parliamentary paper B.28 2001, page 45.

In a further examination we are considering in detail the operations of two elements of the deployed force – the helicopter detachment and Army medical support – which will provide information about the impact of deployment on these particular force elements, and their sustainability.

Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operational Vehicles

We began this inquiry late in 2000 at the request of the Secretary for Defence, and published our report in August 2001. It examines the acquisition process followed for the purchase of the Light Armoured Vehicles, and the process being used for the purchase of the Light Operational Vehicles. It makes recommendations for improvements in these processes.

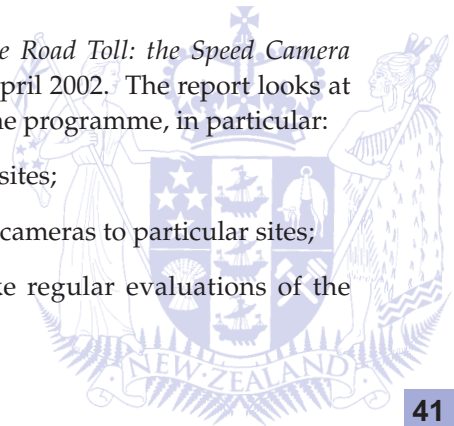
The Police: Dealing with Dwelling Burglary

Our report was presented in September 2001. The particular category of property crime selected for study was burglary from residential dwellings. This form of offending is of significant concern to the public, and comprises about one in ten of all recorded offences. The Police have made burglary one of its priority areas, and successive governments have provided the Police with additional resources to tackle the problem. The report looks at different approaches being used in different Police districts, with a particular focus on the quality of performance information and the evaluation of effectiveness.

The Speed Camera Programme

Our report – *Bringing Down the Road Toll: the Speed Camera Programme* – was presented in April 2002. The report looks at management and operation of the programme, in particular:

- the selection of speed camera sites;
- how the Police allocate speed cameras to particular sites;
- whether the Police undertake regular evaluations of the programme;



ACHIEVEMENT OF GOALS

Goal 1: Continuing to Deliver Excellent Audit Services

- whether speed camera technology is operated in a manner which maximises effectiveness; and
- enforcement of speed camera fines.

The audit also compared New Zealand's programme with those operating in Victoria and Queensland.

Providing and Caring for School Property

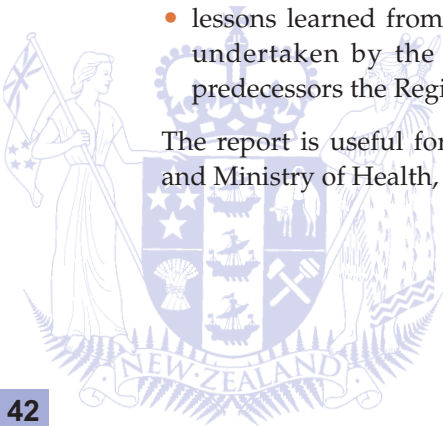
Our report was presented in August 2001. State-owned school property is one of the Crown's largest capital investments and it is important that the investment is well managed. We looked at the Ministry of Education's performance in managing the property portfolio, concentrating on the management arrangements in place between the Ministry and school boards of trustees, the processes for funding capital works and the processes for ensuring that school property is adequately maintained. We undertook the study at a time when the Ministry was introducing new planning processes and a new capital funding framework for school property, and our report comments on the new system and the benefits it aims to achieve.

Purchasing Primary Health Care

Our report – *Purchasing Primary Health Care Provided in General Practice* – was presented in March 2002 and deals with:

- arrangements for the funding, purchasing, and monitoring of primary health care;
- the changing structural arrangements in the sector; and
- lessons learned from a range of contracting arrangements undertaken by the Health Funding Authority and its predecessors the Regional Health Authorities.

The report is useful for District Health Boards, the Minister and Ministry of Health, and the Health Select Committee.



Governance, Risk Management and Legislative Issues in the New Zealand Fire Service

Our report is included in *Central Government and Other Issues 2001-02*¹², presented in June 2002, and is entitled *Financial Management Issues in the Fire Service Act 1975*.

We also responded to requests from a number of stakeholders in the public sector, including Ministers of the Crown and members of Parliament:

Parliamentary Salaries, Allowances, and Other Entitlements

Our report on parliamentary salaries, allowances and other entitlements, setting out detailed recommendations as to how the system surrounding MP entitlements can be improved, was presented in July 2001. The report was considered by the Parliamentary Service Commission and referred to political parties for further consideration. Legislation to implement our recommendations has been introduced and is expected to take effect from April 2003.

Thames Coromandel District Council: Asset Registers and Other Matters

Our report, published in July 2001, contains our findings on a complaint made to us by Concerned Citizens of the Coromandel Peninsula about certain actions of the Thames Coromandel District Council. Although the complaint raised over 50 issues, our report addresses only those that we considered most significant – relating to the process followed by the Council in preparing asset registers, and nine other issues.

We also published reports on four matters not foreshadowed in our *Forecast Report 2001-2002*:

Progress in Implementing the Recommendations of the Cervical Screening Inquiry

Our report was presented in February 2002. The report of the Committee of Inquiry on under-reporting of cervical

¹² Parliamentary paper B.29[02b], June 2002.

ACHIEVEMENT OF GOALS

Goal 1: Continuing to Deliver Excellent Audit Services

smear abnormalities in the Gisborne region was released in April 2001. Our report examined the progress being made to address the serious concerns raised by the Committee of Inquiry about the programme.

Taupo District Council – Funding of the Interim Establishment Board and the Lake Taupo Development Trust

We received a number of complaints in 2001 from Taupo ratepayers about the Council's funding of these two entities. The complainants believed that the Council had failed to ensure that the two entities were properly accountable to the Council and ratepayers for the Council funding that the entities had received. We issued our report in April 2002, and is about accountability – the way in which the Council managed a substantial amount of ratepayers' funds that it made available to the Board and the Trust.

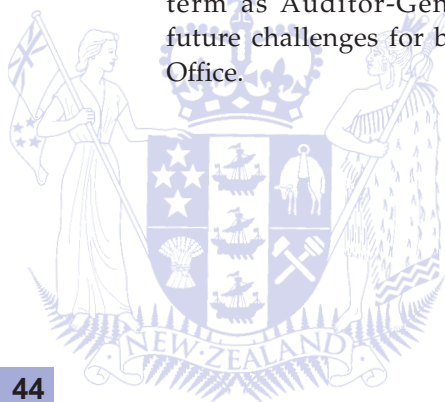
Severance Payments in the Public Sector

This report, presented in May 2002:

- discusses the risks facing public sector employers when they make voluntary payments to employees – especially at the end of the employment relationship; and
- suggests a principled approach to employment settlements, aimed at reducing those risks.

Local Government – Looking Back and Looking Forward

This report places on record David Macdonald's perspective on the changes in local government administration during his term as Auditor-General, and offers his views on the future challenges for both local government and the Audit Office.



We made good progress on the following areas indicated in our *Forecast Report 2001-2002*:

Biosecurity Risk Management (referred to in the Forecast Report as “Border Control”)

We are looking at how the Ministry of Agriculture and Forestry (MAF) manages biosecurity risks, and in particular:

- the policies and procedures in place to prevent biosecurity breaches; and
- how MAF applies risk analysis to determine the conditions on which animals and goods can enter New Zealand.

Our report will be supported by a companion volume that examines seven case studies illustrating MAF’s policies and procedures in practice. Case studies include the Varroa Bee Mite, the Southern Saltmarsh Mosquito, the Glassy Winged Sharp Shooter, the Red Imported Fire Ant, and preparedness for a possible outbreak of Foot and Mouth disease.

Relationships between Local Authority Chief Executives and their Councils

For some time we have been concerned about the relationship between local authority chief executives and the elected members of their council. The local government environment has changed since our 1994 report on these issues. We surveyed all chief executives and mayors/chairpersons and a number of councillors to update our knowledge of the environment and enable us to provide guidance on how the relationship can be better established. Work was completed in June 2002, and the report (*Managing the Relationship Between a Local Authority’s Elected Members and its Chief Executive*) was published at the end of July.

Sustainability of Local Authority Essential Services

We examined how local authorities are taking into account in their long-term financial strategy factors, such as practicability and affordability, which affect the future scale and cost of essential services. Our report was published in September 2002 as an article in *Local Government: Results of the 2000-01 Audits*.

ACHIEVEMENT OF GOALS

Goal 1: Continuing to Deliver Excellent Audit Services

Local Authority Regulatory Procedures

Our report was also published as an article in *Local Government: Results of the 2000-01 Audits*. We are working with each local authority to encourage it to operate appropriate review procedures, to ensure that issues of probity in relation to resource consents are addressed, and to report on the results of this work.

Accuracy of Social Security Benefit Payments

We are examining the accuracy with which the Department of Work and Income processes claims for social security benefits, and reviewing the methods that the Department uses to measure and report processing accuracy. We have made good progress, and our report will be presented in 2002-03.

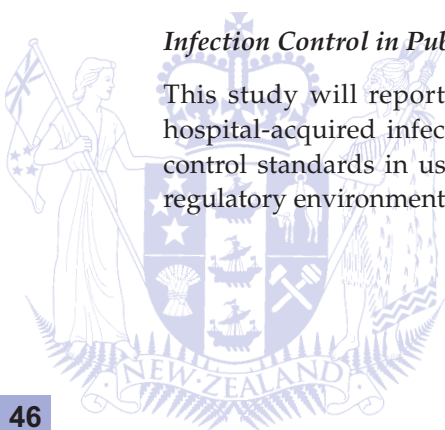
Local Economic Development Initiatives

Our report – *Local Authority Involvement in Economic Development Initiatives* (published in August 2002) – provides guidance to local authorities considering becoming involved in economic development initiatives or with a history of involvement in such initiatives. It seeks to help local authorities address three fundamental questions – How do we develop an economic development strategy? How do we manage the risks? How can we measure results?

The guidance in the report is largely based on actual practice drawn from case studies and the experiences of 11 local authorities that participated in the study.

Infection Control in Publicly Owned Hospitals

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



We also made good progress on one other study not foreshadowed in our *Forecast Report 2001-2002*:

Taxpayer Audit Activity in the Inland Revenue Department

We are examining the effectiveness of IRD's taxpayer audit activity in the context of IRD's overall taxpayer compliance strategy. It is a broad-based study covering IRD's philosophy, strategy, resources, and capability in relation to its taxpayer audit activity.

We have made limited progress on, have deferred, or do not intend to pursue, the following subjects indicated in our *Forecast Report 2001-2002*:

Co-ordination in the Justice Sector
Housing New Zealand Limited
Case Management by ACC

These studies are currently having their scope determined or are being planned.

Control of Gaming Machines

This study was abandoned pending the outcome of a legislative review.

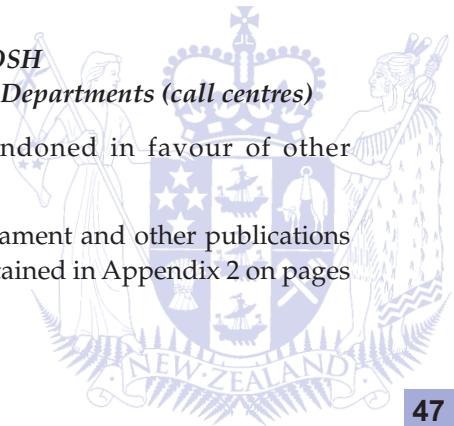
Fee-setting in Tertiary Education Institutions (TEIs)
Monitoring of Effectiveness for Maori

These studies have been deferred.

Injury Prevention by ACC and OSH
Service Delivery in Government Departments (call centres)

These studies have been abandoned in favour of other priorities.

A full list of our reports to Parliament and other publications produced during the year is contained in Appendix 2 on pages 138-140.



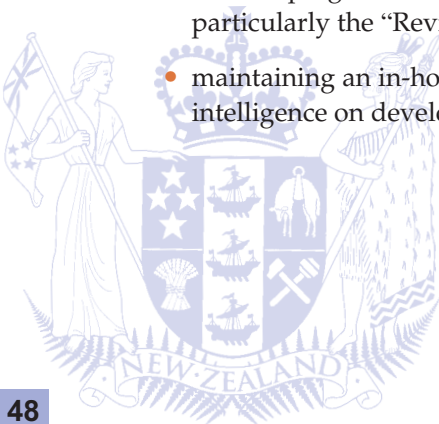
Goal 2: Adjusting to Reflect our Changing Environment

Strategy 1: *We will maintain sound awareness of developments and changes in the public sector.*

The Local Government and Parliamentary Groups in the OAG obtain and process a large amount of intelligence about developments and changes in the public sector, from public entities and from our field auditors, as a core part of their business. This intelligence forms the basis for our strategic audit planning process, referred to earlier in this report. The Auditor-General's Local Government Advisory Group also provides us with an excellent sounding board for developments in the sector.

In 2001-02, we complemented this ongoing effort by:

- setting up a Health Advisory Group to act as a sounding board for the health sector;
- continuing to put effort into developing relationships with central agencies;
- maintaining involvement in the SSC's work on capability, and keeping contact with other central agency initiatives, particularly the "Review of the Centre"; and
- maintaining an in-house "E-government" group, to provide intelligence on developments in this area.



Strategy 2: *We will improve our mechanisms for learning as an organisation.*

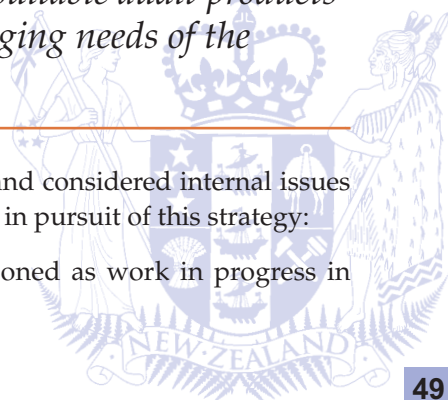
The new initiatives identified above provide additional intelligence, but this is only raw material. In order to improve our mechanisms for learning, we have also undertaken a number of initiatives in the OAG and Audit New Zealand, including:

- in Audit New Zealand, developing a “repository”, or database, of information on central government entities audited by it;
- nearly completing projects to improve access by Appointed Auditor to key information held by the OAG (the database of audits and the *Manual for Audit Service Providers*), and to obtain returns from auditors electronically rather than in paper form; and
- in the OAG, undertaking a series of discussions on how to improve our internal communications and our capacity for innovation and learning, and starting to carry out the consequent action plans.

Strategy 3: *We will undertake projects targeted at increasing our understanding of specific areas or issues in the public sector, and at developing suitable audit products for the changing needs of the sector.*

During 2001-02, we developed and considered internal issues papers on the following subjects in pursuit of this strategy:

- forensic auditing (also mentioned as work in progress in last year’s Annual Report);



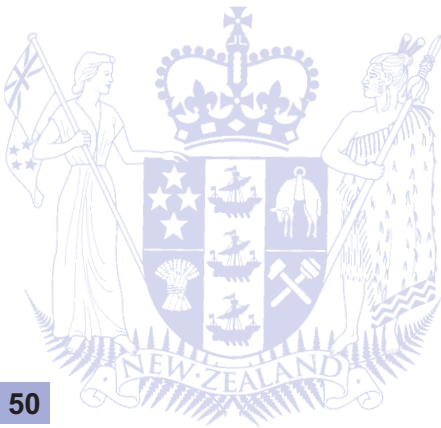
ACHIEVEMENT OF GOALS

Goal 2: Adjusting to Reflect our Changing Environment

- risks for the Audit Office arising from E-Government;
- provision of assurance on public entity web sites; and
- possible options for future work on public sector performance reporting.

We also participated in a series of pilot workshops on triple bottom line reporting run by the Ministry for the Environment.

The OAG will continue to develop a small number of issues papers on these and similar topics each year.



Goal 3: Leading by Example

Strategy 1: *We will fulfil a leadership role where it is appropriate to do so, particularly in the development of public sector accountability arrangements and performance reporting.*

During 2001-02, we pursued this strategy in a number of ways:

- by publishing a major study on Reporting Public Sector Performance in July 2001 (also mentioned on page 44 of last year's Annual Report);
- by undertaking speaking engagements on a range of subjects in a range of forums – particularly on general accountability arrangements, the development of public sector performance reporting, and the impact of the Public Audit Act;
- through advising the Local Government and Environment Select Committee during its deliberations on the Local Government (Rating) Bill and the Local Government Bill; and
- by liaising with our national and international peers and professional organisations.

We continue to receive a wide range of visitors from countries who have an interest in New Zealand public sector reform, particularly our legislative, accountability and audit arrangements. We have also continued to expand our links with Australia, contributing to a number of forums on financial management and auditing matters.



ACHIEVEMENT OF GOALS

Goal 3: Leading by Example

We have continued our involvement as a member of the INTOSAI Environmental Audit Committee. We delivered a paper on environmental and regulatory audit to the Committee, and arranged an ACAG/SPASAI regional workshop on environmental auditing which we ran in Melbourne in July 2002.

We also continue to administer the SPASAI training programme funded by the Asian Development Bank and the International Development Initiative of INTOSAI.

The Contestable Audit Engagement Policy

Another way in which we try to lead by example is through our policy of exposing a significant part of our audit portfolio to competitive tendering. Entities comprising approximately 87% (by audit hours) of the portfolio have now been invited to participate in the contestability arrangements.

The contestable audit policy means that audits are carried out by Appointed Auditors from either:

- **Audit New Zealand**, which is the auditing business unit of the Auditor-General, and operates under a combination of a purchase agreement for some audit services and individual appointments for specific audits; or
- **private sector auditing firms**, which are appointed by the Auditor-General to conduct specific audits on his behalf.

As at 30 June 2002, 142 individual Appointed Auditors from 72 private sector firms and Audit New Zealand were conducting audits and signing audit reports on behalf of the Auditor-General. Of these, 66 Appointed Auditors from 55 firms audit only schools or other small organisations.

We gave a full description of the tendering and contracting process in our 1996-97 *Annual Report*.¹³ Figure 4 on page 54 of this report illustrates the process leading to appointment of an Appointed Auditor, and Figure 5 on page 55 illustrates the conduct of an audit.

¹³ Parliamentary paper B.28, 1997, pages 41-45.

Continuing the Implementation of the Contestable Audit Engagement Policy

We have continued implementation of the policy in 2002 by inviting all district health boards and seven further tertiary education institutions to participate in the tender process, or, alternatively, to negotiate fixed terms for a further three years with their current auditor.

The contestable audit engagement policy has now been fully implemented, with the exception of a very small number of cases, where we have held back invitations as a result of:

- ownership considerations, where the Auditor-General believed that Audit New Zealand would be unreasonably at risk of losing critical mass in a sector, subject, or geographical area if it lost the audit; or
- circumstances relating to particular entities that the Auditor-General considers make it inappropriate to change existing audit arrangements in the immediate future.

We have also almost completed an evaluation of the impact of the contestability regime over the ten years it has been operating. This will be used to consider future options for managing the appointment of auditors, and reported on in next year's Annual Report.



Figure 4
The Audit Tender Process

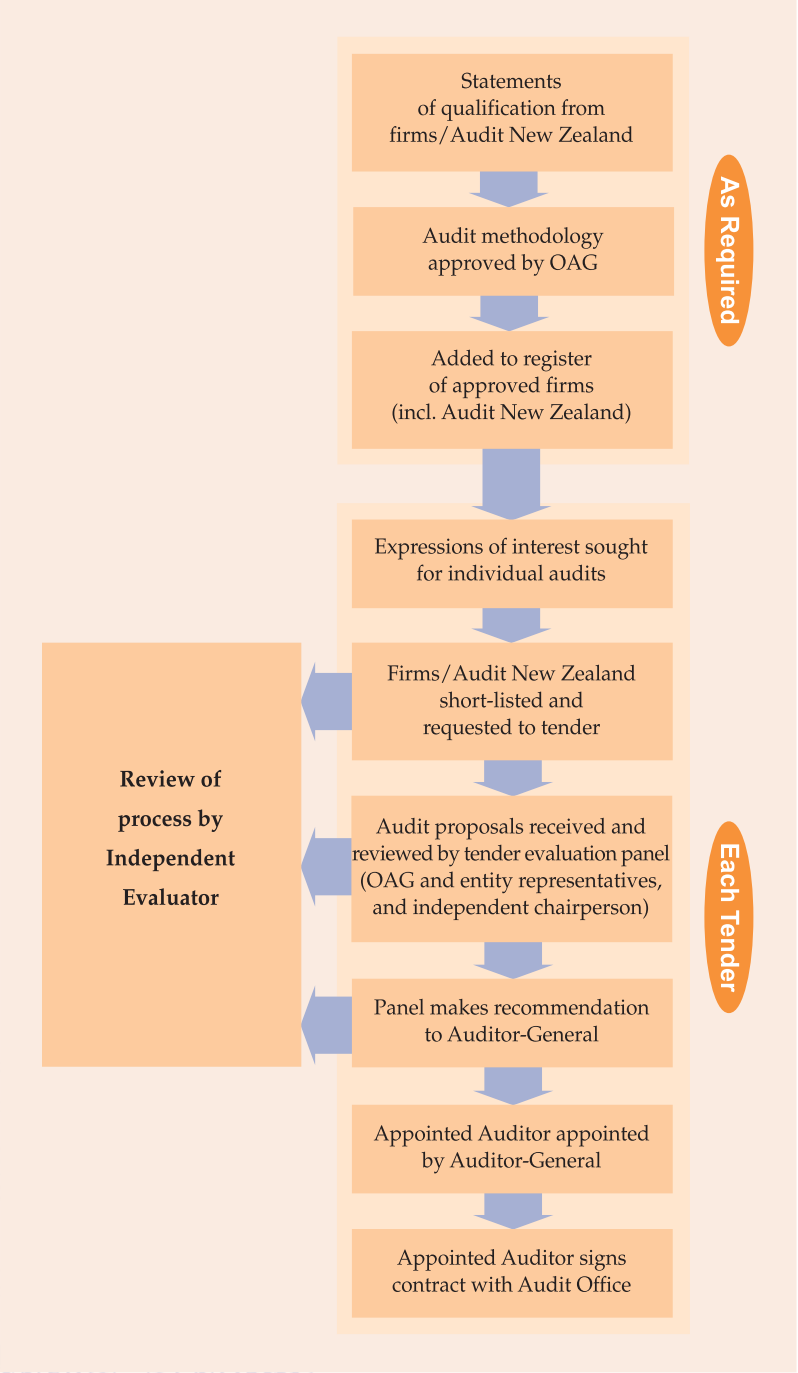
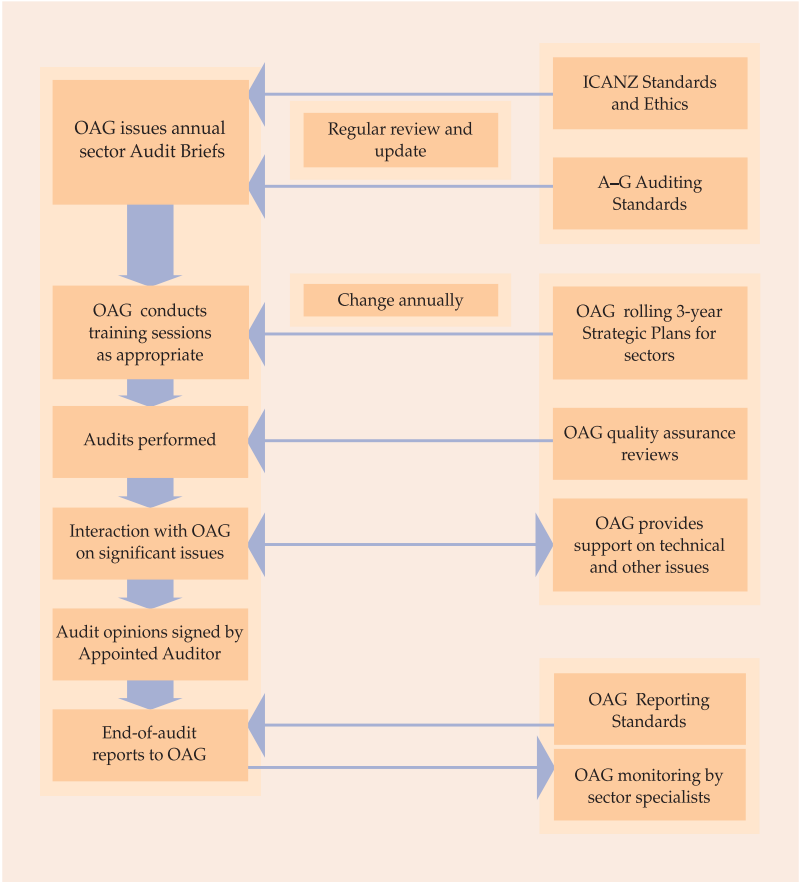


Figure 5
The Conduct of Audits



Tender Rounds Completed in 2001-02

During 2001-02 we made new or renewed audit arrangements for a wide range of public entities which have been subject to the contestable audit process for some years, and had the option this year of again participating in a tender.

In addition, tenders were conducted for four entities that had not previously been invited to participate in a tender, and for 11 entities that had already been included in the contestable audit process.

A total of 87 entities were invited to participate in tenders. Of those, 73 stated a preference for reappointment of their existing audit service provider for a further three years, rather than subjecting their audit to a tender. In our view, that result indicates a satisfactory level of satisfaction with the service provided by our audit service providers – and with the competitiveness of fees proposed in negotiations for renewal of contracts.

The results of the tenders and new or renewed audit arrangements are set out in Figure 6 below.

Figure 6
Audit Tender Outcomes 2001-02

Tender Timing	Reappointed	Tendered	Tenders Won By	
			Audit New Zealand	Other
September 2001 – July 2002 <i>Energy Companies, Local Authorities, Crown Entities, Government Departments, State-owned Enterprises, Tertiary education entities</i>	73	14*	9	4

* The tender of the audit of one tertiary institution started during the 2001-02 financial year is not completed at the time of reporting.

Report of the Independent Evaluator

Mr Anthony N Frankham FCA has continued to act as an independent evaluator to assist in ensuring that any tendering performed by the Audit Office is seen to be rigorous, objective, and unbiased. Mr Frankham’s summary report on the integrity of the process for the four tender rounds completed during the year is reproduced below.

ANTHONY N FRANKHAM

Chartered Accountant

23 July 2002

The Controller and Auditor-General
PO Box 3925
Wellington

Annual Report of the Independent Reviewer of Audit Tender Processes

1. You have retained me as an independent evaluator of the processes for tendering audits by the Office of the Auditor-General ("OAG"). I confirm that I am independent of the OAG and Audit New Zealand and the other tendering audit firms. My terms of reference require me to evaluate the audit tender processes established and implemented and report on their prudence and objectivity. I have reported in the past on nine tender bid rounds and on specific processes relating to the tender of school audits.

2. Since my report dated 23 July 2001 I have monitored the policies and processes followed during the period by the OAG. I have reviewed further groups of audit tenders leading to the appointment or re-appointment of auditors to carry out work on behalf of the Auditor-General. My review has involved the consideration of existing and emerging policies and their implementation. I have had discussions with you and your staff and with the independent panel chairs. I have reviewed reports of the panels that have met and have made recommendations to you. I have not considered it necessary to participate in all panel meetings to observe the process in operation. No limitation has been placed on the manner in which I carry out my assignments.

3. In my opinion the policies for awarding audit assignments to the delegates of the Auditor-General and renewal of existing contracts over the period to 30 June 2002 dealt with by the documentation I have examined and the process I have observed were fair and appropriate having regard to:

- The objectives of the accountability arrangements
- The experience of previous tender rounds
- The rights, interests and obligations of the parties involved.

4. I have reported separately to the OAG on specific matters where they have arisen or been referred for my attention during the period. No such matters relate to issues which came up to alter the view I express in this report.

5. I have kept you informed of all matters coming to my attention where I consider there were elements of sensitivity or processes or behaviours that were challenged or may have given rise to challenges. There have been no changes in policy or process during the period coming to my attention from my review that I consider should have been subject to your further review.

Anthony N Frankham
(Anthony N Frankham)

LEVEL 7 TOWER 2 HORTLAND CENTRE HORTLAND ST AUCKLAND 1 NEW ZEALAND
P.O. BOX 761 AUCKLAND 1 DX CP2805 TELEPHONE 09 426 5800 FAX 09 426 5885

Part Two



Appointment of a New Independent Evaluator

Mr Tony Frankham completed his term as Independent Evaluator of matters relating to contestable audit arrangements following submission of his report (see above) on our activities during the 2001-02 financial year. See also the comment at page 18 of this report.

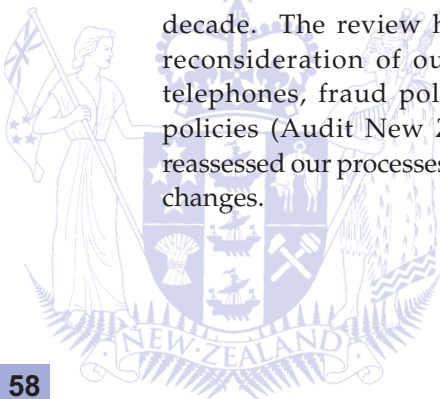
Mr David Gascoigne CBE has agreed to act as Independent Evaluator from the 2002-03 year. Mr Gascoigne is a corporate lawyer who has held a wide range of directorships and board chairman positions in both the public and private sectors. He has also chaired many audit tender evaluation panels as part of the contestable audit engagement policy on behalf of successive Auditors-General.

We are pleased that Mr Gascoigne has been prepared to make his wide experience available to us in this new role, and look forward to his further contribution to our work.

Strategies 2 and 3: *We will continue to practise what we preach to others, and operate under a philosophy of continuous improvement.*

We take seriously the proposition that, to lead by example, we must practise what we preach.

This year, we followed up a review of our own processes in relation to relevant reports we have issued over the last decade. The review had identified some minor areas for reconsideration of our processes, in the areas of use of telephones, fraud policy (OAG only), and asset disposal policies (Audit New Zealand only). During 2001-02, we reassessed our processes in the light of these findings and made changes.



Two other developments should also be reported:

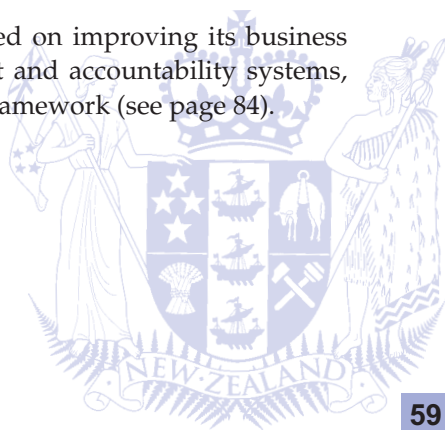
- We commissioned preparatory work for the establishment of an Audit Committee for the Audit Office, which is now being established.
- We reviewed our output costing model, and agreed that we would change to a direct labour costing model (rather than average costing, as we do now) when our funding was next subject to major review – most likely as part of preparation of our 2004-07 business plan.

We also undertook a wide range of minor improvement or development projects, each too minor to report here, but cumulatively significant in terms of how we operate. We continually look for ways to improve our performance – both externally and internally – and to report on our activities in a comprehensive and open manner.

Strategy 4: *We will maintain a capability which delivers excellent administrative, corporate and technical support to the Office.*

The OAG reviewed the functions and resourcing of its Strategy, Information Services, Finance and Reports groups during the year, and made minor changes as a result. A Business Continuity Plan was also brought near to completion, and testing of the Plan will begin in the 2002-03 year.

Audit New Zealand has focussed on improving its business and personnel planning, budget and accountability systems, to support its new governance framework (see page 84).

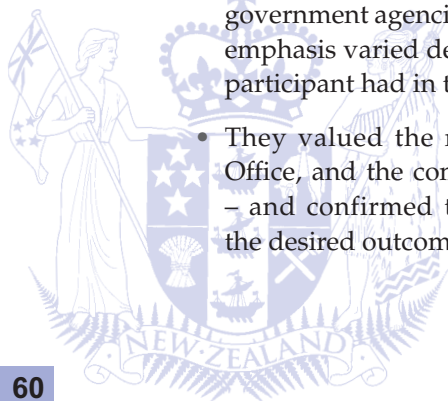


Strategy 5: *We will place additional emphasis on measuring and reporting achievement of our goals and desired outcomes.*

A core part of our role is advocacy of improved measurement and reporting of results by public entities. In 1999-2000 we began to develop new measures of our achievements and our own capability as an Office. We identified a possible series of measures and, in our last two *Forecast Reports*, committed to reporting on them as they were developed. The results of work to date, including some direct measurement of outcomes and capability, are set out below:

Measuring and Reporting Our Outcomes

- *Surveying stakeholder assurance and confidence:* As stakeholders' interests are variable and complex, and assurance is also a complex concept, we have decided that there was little information value in broad-based surveys of stakeholders at this stage. We undertook a trial using a focus group with a professional facilitator – asking them to tell us what assurance meant to them, and how the Audit Office contributes to this. The group was drawn from a range of our stakeholders. We have not yet finished considering the wealth of material and commentary provided, but the key things we have learned so far are:
 - The participants valued outcomes centred around the integrity of the government system, and helping government agencies make improvements. However, the emphasis varied depending on the particular interest the participant had in the Office's work.
 - They valued the neutrality and independence of the Office, and the competence and professionalism of staff – and confirmed that these were critical to achieving the desired outcomes.



- They appeared to value those Audit Office products which were most visible to them.
- Some issues were raised which we have been able to begin addressing quickly, but others raised are of strategic significance for the Office, and need some careful thinking about how we move them forward, for example:
 - how we are perceived by Parliament and Parliamentarians;
 - the subject matter and depth of our reports; and
 - providing entities with better access to information on best practice.

We also set up a system to record the results of the liaison discussions we have with stakeholders, but had no reportable results from it at year-end.

- *Select Committee use of our material:* A desirable outcome for the Audit Office is that Select Committees use the briefing material we provide to them – not only to review public entities, but also to report and recommend to the Government. We successfully piloted an approach to measuring these outcomes during 2000-01, and found an average 70% uptake of issues raised by the Audit Office in Select Committee reports, with a range of 56% to 88%. We believe that, initially, this is a reasonable range to expect.

We undertook independent assessments of a further 20 briefings during 2001-02 (we had planned to do 40). These also showed an average uptake of 70%. The range was wider, from 0% to 100%, but 15 of the 20 had an uptake of over 50%, and we were comfortable with the reasons we found for low uptake.

- *Outcomes of annual audits:* In 2000-01, we designed and piloted an approach to assessing the effects that our annual audits have – i.e. the recommendations that are implemented, the changes in financial practice that result, and the outcomes in terms of more effective and efficient use of public money. We intended to extend the pilot in 2001-02 to about 20 audits, but in the event assessed only 12.

ACHIEVEMENT OF GOALS

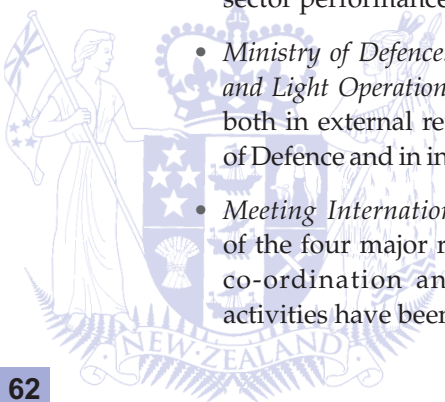
Goal 3: Leading by Example

We learned some things about our processes (for example, the number of recommendations made varied widely between auditors), and about the coverage of the recommendations (there was good coverage of accountability, governance, legislative compliance and performance issues, but little on waste and probity). However, we found little quantifiable, and nothing worth reporting, with respect to the impact we were having. During 2002-03, we will reassess the value of this approach.

- *Outcomes of special audits and studies:* During 2000-01 we considered how we could improve our approach to studies to ensure that we were better placed to monitor impacts and outcomes after the study had been completed. The requirements we identified have been incorporated into our processes for designing studies, reporting our results, making recommendations and following them up within an appropriate time frame. Information collected as a result of this will feed into future reporting about impacts.

This year, we also introduced a simple tracking system for reports produced, to ensure they were appropriately followed up, and their impacts considered, over periods of more than a year. We identified the following reports which had significant impacts during 2001-02:

- *Parliamentary Salaries, Allowances and other Entitlements* – a Parliamentary Review team and the Bill subsequently introduced in the House fully adopted the principles set out in this report.
- *Reporting Public Sector Performance* – this report has been widely circulated and is helping inform the development of departmental Statements of Intent and other public sector performance reporting initiatives.
- *Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operational Vehicles* – this report has been used both in external reviews of the structure of the Ministry of Defence and in internal reviews of purchasing processes.
- *Meeting International Environmental Obligations* – three of the four major recommendations made on improving co-ordination and information on climate change activities have been explicitly implemented.



- *Student Loan Scheme: Publicly Available Accountability Information* – the Government officials' response to this report largely adopted its recommendations.
- Our recent report *Central Government and Other Issues 2001-02* contains an article on recent reports, including some information on their impacts.

We also undertook a pilot survey on the use made of our good practice guide *Governance and Oversight of Large Information Technology Projects*, which was issued two years ago. Sixty-four percent of respondents had found the report useful, primarily to review their own processes. They also gave us useful suggestions on possible areas for follow-up and further work.

During the year, we also analysed the outcomes of audits in terms of the types of audit reports issued. The results of this analysis are summarised on pages 106-107.

Measuring and Reporting On Our Capability

While we have done a considerable amount to develop our capability in both the OAG and Audit New Zealand, we have found developing cost-effective measures of capability more difficult. In this report, we provide an experimental “capability snapshot” which we will develop further during 2002-03. The snapshot below is of the OAG only, and indicates how we think capability statements might be developed by similar agencies.

The Capability of the Office of the Auditor-General (OAG)

Overall, the OAG is well resourced to fulfil its role at present. Our major exposures are in our turnover in the Information Management area, and the uncertainties associated with the skills and experience we will need in future.

- *Core resources:* The OAG had 51 full-time-equivalent staff at 30 June 2002, and an internal budget of \$7.711 million (2001: 51 staff and \$6.864 million). Our other major asset is IT equipment and software, which had a book value at 30 June 2002 of \$0.315 million (2001: \$0.235 million).

ACHIEVEMENT OF GOALS

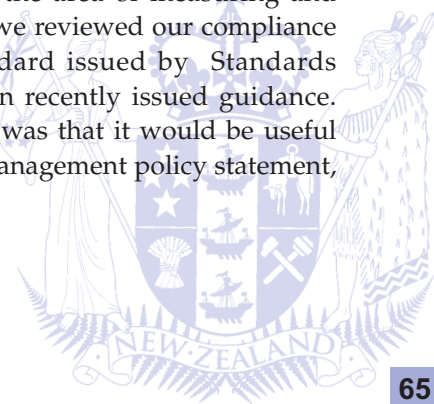
Goal 3: Leading by Example

- *Educational and professional qualifications:* Tertiary qualifications are required or highly desirable for 75% of our positions, and 95% of those positions are filled by staff who do have tertiary qualifications. Postgraduate qualifications or more than one graduate or professional qualification are held by 60% of our staff. Our main professional grouping is, not surprisingly, accountants – we have 12 staff who are full members of the Institute of Chartered Accountants of New Zealand.
- *Experience:* In June 2002, 71% of our staff were at or above the optimum or minimum levels we have established for being fully proficient in the job, compared with 67% in June 2001. This is also reflected in the fact that our average “time in the job” has increased from 3.7 years to 3.9 years. Our biggest exposure is in the Information Management area (6 people), where no staff have been with us for more than 1.3 years (16 months).
- *Training:* We spent \$2,140 per staff member on formal training during 2002 (\$1,980 in 2001). Most of this was for maintenance of skills in existing roles, but three staff also attended strategic management and leadership courses to extend them, and further develop our overall management capability. We are currently reviewing both our approach to, and spending on, professional development.
- *Back-up for people and systems:* Being a small organisation, we have limited capacity to duplicate or back up roles. As part of our Business Continuity Planning, we have identified our more risky areas and are doing what we can to alleviate those risks. We have suitable manuals and desk files for some jobs and roles, but these are not as comprehensive as they should be. For our critical IT systems (hardware and software), we have support systems and back up arrangements in place to cover most possibilities, and do not believe our exposure is significant.
- *Access to external resources:* In our 2002-03 budget we have \$0.929 million available for purchasing outside support. We have strong networks for, and a good record of success in, obtaining expert advice and assistance.

- *Organisational health:* We believe the organisation is basically healthy. Our turnover is reasonably low (18% and 12% in 2001 and 2002, respectively); our average sick leave per person this year was 4.4 days; and OAG-wide discussions on innovation and learning indicated both good commitment to the purpose of the Office, and little or no deep-seated discontent about the OAG. In IT, we aim to, and do stay just behind the leading edge technologies, and about one generation behind the latest software releases. We upgrade our hardware on an average 3-year cycle.
- *Flexibility for the future:* In 2001-02 62% of our expenditure was “locked into” permanent staff (2001: 65%), so a significant part of our capability for the future comes from the range and extension of staff experience and skills. While the OAG has limited ethnic diversity, and too few women in senior positions, we have a good range of educational qualifications and backgrounds – including science, liberal arts, and social policy, as well as commerce. As part of our recent capability project, we also identified an initial group of core skills we needed for existing and future staff, and have built them into both our recruitment and professional development processes. We need to repeat and extend this process. In the IT area we have one major system that is not easily replaceable, our Audit Status Database, and we are locked into Microsoft architecture. We regard neither of these as major limitations on our operating flexibility.

Measuring and Reporting Our Risks

We have made less progress in the area of measuring and reporting risk. Within the OAG, we reviewed our compliance with the *Risk Management* standard issued by Standards New Zealand, and with our own recently issued guidance. The major finding of the review was that it would be useful to develop an overarching risk management policy statement, and this is planned for 2002-03.

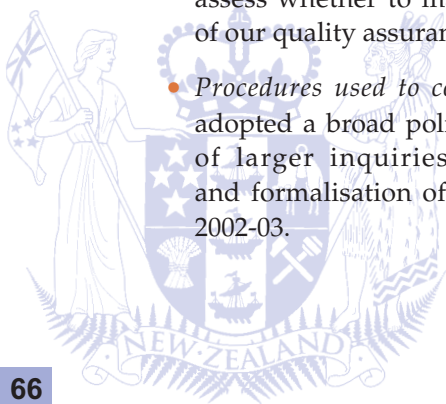


Strategy 6: *We will successfully respond to the findings of an external peer review conducted in 2001-02.*

In February-March 2001, at our request, member offices of the Australasian Council of Auditors-General undertook a peer review of our activities. The four review team members were from the Western Australia, Victoria and New South Wales State Auditors-Generals' Offices and the Australian National Audit Office. They spent two weeks reviewing both the Office of the Auditor-General and Audit New Zealand. Their comprehensive report and our responses were presented to the Officers of Parliament Committee and the Finance and Expenditure Committee for their information and consideration, and are available on our web site (www.oag.govt.nz).

We report below progress on key areas where they found room for improvement:

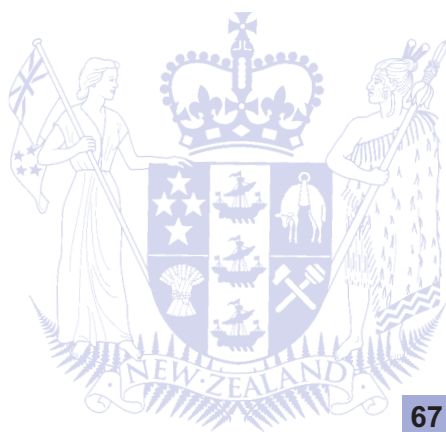
- *The criteria used to select special studies, and reporting rationales to stakeholders:* We reconsidered our criteria for selecting special studies, engaged more with the Treasury on our rationales, and added explanatory material to our *Annual Plan*, which was circulated to Select Committees for consideration while in draft form.
- *External challenge and review of special studies:* We have commissioned pilot reviews of two of our recent reports. Each report has been reviewed by three external reviewers, and the findings will be available early in 2002-03 to help us assess whether to make the reviews a permanent feature of our quality assurance.
- *Procedures used to conduct inquiries:* We developed and adopted a broad policy document to support the conduct of larger inquiries, and should complete a review and formalisation of procedures for all inquiries early in 2002-03.



- *Monitoring and evaluating the outcomes of contestability:* We developed some new measurements to help monitor our contestable process for appointing auditors, and completed field work for a formal evaluation of the regime as a whole. The results of the evaluation will be discussed with interested parties, and used to form a view on future arrangements during 2002-03.
- *Identifying areas for improvement in efficiency in annual audits:* Audit New Zealand completed and implemented the results of a project to refocus its audit approach during the year.

Strategy 7: *We will successfully manage the transition process on appointment of a new Auditor-General.*

Kevin Brady, the incumbent Deputy, was appointed Auditor-General on 6 May 2002, immediately after David Macdonald's retirement. He was briefed by his senior officers on key issues when appointed but, as he was already a long-standing member of the senior management of the Audit Office, there were no major transitional issues or risks.



Part Three

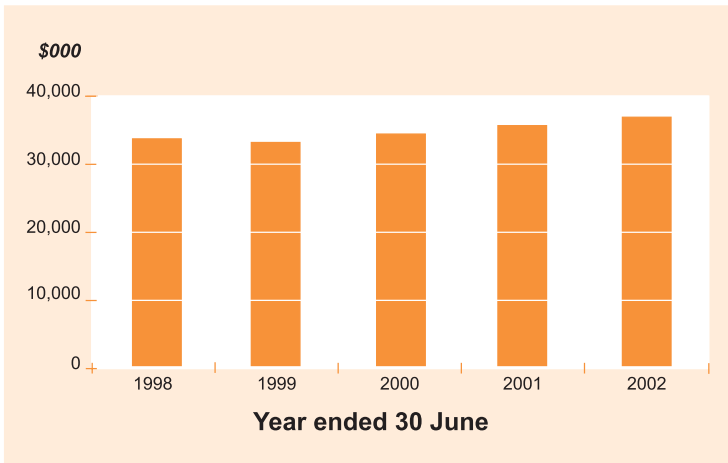
Management Performance

Financial Performance

Expenditure

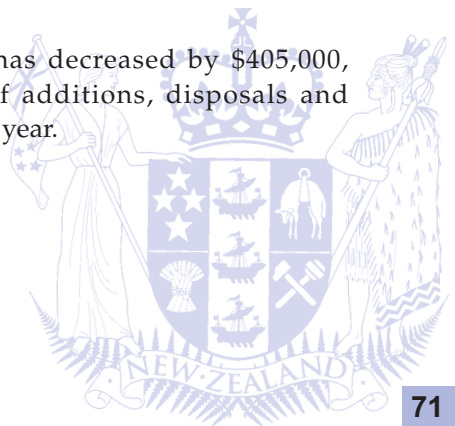
The expenditure out-turn on the Vote (see page 124) shows that total output expenditure at \$36.808 million is 95.1% of the estimate, and compares with \$35.543 million in 2000-01. Expenditure for each of the output classes was within the appropriation.

Operating Expenses 1998-2002

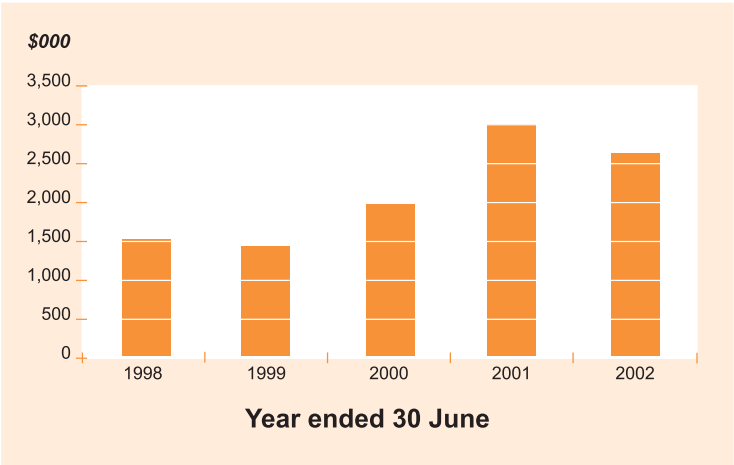


Financial Position

The level of physical assets has decreased by \$405,000, representing the net result of additions, disposals and depreciation expense during the year.



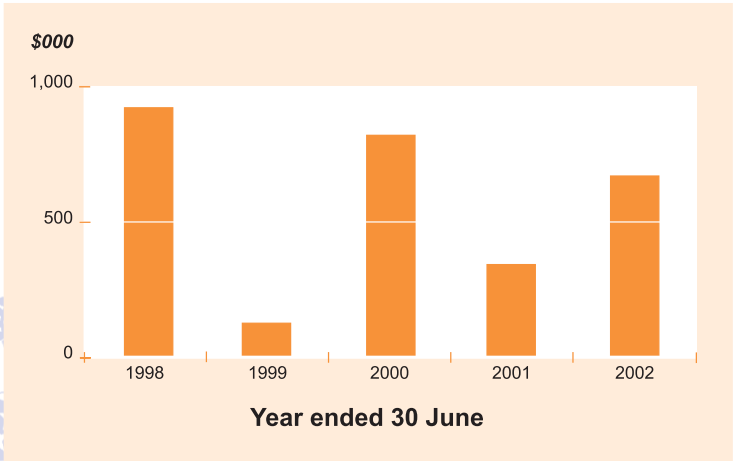
Physical Assets 1998-2002



Surplus

We will return a surplus of \$679,000 to the Crown this year. The graph shows how this compares with operating results for previous years.

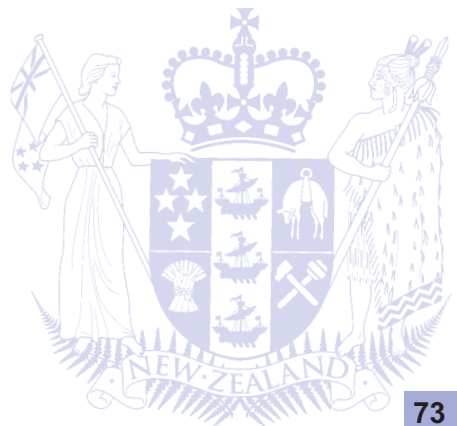
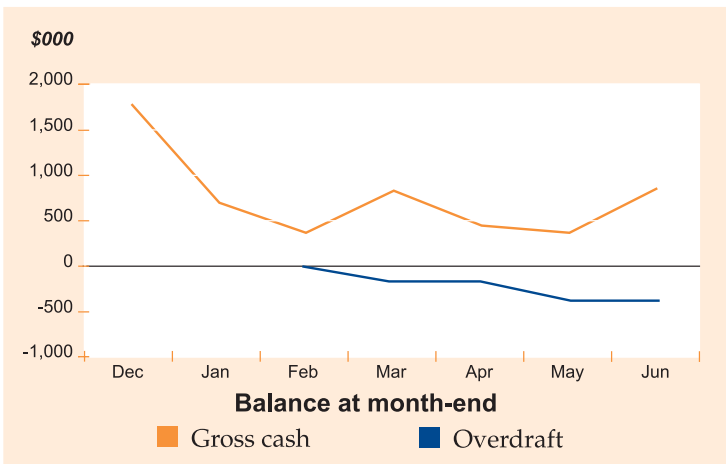
Surplus 1998-2002



Cash Flows

During the year the Minister of Finance approved the operation of an overdraft facility to assist us to manage our seasonal cash flows during the second half of the financial year. Our cash balances decreased from \$1.8 million in December 2001 to zero by May 2002, while over the period March to June 2002 we drew down \$400,000 of the \$500,000 overdraft facility. We repaid the whole amount drawn down on 31 July 2002.

Cash Balances December 2001 to June 2002



Human Resources

Good Employer Requirements

Section 9 of Schedule 3 to the Public Audit Act 2001 requires the Auditor-General to operate policies that comply with the principle of being a “good employer”. Such policies must provide for the fair and proper treatment of employees in all aspects of their employment.

We are continuing to strive for ways to improve our human resources policies and practices.

Continuing to Improve the Working Environment of our Employees

The Auditor-General is required by the Health and Safety in Employment Act 1992 to safeguard the health and well-being of all staff and visitors to the Office. During the year we have continued to:

- develop programmes and provide training and equipment to help ensure the safety of employees should a civil defence emergency or bomb alert occur. In particular, Audit New Zealand has undertaken an office security audit to ensure the safety of staff and to maintain the integrity of offices and equipment;
- identify any hazards within our premises;
- develop effective emergency plans;
- implement training for the management and prevention of occupational overuse syndrome;
- provide a confidential Employee Assistance Programme to all staff;
- provide flu vaccinations to staff; and
- apply family friendly work practices.

Continuing to Encourage Diversity Within Our Organisation

We recognise that understanding and knowledge of different perspectives enhance the performance of our employees and hence the organisation. We are endeavouring to achieve this through:

- compliance with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990;
- ensuring that all employees have equal access to employment opportunities;
- continuing to operate a Maori scholarship programme; and
- continuing to operate a Pacific Island scholarship programme.

Two Maori students were awarded scholarships during the year.

The Audit Office has undertaken a major review of its Maori responsiveness strategy and EEO programmes, and has identified key initiatives to be implemented during the next twelve months. Our progress on these initiatives will be reported next year.

*Figure 7
Composition of Staff by Gender*

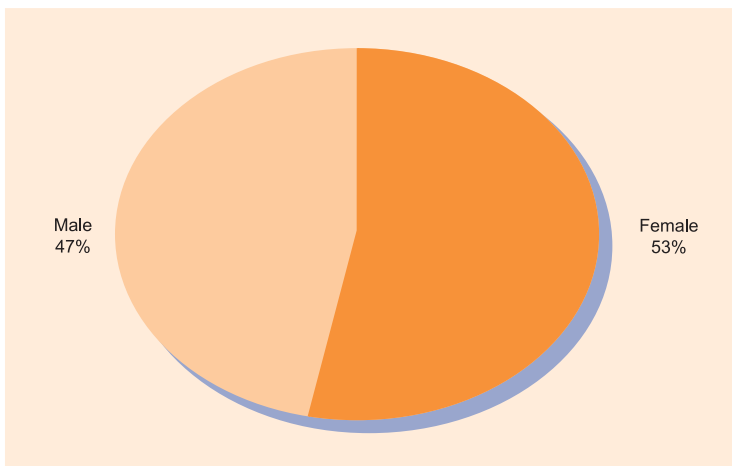
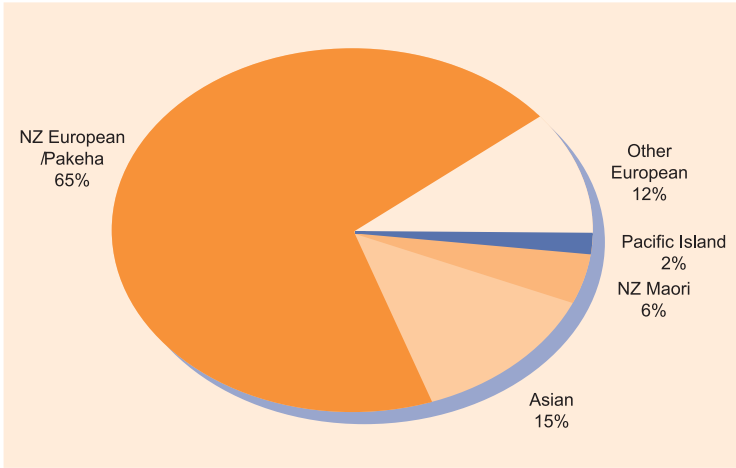


Figure 8
Composition of Staff by Ethnicity



Developing and Implementing Sound Professional Development Policies and Practices

Over the course of the year we have continued to focus on the professional development of staff including:

- Helping staff meet the membership requirements of the Institute of Chartered Accountants of New Zealand by continuing Audit New Zealand's professional development programme. This programme ensures that Audit New Zealand fulfils its obligations as an Approved Training Organisation.
- Running formal study programmes, providing training relevant to an individual's needs, on-the-job coaching and organising in-house courses to meet the business and professional requirements of the OAG and Audit New Zealand.
- The introduction of assessment processes for management in both the OAG and Audit New Zealand which incorporate 360-degree feedback.
- Creating and supporting secondment opportunities for staff within the Office to enhance their knowledge and experience outside of their normal job requirements.

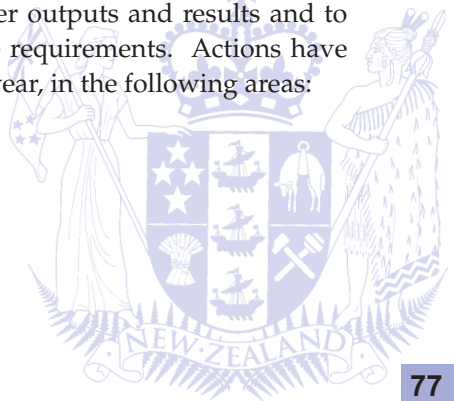
Secondments have continued with public sector departments and the Audit Offices of Canada, Australia and the United Kingdom.

- Strategic management development for targeted Audit New Zealand senior staff and sending two staff of the OAG to a senior management development course.
- Sending one senior staff member of the OAG to participate in the Management Development Centre's "Centre for Individual Management Development", and another to one of the Centre's Leadership courses.

Ensuring Our Human Resource Policies Support the Achievement of Our Objectives

We are continuing to improve our human resources policies and practices so that these support the achievement of our corporate objectives. In particular, this year we have:

- continued to ensure that our performance management and remuneration policies and practices reflect accepted benchmark practices. Audit New Zealand introduced a talent management system and realigned its remuneration policy to ensure competitiveness and to reward personal growth and business success;
- continued to review our recruitment, retention and reward systems so that we are able to attract and retain the skilled staff needed to meet our client's business needs; and
- undertaken the initiatives that arose from the project completed last year to review the OAG's capability. This project identified ways in which the OAG could maintain its capacity to deliver outputs and results and to identify and cope with future requirements. Actions have been undertaken, during the year, in the following areas:
 - skill requirements;
 - recruitment;
 - innovation and learning;
 - operating systems; and
 - performance management.



Operational Capacity

Total staff numbers of 248.4 full-time-equivalents (FTEs) at 30 June 2002 were 8.3% less than the 271 at 30 June 2001. Staff turnover within the OAG has decreased from 17.8% in 2000-01 to 11.9% in 2001-02. Turnover in Audit New Zealand has continued to increase, from 25.9% in 2000-01 to 29%. This continued increase in turnover reflects the competitive employment market for skilled and experienced audit staff, especially for those audit staff with 3 to 5 years experience.

Figure 9
Staff Numbers (FTEs) 1998-2002

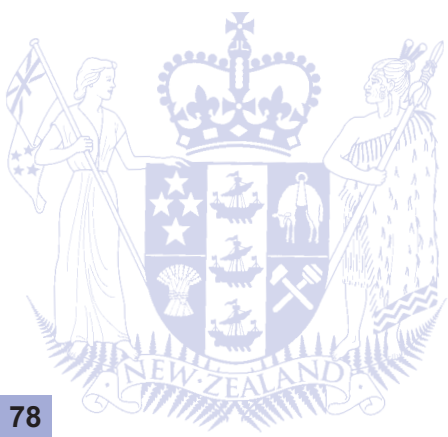
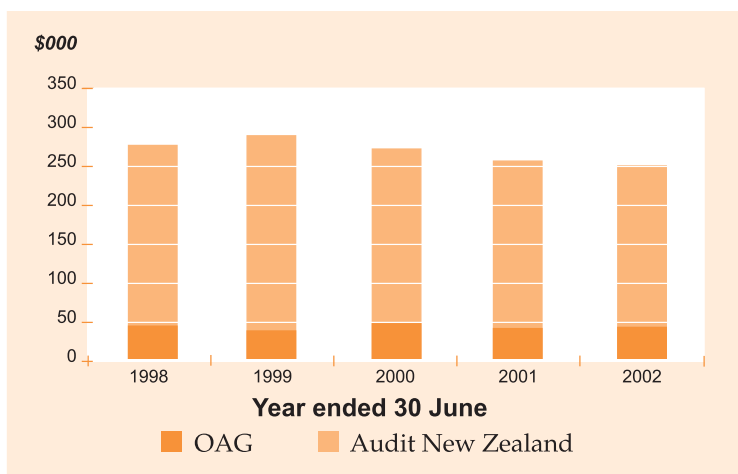
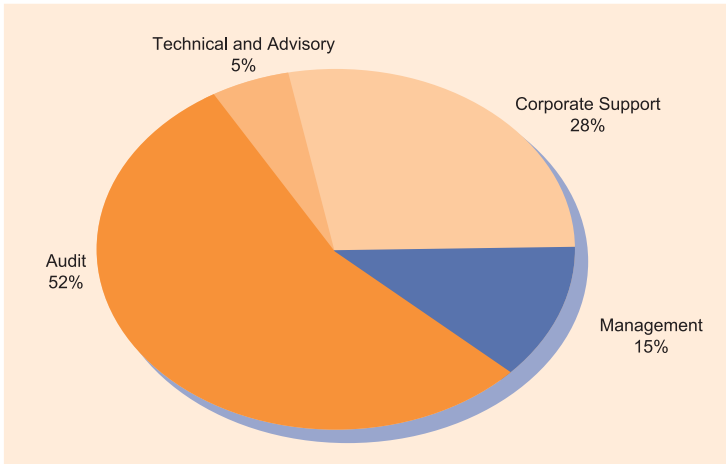


Figure 10
Composition of Staff by Function



Office of the Auditor-General

Our six key management and development objectives for 2000-01 were set out in the Office's *Forecast Report*.¹⁴ Three of them have been fully discussed in the previous section:

- developing our strategic processes, primarily by researching new product possibilities (pages 49-50), and improving our own performance measurement (pages 60-65);
- continuing to reduce the backlog of audits (pages 36-37); and
- successfully responding to an external peer review (pages 66-67).

We report on the three remaining objectives below:

Objective 1:

Implementing the Public Audit Act

We have already commented on making arrangements for new entities (page 35) and developing strategies for application of the full mandate across a wider range of entities (page 36). The other two aspects of achieving this objective were:

- Preparing a public report on the Auditor-General's auditing standards, which was published in May 2002 (see page 29).
- Making suitable arrangements for consulting with Parliament on the Office's work programme. We submitted our draft work programme for 2002-03 to the Speaker in February 2002 and it was circulated to Select Committees for feedback and comment prior to finalising our *Annual Plan*.

¹⁴ Parliamentary paper B.28FR(00), pages 30-34.

We are currently considering how we can better engage with Parliament on the work programme, and the process is likely to evolve and mature over time.

Section 37 of the Act also requires us to provide a list of entities audited under an arrangement in accordance with section 19 of the Act. This list is provided as Appendix 3 on pages 141-142.

Objective 3:

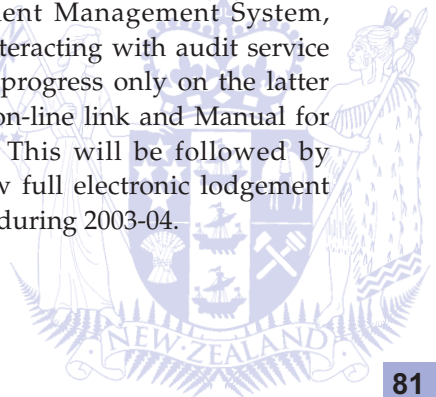
Developing a regular programme of review with the FEC sub-committee

The FEC sub-committee to consider reports from the Auditor-General did not meet in 2001-02. However, some of our reports have been considered by other subject committees. We will encourage the new FEC to consider what role it might play in considering our reports in the new Parliament.

Objective 6:

Continuing to develop our internal capability

We proposed to improve, and make better use of, our knowledge management systems – in particular, our Intranet, our Electronic Document Management System, and our electronic facilities for interacting with audit service providers. We made significant progress only on the latter item, and are due to roll out an on-line link and Manual for our auditors early in 2002-03. This will be followed by specification of a system to allow full electronic lodgement of audit returns, for development during 2003-04.



MANAGEMENT PERFORMANCE

Office of the Auditor-General

We made good progress on implementing a capability action plan developed during 2000-01, concentrating on establishing a learning and innovation-friendly environment. We held a series of office-wide discussions on innovation and learning, and subsequently developed and began implementing improvement plans.



Audit New Zealand

Audit New Zealand continued to make significant progress in a number of areas during the year. Its five key objectives for management and development in 2001-02 were set out in the Office's *Forecast Report*¹⁵, and its actual achievements are described below.

Objective 1:

Refocus the audit approach, by continuing to improve the risk-based audit methodologies and their application.

- During 2001-02, Audit New Zealand reviewed its audit approach. The findings from the project, *Refocusing our Audit Approach*, have been endorsed by management, presented to all audit managers and audit directors, and are being applied to the 2002 audit round.

Objective 2:

Reshape the business to reflect the agreed strategic direction.

- Audit New Zealand reviewed its leadership/governance and accountability frameworks. The resulting changes in the leadership/governance framework, which included the appointment of General Managers and the establishment of a new operational team, have been implemented. In addition, the new accountability framework, supported by a revised performance management system, is being implemented.

¹⁵ Parliamentary paper B.28FR(01), page 44.

Objective 3:

Improve business processes to ensure that they are efficient and aligned to the strategic direction.

- The focus has been on improving business planning, budgeting, and accountability systems. A revised budget system has been implemented, quarterly reporting improved, and senior staff performance plans aligned to the leadership/governance framework.

Objective 4:

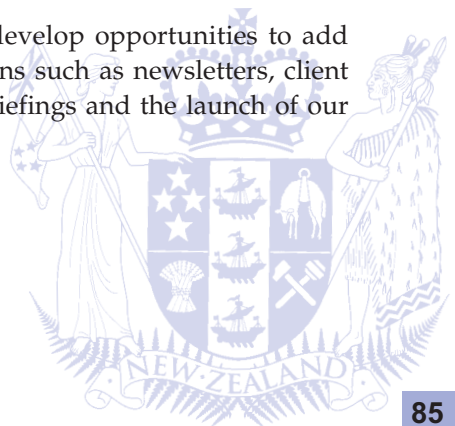
Achieve revenue targets through client retention, and extending assurance-based services that add value to clients.

- During 2001-02, 69 audited entities had the opportunity to either remain with Audit New Zealand or engage in a tender for the audit – 57 of these entities elected to remain with Audit New Zealand and 12 were tendered. Of the 12 that elected to tender, 9 were retained and 2 were lost. The other tender is still in progress. Audit New Zealand also unsuccessfully tendered for one client previously audited by a private sector firm.
- During the year Audit New Zealand continued to identify other auditing and assurance services that add value to clients. A total of 225 new audit add-on, specialist assurance and tax engagements were started. Notable engagements include Departmental Internal Control Evaluations (DICE), assurance over various tendering procedures, review of policies on sensitive expenditure, and review of governance arrangements.

Objective 5:

Continue to improve the capability of the organisation through targeting recruitment, retention and staff development systems, improving internal accountability, and improving management of audit knowledge through the introduction of technology and strengthening Sector Groups.

- Audit New Zealand introduced a talent management system for General Managers, Directors, and Managers; reviewed and updated its remuneration policy; and released information packs to all staff on strengthening performance, rewarding growth, and celebrating success.
- New performance plans were developed for all General Managers and Directors to reflect the changes in the leadership/governance framework. An operations forum was established to ensure that the smooth running of the business on a day-to-day basis and quarterly reporting were improved to ensure alignment with the strategic direction and performance plans.
- A new release of *TeamMate*, Audit New Zealand's electronic audit support tool, was implemented. *TeamCentral*, the repository database of *TeamMate*, was populated for Central Government clients.
- Sector groups continued to develop opportunities to add value to clients through actions such as newsletters, client seminars, individual client briefings and the launch of our web site.



Part Four

Financial Statements 2001-02



The Controller and Auditor-General

Tumuaki o te Mana Arotake

Financial Statements

for the year ended 30 June 2002

Statement of Responsibility

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

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

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

In my opinion, the information set out in the statements and attached notes to those statements fairly reflects the service performance, financial operations and cash flows of the Audit Office for the year ended 30 June 2002 and its financial position as at that date.



K B Brady
Controller and Auditor-General
16 September 2002



(Countersigned)
D E Atkin
Finance Manager
16 September 2002



Audit Report

**TO THE READERS OF THE FINANCIAL STATEMENTS OF
THE CONTROLLER AND AUDITOR-GENERAL
FOR THE YEAR ENDED 30 JUNE 2002**

We have audited the financial statements on pages 92 to 133. The financial statements provide information about the past financial performance of the Controller and Auditor-General and his financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 113 to 117.

Responsibilities of the Controller and Auditor-General

Sections 35 and 40 of the Public Finance Act 1989 require the Controller and Auditor-General to prepare annual financial statements in accordance with generally accepted accounting practice and which fairly reflect the financial position of the Controller and Auditor-General as at 30 June 2002 and the results of his operations, cash flows and service performance achievements for the year ended on that date.

Auditor's Responsibilities

Sections 35 and 40 of the Public Finance Act 1989 require the auditor appointed by the House of Representatives to audit the financial statements prepared by the Controller and Auditor-General. It is the responsibility of the auditor to express an independent opinion on the financial statements and report that opinion to you.

Scope of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Controller and Auditor-General in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Controller and Auditor-General's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in the Controller and Auditor-General.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Controller and Auditor-General on pages 92 to 133,

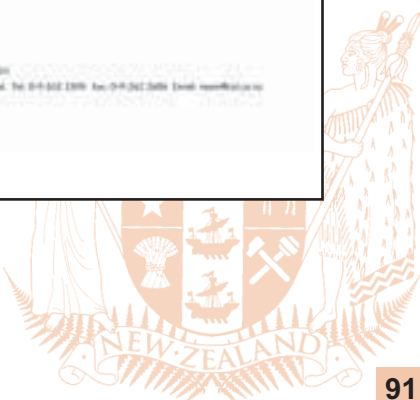
- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the financial position as at 30 June 2002;
 - the results of his operations and cash flows for the year ended 30 June 2002; and
 - the service performance achievements as measured in relation to the performance targets and other measures set out in the forecast report for the year ended on that date.

Our audit was completed on 16 September 2002 and our unqualified opinion is expressed as at that date.

Cyril Sole & Teck
Cyril Sole & Teck
Chartered Accountants
Manukau City

Cyril Sole Teck
Chartered Accountants & Auditors
Level 3, CDF Management Centre, 22 Devonport Way, P O Box 79 184, Manukau City, New Zealand. Tel: 04-842 1200 Fax: 04-842 1216 Email: info@csot.co.nz
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NEXIA
20 YEARS AGENTURE



Statement of Objectives and Service Performance For the Year Ended 30 June 2002

Departmental Output Classes

The Audit Office produces outputs in four classes. The extent to which we have met our objectives for each output class (as set out in our *Forecast Report 2001-2002*¹⁶) is reported below.

Output Class D1 – *Reports and Advice arising from the Exercise of the Function of Legislative Auditor*

This class of outputs has six elements, each relating to the Audit Office's constitutional function of assisting Parliament to ensure accountability for public resources.

The products and services contained in this class of outputs are either demand-driven (e.g. ratepayer enquiries or advice to select committees), or are subject to the discretion of the Auditor-General as to the particular audit undertaken and reported (e.g. special audits and studies).

Desired Outcomes

- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public bodies.
- 2 Better use of public resources.

¹⁶ Parliamentary paper B.28FR(01), pages 53-72.

I *Reports to Parliament and other constituencies on matters arising from annual audits, programmed special audits and studies, and unprogrammed special investigations*

Performance Results

<i>Actual 2000-01</i>		<i>Actual 2001-02</i>	<i>Estimate 2001-02</i>
	<i>Quantity</i>		
2	• Results of annual audits	3	At least 2 reports
6	• Results of programmed special audits and studies	10	At least 8 reports
4	• Results of unprogrammed special investigations	5	-
	<i>Quality</i>		
All	<ul style="list-style-type: none"> • All reports will be prepared with due professional care and be subject to: <ul style="list-style-type: none"> • internal peer review; • substantiation; and • entity confirmation of factual accuracy. 	All	All
	<i>Timeliness</i>		
Substantially achieved	• Reports will be completed in a manner which ensures that the subjects being reported are timely and relevant.	Substantially achieved	
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>
2,329	<i>Value of resources applied</i>	2,952	2,945

Commentary on Performance

The increase in number (33%) and coverage of reports is greater than last year as a result of the wider mandate available with the enactment of the Public Audit Act 2001, and the additional funding provided by Parliament. The number and coverage of reports is expected to be similar in future years.

See pages 38-44 for more detail and commentary on reports issued.

II Reports and advice to select committees and Ministers

Performance Results

<i>Actual 2000-01</i>		<i>Actual 2001-02</i>	<i>Estimate 2001-02</i>
	<i>Quantity</i>		
	• Reports to select committees:		
85	• financial reviews	89	110
90	• estimates examinations	27	40
34	• other.	41	20
	• Reports to portfolio Ministers on the results of annual audits.		
136		134	110
	<i>Quality</i>		
	• All select committees will be surveyed as to their satisfaction with the quality of our reports and advice.		
13		None	13
	• All reports and advice will be prepared with due professional care and, where the circumstances require it, be subject to:		
All	• internal peer review;	All	All
	• substantiation; and		
	• entity confirmation of factual accuracy.		
	<i>Timeliness</i>		
	• Reports presented to select committees at least two days before their examination, unless otherwise agreed with the committee.		
All		All	All
	• Reports presented to portfolio Ministers before select committee scrutiny of departmental and Crown entity performance.		
All		All	All
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>
575	<i>Value of resources applied</i>	549	589

Commentary on Performance

Quantity

The overall number of reports is down on the previous year, because the Estimates examinations for 2001-02 were not completed before Parliament was dissolved ahead of the general election held on 27 July 2002.

Quality

Select Committees were not surveyed during 2001-02. Given the favourable results of the previous survey, we decided to defer this survey until 2002-03 and the new Parliament.

III *Responding to enquiries from taxpayers, ratepayers, and Members of Parliament*

Performance Results

<i>Actual 2000-01</i>		<i>Actual 2001-02</i>	<i>Estimate 2001-02</i>
	<i>Quantity</i>		
	• Enquiries received from:		
21	• taxpayers	54	60
177	• ratepayers	167	180
51	• Members of Parliament.	53	60
	<i>Quality</i>		
	• All reports and advice will be prepared with due professional care and, where the circumstances require it, be subject to:		
All	• internal peer review;	All	All
	• substantiation; and		
	• entity confirmation of factual accuracy.		
	<i>Timeliness</i>		
	• Initial response within five working days.		
88%		96%	100%
82%	• Cleared within 30 working days.	72%	80%
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>
420	<i>Value of resources applied</i>	446	464

Commentary on Performance

This is a demand-driven activity, the quantity of enquiries received being beyond our control.

Although many of these enquiries can be responded to relatively promptly, others identify more significant issues and can lead to major or ongoing investigations. Enquiries that lead to major studies have an impact upon both response

times and costs per enquiry. This year we had a relatively high proportion of enquiries which needed significant investigation, and this is reflected in only 72% being cleared within 30 working days. Examples this year included inquiries at Thames Coromandel and Taupo District Councils, both of which resulted in public reports.

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

Performance Results

<i>Actual 2000-01</i>		<i>Actual 2001-02</i>	<i>Estimate 2001-02</i>
	<i>Quantity</i>		
*	<ul style="list-style-type: none"> Responding to specific requests from, and participating in working parties on matters related to financial management and accountability with, organisations including: <ul style="list-style-type: none"> central agencies; government departments, local authorities and other public sector entities; professional bodies such as the Institute of Chartered Accountants of New Zealand; sector organisations such as Local Government New Zealand and the Society of Local Government Managers; foreign delegations; and other audit institutions and related organisations, such as INTOSAI. 	*	*
	<i>Quality</i>		
	<ul style="list-style-type: none"> All advice will be prepared with due professional care and, where the circumstances require it, be subject to internal peer review. 	All	All
	<i>Timeliness</i>		
	<ul style="list-style-type: none"> As requested 		
\$000		\$000	\$000
542	<i>Value of resources applied</i>	577	634

* This is a demand-driven activity for which there are no wholly satisfactory quantity measures.

Commentary on Performance

We continue to provide a wide range of high-quality advice on financial management and accountability issues. Most is directed to governmental or sector organisations, but our involvement with professional bodies in New Zealand, and receiving international audit agencies and other international delegations, also consumes considerable time.

Our involvement with professional bodies relates mainly to:

- our participation in the activities of the Institute of Chartered Accountants of New Zealand, and submissions made to the Institute on Auditing Standards, Guidance Statements and Financial Reporting Standards; and
- our participation in the activities of the Public Sector Committee of the International Federation of Accountants.

Our ongoing involvement with international audit agencies relates to:

- Continuing participation in two international working groups of the International Organisation of Supreme Audit Institutions (INTOSAI) – on auditing activities with an environmental perspective, and accounting standards.
- Participation in the Auditors-General Global Working Group, which was initiated by the Comptroller General of the United States to promote informal dialogue among the Auditors-General of a small number of countries facing similar issues and challenges, and whose annual meeting we hosted in February 2002.
- Regular contact with our Australian colleagues through a forum known as the Australasian Council of Auditors-General (ACAG).
- Our role as Secretary to the South Pacific Association of Supreme Audit Institutions (SPASAI).

The Office continues to receive many delegations from other countries, not all of which are confined to audit-related matters. The international reputation of New Zealand's public sector reforms undoubtedly contributes significantly to this sustained high level of international interest.

V *Administering the provisions of the Local Authorities
(Members' Interests) Act 1968*

Performance Results

<i>Actual 2000-01</i>		<i>Actual 2001-02</i>	<i>Estimate 2001-02</i>
	<i>Quantity</i>		
71	<ul style="list-style-type: none">• Responding to specific requests in relation to the Audit Office's powers to:• approve increased limits for contract payments;• grant dispensations in certain circumstances from the prohibition against discussing and voting where members have a pecuniary interest; and• consider alleged breaches of the Act.	123	80
	<i>Quality</i>		
All	<ul style="list-style-type: none">• All reports and advice will be prepared with due professional care and, where the circumstances require it, be subject to internal peer review.	All	All
	<i>Timeliness</i>		
92%	<ul style="list-style-type: none">• Initial response within five working days.	99%	100%
86%	<ul style="list-style-type: none">• Cleared within 30 working days, unless otherwise advised.	88%	80%
<i>\$000</i>		<i>\$000</i>	<i>\$000</i>
69	<i>Value of resources applied</i>	81	81

Commentary on Performance

Our workload under the Act increased in the past year – despite the removal of school boards of trustees from its coverage (by virtue of the Education Standards Act 2001).

Most of the increased workload involved sections 6 and 8 of the Act. Section 6 prevents members of local authorities (and other affected boards) from discussing or voting on matters in

which they have a pecuniary interest, unless they obtain a dispensation from us to do so. Section 8 requires us to investigate and, if the circumstances warrant it, prosecute breaches of section 6.

We are pleased to see members making greater use of the procedures for obtaining dispensations under section 6. These cases can be turned around quickly, without substantial cost. On the other hand, we continue to receive a steady flow of complaints about members who have participated in matters without seeking a dispensation. Some of the resulting investigations have been costly and time-consuming. One such case has resulted in a prosecution – the first for many years. It is due to be heard later in 2002.

We published a revised edition of our booklet on the Act in late-2001, and have been pleased with the feedback received.

VI *Implementation of the Transition to the Public Audit Act 2001*

Performance Results

<i>Actual 2000-01 \$000</i>		<i>Actual 2001-02 \$000</i>	<i>Estimate 2001-02 \$000</i>
7	<i>Value of resources applied</i>	45	75

Commentary on Performance

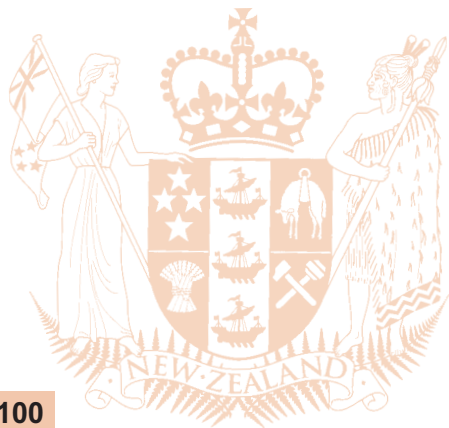
Parliament appropriated an additional \$75,000 for each of the 2000-01 and 2001-02 years, to contribute to the costs of transition to the Public Audit Act 2001. The funding was to be used to avoid new entities having transition costs imposed on them as a results of being added to the Audit Office's portfolio. In the event, most effort over the last fifteen months has been put into identifying whether entities were in fact in the portfolio, which meant that only a limited amount was spent on preparation for the actual audit, and charged against this source of funds.

Financial Performance of Output Class D1

Actual 2000-01 \$000		Actual 2001-02 \$000	Estimate 2001-02 \$000
4,172	Revenue - Crown	4,815	4,782
73	- Other	4	15
(3,942)	Expenditure	(4,650)	(4,788)
303	Surplus	169	9

Commentary on Financial Out-turn of
Output Class D1

The cost of producing the outputs in this class was appropriately covered by revenue for the year. On-going attention to cost efficiencies in producing the outputs resulted in a larger surplus than forecast.



Output Class D2 – *Certification of Authority to Release Funds from the Crown Bank Account*

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

Desired Outcome

Legal disbursement of public funds.

Performance Results

Actual 2000-01		Actual 2001-02	Estimate 2001-02
	Quantity		
7	• Warrants issued	6	15
245	• Controller statements issued	245	240
	Quality		
	• Authorities will be issued once correct documentation is received.		
All		All	All
	• Issues from the Crown Bank Account will be within the appropriations and other lawful authorities granted by Parliament.		
All		All	All
No payments made without authority	• All payments not within a warrant from the Governor-General will be refused.	No payments made without authority	No payments made without authority
	Timeliness		
	• Controller statements signed before 12 noon on day of submission.		
99%		100%	100%
\$000		\$000	\$000
239	Value of resources applied	244	271

Commentary on Performance

The volume of controller statements issued continues at a similar level to that of previous years. The quality of statements presented continued to remain sound during 2001-02, with 50% less issues raised and cleared compared to last year.

Financial Performance of Output Class D2

<i>Actual</i> 2000-01 \$000		<i>Actual</i> 2001-02 \$000	<i>Estimate</i> 2001-02 \$000
239	Revenue - Crown	244	271
(239)	Expenditure	(244)	(271)
<u>Nil</u>	<u>Surplus</u>	<u>Nil</u>	<u>Nil</u>

Commentary on Financial Out-turn of Output Class D2

This small but important constitutional function continues to be effectively carried out within the funding provided by Parliament.



Output Class D3 – *Provision of Non-contested Audit Services*

The Audit Office has a statutory duty to conduct an audit of the financial reports of more than 3,700 public entities. The Office of the Auditor-General establishes the standards by which audits will be carried out.

This class of outputs relates to the provision of those audits which have not been allocated to audit service providers by a contestable process. These are:

- audits of national sensitivity; or
- audits where the Auditor-General considers that subjecting particular audits to contestability at this time is potentially too disruptive to the entity; or
- those audits which have yet to be subject to competitive tender.

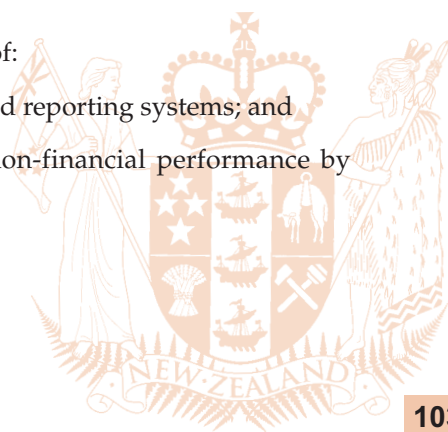
The work is carried out by Audit New Zealand.

The two significant outputs of this class are:

- **Audit Reports** – on whether the public entity's financial report fairly reflects the financial and non-financial performance of the entity; and
- **Management Reports** – to the management and governing bodies of public entities, on issues arising from the audit.

Desired Outcomes

- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public entities.
- 2 Better use of public resources.



Statement of Performance for Output Class D3 – Non-contested Audit Services

Performance Quantity and Timeliness¹

Group	Quantity			Timeliness			
	Audit Status			Timely Issue of Audit Reports		Timely Issue of Management Reports	
	Total Entities in Group	Carried Out	Arrears at Year End	Target ²	Actual	Target ³	Actual
Government Departments and Offices of Parliament	15	15	-	100%	100%	100%	100%
2000-01	20	20	-	100%	100%	100%	95%
Major Statutory Bodies ⁴	38	37	4	100%	84%	100%	82%
2000-01	60	62	6	100%	81%	100%	91%
Other Local Authorities ⁵	25	26	3	100%	76%	100%	82%
2000-01	44	61	4	100%	91%	100%	85%
Miscellaneous Public Bodies ⁶	130	152	53	75%	52%	100%	98%
2000-01	156	178	59	75%	66%	100%	98%
Audits for which fees will not be charged ⁷	160	170	109	75%	25%	100%	99%
2000-01	165	292	124	75%	31%	100%	99%
TOTALS	368	400	169		47%		96%
2000-01	445	613	193		58%		97%

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

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

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

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

5 Comprising Licensing Trusts, Airports, LATes, Energy Companies, Port Companies, and Sinking Fund Commissioners.

6 Comprising mainly other smaller Crown Entities.

7 Entities where there is no statutory right to charge an audit fee or no realistic possibility of obtaining a fee – comprising Cemetery Trustees, Hall and Reserve Boards, and Provincial Patriotic Councils. From 2001-02, the Crown is funding up to \$100,000 of the cost of these audits.

Performance Quality

Standard

- 1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.
- 2 A quality assurance programme will be carried out on audit arrangements and work undertaken.

Achievement

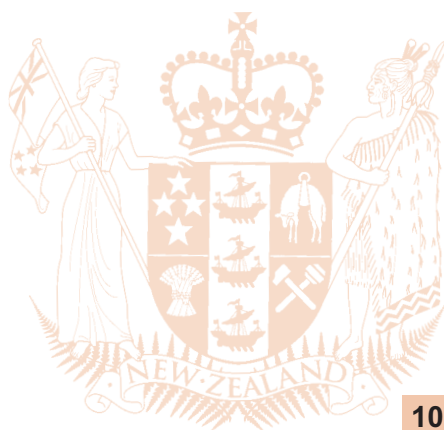
Done

Programme undertaken, the results of which are reported on pages 31-32.

Commentary on Performance

A key goal over the last few years has been to continue to reduce audit arrears. We have met the goal set in our *Forecast Report* of getting arrears in this Output Class to under 200 – a comfortably sustainable level – but are disappointed that we did not achieve more.

We are also disappointed in the deterioration of timeliness of audit opinions, and are investigating the causes, with a view to sharply improving performance in 2002-03.



Commentary on Performance: Audit Outcomes

The following table gives an analysis of all non-standard audit reports¹⁷ issued in the 2000-01 and 2001-02 years.

2000-01			2001-02		
Schools	Other	Total	Schools	Other	Total
74	111	185	64	46	110
1	14	15	1	1	2
1	55	56	0	0	0
1	4	5	0	17	17
24	30	54	256	42	298
101	214	315	321	106	427
2,597	1,410	4,007	2,449	1,201	3,650

There has been an increase in non-standard audit reports as a proportion of all audit reports issued during the year – from 7.9% in 2000-01 to 11.7% in 2001-02.

¹⁷ Non-standard audit reports are those audit reports that the Institute of Chartered Accountants of New Zealand Auditing Standard No. 702: *The Audit Report on an Attest Audit* (AS-702) outlines as:

- Containing a qualified opinion because:
 - there is a limitation on the scope of the auditor's examination; or
 - the auditor disagrees with the treatment or disclosure of a matter in the financial report and, in the auditor's judgement, the effect of the matter is or may be material; or
- Containing an explanatory paragraph, separate from the opinion, drawing attention to a failure to comply with a particular law; or
- Containing an explanatory paragraph, separate from the opinion, drawing attention to a fundamental uncertainty about the outcome of a future event.

This increase can be attributed to the difficulty School Boards of Trustees had in complying with FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*. FRS-15 required the inclusion of a provision in the Boards' financial report for their legal obligation to the Ministry of Education to maintain the properties from which they operate in "good order and repair". Most of the "Except-for" audit reports issued for School Boards were caused by the Board:

- failing to include a provision; or
- including a provision that could not be verified.

In 2000-01 significant effort went into reducing audit arrears and as a result there was an increased number of "full disclaimer" and "partial disclaimer" opinions issued in that year compared to 2001-02.

Financial Performance of Output Class D3

<i>Actual</i> 2000-01 \$000			<i>Actual</i> 2001-02 \$000	<i>Estimate</i> 2001-02 \$000
5,361	Revenue	- Crown	94	100
		- Other	4,557	5,974
(5,392)	Expenditure		(4,513)	(5,906)
(31)	Surplus/(Deficit)		138	168

Commentary on Financial Out-turn of Output Class D3

The financial out-turn for this output class for the year is well within estimate.

The revenue and expenditure decreased as a result of the transfer of some entities into the contestable audit pool (Output Class D4) and adjustments following a review of all audits to confirm their appropriate allocation to either Output Class D3 or Output Class D4.

The actual revenue and expenditure for the year better reflects the level of activity associated with non-contested audit services.

Output Class D4 – *Provision of Contested Audit Services*

The Audit Office has a statutory duty to conduct an audit of the financial statements of more than 3,700 public entities. The Auditor-General establishes the standards by which audits will be carried out.

This class of outputs relates to the provision of audits or audit-related services awarded through a competitive tender process or under the threat of competition. This class of output is appropriated on a Mode B net basis, and the work is carried out by Audit New Zealand and private sector auditing firms on contract to the Auditor-General.

The two significant outputs in this class are:

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

Desired Outcomes

- 1 Maintenance of the integrity of:
 - public sector accounting and reporting systems; and
 - reports on financial and non-financial performance by public entities.
- 2 Better use of public resources.



Statement of Performance for Output Class D4 – Contested Audit Services Performance Quantity and Timeliness¹

THE AUDIT OFFICE - FINANCIAL STATEMENTS 2001-02 Statement of Objectives and Service Performance

B.28

Group	Quantity			Timeliness			
	Audit Status			Timely Issue of Audit Reports		Timely Issue of Management Reports	
	Total Entities in Group	Carried Out	Arrears at Year End	Target ²	Actual	Target ³	Actual
Government Departments and Offices of Parliament	34	34	-	100%	100%	100%	100%
2000-01	28	28	-	100%	100%	100%	100%
Major Statutory Bodies ⁴	83	82	1	100%	95%	100%	93%
2000-01	71	73	-	100%	99%	100%	87%
Regional, City and District Councils	86	86	-	100%	97%	100%	90%
2000-01	86	86	-	100%	99%	100%	95%
Other Local Authorities ⁵	344	356	18	100%	80%	100%	91%
2000-01	302	350	34	100%	79%	100%	91%
School Boards of Trustees	2,623	2,449	326	50%	22%	100%	98%
2000-01	2,640	2,597	153	50%	29%	100%	96%
Miscellaneous Public Bodies ⁶	245	243	29	75%	68%	100%	97%
2000-01	189	260	15	75%	65%	100%	89%
TOTALS	3,415	3,250	374		35%		96%
2000-01	3,316	3,394	202		40%		95%

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

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

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

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

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

6 Comprising mainly other smaller Crown Entities and Maori Trust Boards.

Performance Quality

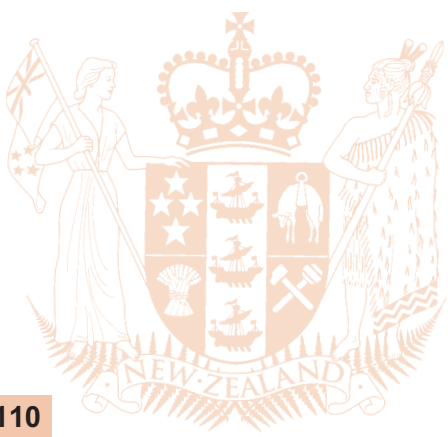
Standard	Achievement
1 Work will be conducted with due professional care; ensuring adherence to standards of appropriateness, quality, efficiency and independence as set out in the Institute of Chartered Accountants of New Zealand's standards and other standards which the Auditor-General deems appropriate for the public sector.	Done
2 A quality assurance programme will be carried out on audit arrangements and work undertaken.	Programme undertaken, the results of which are reported on pages 31-32.

Commentary on Performance

For 2001-02, we set a goal of maintaining audit arrears for this output class at the current level. We did not achieve this because of an increase in school board arrears. Commentary on the reasons for this is given on pages 36-37.

After improvements in the previous two years, the timeliness of audit opinions deteriorated this year. Apart from schools, levels were similar to the previous year, and improvement is still needed.

Commentary on the outcomes of audits (types of audit report issued) is set out on pages 106-107.



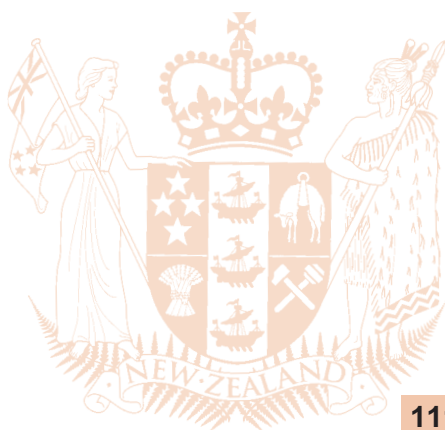
Financial Performance of Output Class D4

Actual 2000-01 \$000		Actual 2001-02 \$000	Estimate 2001-02 \$000
26,049	Revenue - Other	27,773	27,821
(25,970)	Expenditure	(27,401)	(27,728)
79	Surplus	372	93

Commentary on Financial Out-turn of Output Class D4

The revenue and expenditure of this output class reflect three factors:

- revenue from added assurance work was less than expected;
- some entities were transferred from the non-contested audit pool (Output Class D3) to the contestable audit pool (Output Class D4); and
- adjustments were made following a review of all audits to confirm their appropriate allocation to either Output Class D3 or Output Class D4.



Financial Performance Indicators For the Year Ended 30 June 2002

Details of the actual performance of the Audit Office against performance measures established in the *Forecast Report* are summarised below.

<i>Actual</i>		<i>Actual</i>	<i>Final</i>	<i>Forecast</i>
<i>2000-01</i>		<i>2001-02</i>	<i>Estimates</i>	<i>Report</i>
<i>\$000</i>		<i>\$000</i>	<i>2001-02</i>	<i>2001-02</i>
		<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
	Operating Results			
	Revenue: other than Crown and departmental audit fees			
25,616		25,048	26,858	26,858
35,543	Output expenses	36,808	38,693	38,500
	Surplus before capital charge			
592		957	593	587
351	Surplus	679	270	264
	Working Capital Management			
	Current assets less current liabilities			
1,694		2,071	1,910	1,172
140%	Current ratio	145%	170%	137%
	Average receivables and work in progress			
49 days		68 days	43 days	62 days
	Average payables outstanding			
43 days		44 days	20 days	47 days
	Resource Utilisation			
	Physical assets:			
	Total physical assets at year-end			
3,031		2,626	2,950	3,226
	Additions as % of physical assets			
66%		30%	46%	42%
	Taxpayers' funds			
3,586	Level at year-end	3,586	3,586	3,586
	Net Cash Flows			
	Surplus/(deficit) on operating activities			
1,966		(25)	468	1,497
(1,823)	(Deficit) on investing activities	(643)	(1,180)	(1,180)
	(Deficit) on financing activities			
397		(351)	(351)	(237)
	Net increase/(decrease) in cash held			
540		(1,019)	(1,063)	80

Statement of Accounting Policies For the Year Ended 30 June 2002

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.

Section 4 of the Public Audit Act 2001 defines the Auditor-General to include the Controller and Auditor-General, all employees, and appointed auditors who undertake work on behalf of the Auditor-General.

The activities of the Auditor-General are reported here as one entity, referred to as “the Audit Office”.

Measurement Base

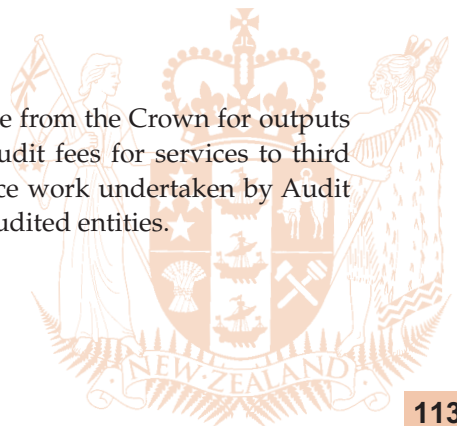
Generally accepted accounting practice is used to measure and report the activities and financial position of the Audit Office on a historical cost basis.

Non-financial information, in the form of objectives and performance measures, is prepared from internal management information.

Accounting Policies

Revenue

The Audit Office derives revenue from the Crown for outputs provided to Parliament, from audit fees for services to third parties, and from other assurance work undertaken by Audit New Zealand at the request of audited entities.



Expenses

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

Output Cost Allocation

Definitions

- *Direct costs* are those costs which are directly attributable to a single output.
- *Indirect costs* are all other costs. These costs include: payroll costs; variable costs such as travel; and operating overheads such as property costs, depreciation, and capital charges.

Method of Assigning Costs to Output Classes

- *Direct costs* that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contract audit service providers is charged directly to Output Class D4.
- *Indirect costs* are allocated according to the time charged to a particular activity.

Receivables and Work in Progress

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

Leases

The Audit Office leases office premises and office equipment. As substantially all of the risks and rewards of ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed on a systematic basis over the period of the lease.

Physical Assets

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

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

Depreciation

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

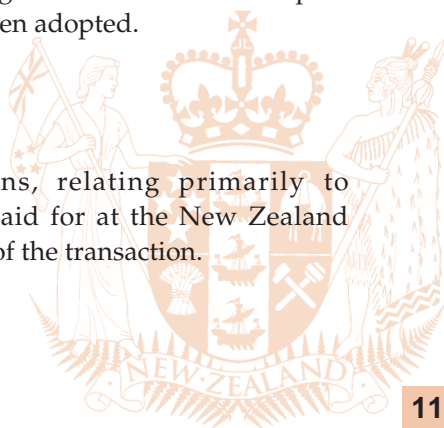
Furniture and fittings	4 years
Office equipment –	
Computer hardware and software	2.5-5 years
Other office equipment	4 years
Motor vehicles	5-7.5 years

Provision for Employee Entitlements

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

Foreign Currency

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



Financial Instruments

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

Goods and Services Tax (GST)

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

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

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

Income Tax

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

Commitments

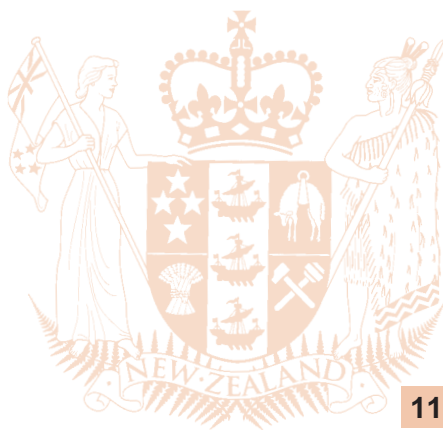
Future payments are disclosed as commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts are not disclosed unless they had vested at balance date, in which case they are reflected in the item “Provision for employee entitlements” in the Statement 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, including cost allocation accounting policies, from those contained in the last audited financial statements.



Statement of Financial Performance For the Year Ended 30 June 2002

Description of Statement

The Statement of Financial Performance details the revenue and expenses relating to all outputs (goods and services) produced by the Audit Office. Supporting statements showing the revenue and expenditure of each output class are on pages 100, 102, 107 and 111.

2000-01 Actual			2001-02 Actual	2001-02 Final Estimates ¹
\$000		Notes	\$000	\$000
Continuing Activities –				
	Revenue			
4,411	Crown	2	5,153	5,153
31,483	Other	3	32,334	33,810
<u>35,894</u>	Total Revenue		<u>37,487</u>	<u>38,963</u>
	Expenses			
18,233	Personnel costs		19,049	18,224
16,305	Operating costs	4	16,434	18,885
764	Depreciation	5	1,047	1,261
241	Capital charge	6	278	323
<u>35,543</u>	Total Expenses		<u>36,808</u>	<u>38,693</u>
<u>351</u>	Surplus		<u>679</u>	<u>270</u>

¹ See Note 1 on page 126.

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Movements in Taxpayers' Funds (Equity) For the Year Ended 30 June 2002

Description of Statement

The Statement of Movements in Taxpayers' Funds combines information about the surplus with other aspects of the financial performance of the Audit Office to give a degree of measure of comprehensive income. This statement, together with the Statement of Financial Position, provides information for assessing the return on investment in the Audit Office.

2000-01 Actual \$000		Notes	2001-02 Actual \$000	2001-02 Forecast \$000
2,386	Taxpayers' Funds brought forward at 1 July		3,586	3,586
351	Movements during the year			
	Surplus		679	270
351	Total Recognised Revenues and Expenses for the Year		679	270
	Flows to and from the Crown			
1,200	Capital Contribution	7	3,586	3,586
-	Repayment of Capital		(3,586)	(3,586)
(351)	Provision for payment to the Crown	8	(679)	(270)
849			(679)	(270)
3,586	Taxpayers' Funds at 30 June		3,586	3,586

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Financial Position As at 30 June 2002

Description of Statement

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

30/6/2001 Actual \$000		Notes	30/6/2002 Actual \$000	30/6/2002 Forecast \$000
	Taxpayers' Funds			
3,586	General funds		3,586	3,586
3,586	Total Taxpayers' Funds		3,586	3,586
	Represented by:			
	Current Assets			
1,485	Cash and bank balances	9	466	422
227	Prepayments		218	290
1,468	Work in progress		2,055	1,171
2,741	Receivables	10	3,935	2,766
5,921	<i>Total Current Assets</i>		6,674	4,649
	Non-current Assets			
3,031	Physical assets	11	2,626	2,950
3,031	<i>Total Non-current Assets</i>		2,626	2,950
8,952	Total Assets		9,300	7,599
	Current Liabilities			
1,991	Payables and accruals	12	1,799	1,569
351	Provision for payment to the Crown	8	679	270
1,885	Provision for employee entitlements	13	2,125	900
4,227	<i>Total Current Liabilities</i>		4,603	2,739
	Non-current Liabilities			
960	Provision for employee entitlements	13	860	960
179	Property lease liabilities	14	251	314
1,139	<i>Total Non-current Liabilities</i>		1,111	1,274
5,366	Total Liabilities		5,714	4,013
3,586	Net Assets		3,586	3,586

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Cash Flows For the Year Ended 30 June 2002

Description of Statement

The Statement of Cash Flows summarises the cash movements in and out of the Audit Office during the year. It takes no account of money owed to the Office or owing by the Office, and therefore differs from the Statement of Financial Performance.

2000-01 Actual \$000		Notes	2001-02 Actual \$000	2001-02 Forecast \$000
Operating Activities				
	Cash received from:			
4,466	The Crown		5,098	5,135
31,548	Others		30,608	23,039
	Cash disbursed on:			
(31,654)	Production of outputs		(33,079)	(25,550)
(2,153)	Net GST paid		(2,374)	(1,833)
(241)	Capital charge		(278)	(323)
<u>1,966</u>	Net Cash Flow from Operating Activities	15	<u>(25)</u>	<u>468</u>
Investing Activities				
	Cash received from:			
163	Sale of physical assets		146	180
	Cash disbursed on:			
(1,986)	Purchase of physical assets		(789)	(1,360)
<u>(1,823)</u>	Net Cash Flow from Investing Activities		<u>(643)</u>	<u>(1,180)</u>
Financing Activities				
	Cash received from:			
1,200	Capital contribution		3,586	3,586
	Cash disbursed on:			
-	Capital repayment		(3,586)	(3,586)
(803)	Payment to the Crown		(351)	(351)
<u>397</u>	Net Cash Flow from Financing Activities		<u>(351)</u>	<u>(351)</u>
540	Total net increase/(decrease) in cash held		<u>(1,019)</u>	<u>(1,063)</u>
945	Add Opening cash balance at 1 July		1,485	1,485
<u>1,485</u>	Closing cash balance at 30 June		<u>466</u>	<u>422</u>

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Supplementary Information For the Year Ended 30 June 2002

Statement of Commitments

This statement records those expenditures to which the Audit Office is contractually committed at 30 June 2002 and which will become liabilities if and when the terms of the contracts are met.

The Audit Office had no capital commitments as at 30 June 2002 (2001 – nil).

The Audit 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 computer equipment, telephone exchange systems, facsimile machines and photocopiers.

30/6/2001 Actual \$000		30/6/2002 Actual \$000
	Operating Lease Commitments	
	Property Lease Commitments	
1,214	Less than one year	1,417
1,342	One to two years	1,359
3,419	Two to five years	2,796
536	More than five years	-
6,511	Total Property Lease Commitments	5,572
	Equipment Lease Commitments	
537	Less than one year	497
209	One to two years	304
21	Two to five years	273
767	Total Equipment Lease Commitments	1,074
7,278	Total Operating Lease Commitments	6,646

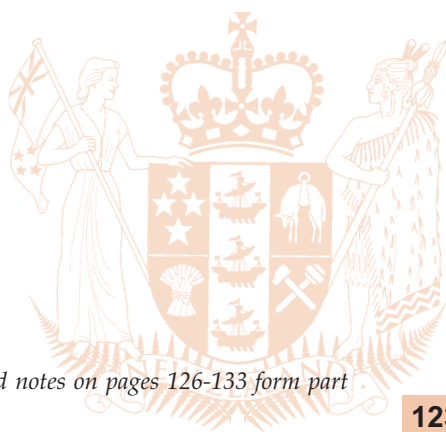
The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Contingent Liabilities

This statement discloses situations which exist at 30 June 2002, 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 Audit Office did not have any contingent liabilities as at 30 June 2002 (2001 – nil). There is potential for claims to arise against the Audit Office as a result 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 Audit Office has professional indemnity insurance.

There were no contingent assets as at 30 June 2002 (2001 – nil).



The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Appropriations¹

	2001-02	
	Output Expenses \$000	Appropriations \$000
Operating Flows		
Annual Appropriations		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament	4,696	4,831
D2 Controller function	275	305
D3 Non-contested audit services	5,094	6,665
Total Annual Appropriations	10,065	11,801
<i>Less GST</i>	1,153	1,331
Total Annual Appropriations GST-exclusive	8,912	10,470
Other Appropriations		
<i>Mode B Gross</i>		
D1 Reports and advice to Parliament ²	495	495
<i>Mode B Net</i>		
D4 Contested audit services ³	30,873	31,206
<i>Less GST</i>	3,472	3,478
Total Mode B Net Annual Appropriations GST-exclusive	27,401	27,728
Total Other Appropriations GST-exclusive	27,896	28,223
Total Output Expenses as reported in the Statement of Financial Performance	36,808	38,693
Capital Flows		
Annual Appropriation		
Capital Investment ⁴	3,586	3,586
Other Appropriation		
Overdraft repayment ⁵	-	500
Total Appropriations	40,394	42,779

1 Amounts in the Statement of 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 Provided for the transfer of assets and liabilities from the Audit Department to the Controller and Auditor-General as a new Officer of Parliament established under the Public Audit Act 2001.

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

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.

Statement of Unappropriated Expenditure

The Audit Office incurred no unappropriated expenditure during the year ended 30 June 2002 (2001 - \$277,000).

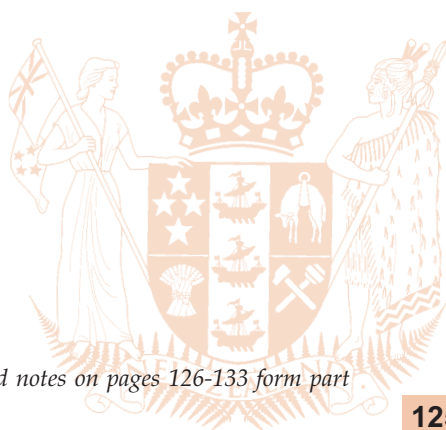
Statement of Trust Money

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

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

2000-01 Actual \$000		2001-02 Actual \$000
89	Opening balance at 1 July	44
4	Receipts	236
93		280
(49)	Payments	(261)
44	Closing balance at 30 June	19

The accounting policies on pages 113-117 and notes on pages 126-133 form part of these statements.



Notes to the Financial Statements For the Year Ended 30 June 2002

Note 1: Budget Estimates

The table below shows the main budget for the year as reflected in the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the aggregate budget estimates.

	2001-02 Main Budget Estimates \$000	2001-02 Supplementary Estimates Changes \$000	2001-02 Final Estimates (Forecast) \$000
Revenue			
Crown	4,954	199	5,153
Other	33,810	-	33,810
Total Revenue	38,764	199	38,963
Expenses			
Personnel costs	18,133	91	18,224
Operating costs	18,783	102	18,885
Depreciation	1,261	-	1,261
Capital charge	323	-	323
Total Expenses	38,500	193	38,693
Surplus	264	6	270

Note 2: Crown Revenue

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

Note 3: Other Revenue

2000-01 Actual \$000		2001-02 Actual \$000	2001-02 Estimate \$000
5,867	Audit fees - departments	7,286	6,952
25,609	Audit fees - other	24,991	26,843
7	Miscellaneous	57	15
31,483	Total Other Revenue	32,334	33,810

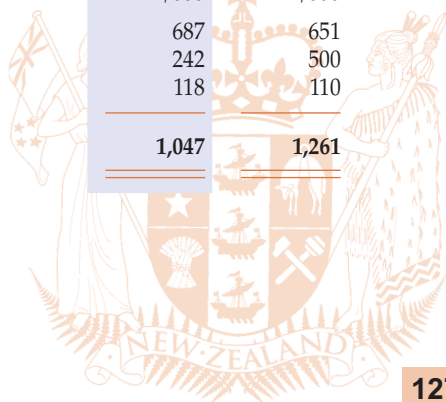
Note 4: Operating Costs

Operating costs include:

2000-01 Actual \$000		2001-02 Actual \$000	2001-02 Estimate \$000
13	Loss/(profit) on sale of physical assets	(1)	-
17	Increase/(decrease) in provision for doubtful Receivables	8	-
55	Fees to auditors for audits of the Financial Statements	58	58
14	Fees to auditors for other services provided	4	4
387	Equipment lease costs	395	395
1,445	Property lease costs	1,517	1,529
9,765	Fees paid to contracted auditors	9,331	11,043

Note 5: Depreciation Charge

2000-01 Actual \$000		2001-02 Actual \$000	2001-02 Estimate \$000
227	Furniture and Fittings	687	651
427	Office Equipment	242	500
110	Motor Vehicles	118	110
764	Total Depreciation Charge	1,047	1,261



Note 6: Capital Charge

The Audit 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 2002 was 9 percent (2001 – 10 percent).

During the financial year the Audit Office participated in a pilot differential capital charge scheme. Under the scheme cash bank balances and term deposits attracted lower capital charge rates. For the year ended 30 June 2002, the capital charge reduced by \$45,000 as a result of the scheme.

Note 7: Capital Contribution

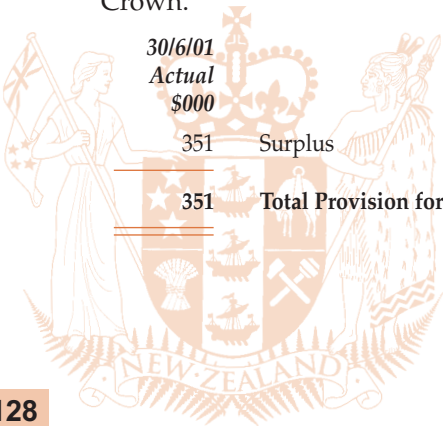
The capital contribution in 2001-02 of \$3.586 million and its repayment reflect the value of the assets and liabilities transferred from the Audit Department to the Controller and Auditor-General as a new Officer of Parliament established under the Public Audit Act 2001.

In 2000-01 the Audit Office received a capital contribution of \$1.2 million for the selection, purchase and implementation of computer-based support tools for Audit New Zealand.

Note 8: Provision for Payment to the Crown

Departments are not permitted to retain operating surpluses. Thus, the surplus for this year of \$678,527 is fully repayable to the Crown.

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



30/6/01
Actual
\$000

351

Surplus

351

Total Provision for Payment to the Crown

30/6/02
Actual
\$000

679

679

Note 9: Overdraft Facility

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

As at 30 June 2002, \$400,000 of the facility had been drawn down, and this was subsequently repaid on 31 July 2002.

Note 10: Receivables

30/6/01 Actual \$000		30/6/02 Actual \$000
2,911	Trade receivables	4,014
(214)	Provision for doubtful receivables	(222)
2,697	<i>Net Trade Receivables</i>	3,792
(55)	Crown debtor	-
99	Other receivables	143
2,741	Total Receivables	3,935

Note 11: Physical Assets

30/6/01 Actual \$000		30/6/02 Actual \$000
	Furniture and Fittings	
2,548	At cost	1,967
(2,010)	Accumulated depreciation	(1,598)
538	<i>Furniture and Fittings at Net Carrying Value</i>	369
	Office Equipment	
4,296	At cost	4,679
(2,348)	Accumulated depreciation	(2,971)
1,948	<i>Office Equipment at Net Carrying Value</i>	1,708
	Motor Vehicles	
738	At cost	747
(193)	Accumulated depreciation	(198)
545	<i>Motor Vehicles at Net Carrying Value</i>	549
3,031	Total Physical Assets at Net Carrying Value	2,626

Note 12: Payables and Accruals

30/6/01 Actual \$000		30/6/02 Actual \$000
1,919	Trade payables	1,591
72	Accruals	208
1,991	Total Payables and Accruals	1,799

Note 13: Provision for Employee Entitlements

30/6/01 Actual \$000		30/6/02 Actual \$000
Current Liabilities		
1,098	Annual leave	1,045
-	Long service leave	22
74	Time off in lieu of overtime worked	57
633	Salary and other accruals	1,001
80	Retiring leave	-
1,885	Total Current Liabilities	2,125
Non-current Liabilities		
16	Long service leave	129
944	Retiring/resigning leave	731
960	Total Non-current Liabilities	860
2,845	Total Provision for Employee Entitlements	2,985

Note 14: Property Lease Liabilities

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

30/6/01 Actual \$000		30/6/02 Actual \$000
-	Current Liabilities (Payables and accruals)	57
179	Non-current Liabilities	251
179	Total Property Lease Liabilities	308

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 118 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Cash Flows on page 121.

2000-01 Actual \$000		2001-02 Actual \$000	2001-02 Estimate \$000
351	Surplus	679	270
	Non-cash Items		
764	Depreciation	1,047	1,261
764	Total Non-cash Items	1,047	1,261
	Working Capital Movements		
38	(Increase)/decrease in prepayments	9	(63)
434	(Increase)/decrease in receivables	(1,194)	(25)
(315)	(Increase)/decrease in work in progress	(587)	297
486	(Decrease)/increase in payables	(192)	(422)
129	(Decrease)/increase in employee entitlements	240	(985)
772	Total Net Working Capital Movements	(1,724)	(1,198)
	Investing Activity Items		
13	Loss/(profit) on sale of physical assets	(1)	-
13	Total Investing Activity Items	(1)	-
	Other Items		
69	Increase/(decrease) in non-current employee entitlements	(100)	-
(3)	Increase/(decrease) in non-current property lease liabilities	72	135
-	Other items	2	-
66	Total Other Items	(26)	135
1,966	Net Cash Flow from Operating Activities	(25)	468

Note 16: Financial Instruments

The Audit 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 Audit Office incurs credit risk from receivables and from transactions with financial institutions and the New Zealand Debt Management Office of the Treasury.

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

Interest Rate Risk

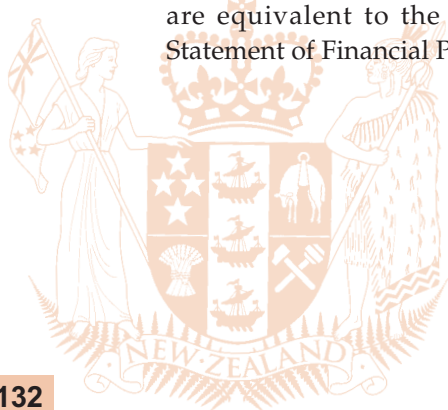
The Audit Office has no interest rate risk, as all cash funds that earn interest are managed as part of the Crown's banking arrangements.

Currency Risk

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

Fair Values

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



Note 17: Related Party Information

Some 14% of the Office's revenue is provided by the Crown directly (see Note 2 on page 126) and a further 19% indirectly through fees for the audit of Government departments (see Note 3 on page 127). These transactions are conducted on an arm's-length basis.

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

Note 18: Office Accommodation Statistics

The following statistics for the year ended 30 June 2002 are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

30/6/01 Actual		30/6/02 Actual
6,435m ²	Area	6,305m ²
271	Number of staff	248
24m ²	Space allocation per person	25m ²
\$1,445,068	Total costs of leased office accommodation	\$1,517,455
\$4,466	Rent costs per person	\$5,002
\$258	Utility costs per person	\$262
-	Vacant accommodation	-



Appendices

Appendix 1

Directory of Offices

Office of the Auditor-General

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

Audit New Zealand

National Office

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

Whangarei

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

Auckland

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



Hamilton

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

Tauranga

Ford Electrical Building, 34 Chapel Street
Private Box 621, Tauranga
Phone (07) 578-8400 Fax (07) 577-9321

Napier

Unit 3, Munroe Court, 62 Munroe Street
Private Box 224, Napier
Phone (06) 835-0663 Fax (06) 835-0348

Palmerston North

292 Featherston Street
Private Box 149, Palmerston North
Phone (06) 354-9702 Fax (06) 356-7794

Wellington

Level 8, St Paul's Square, 45 Pipitea Street
Private Box 99, Wellington
Phone (04) 496-3099 Fax (04) 496-3195

Christchurch

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

Dunedin

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



Appendix 2

Reports Issued During The Year Ended 30 June 2002

Reports to Parliament

General Reports of the Controller and Auditor-General

Central Government: Results of the 2000-01 Audits – B.29[01b]	14/12/01
Local Government – Looking Back and Looking Forward – B.29[02a]	27/5/02
Central Government and Other Issues 2001-02 – B.29[02b]	28/6/02

Programmed Special Reports

Reporting Public Sector Performance	31/7/01
Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operational Vehicles	22/8/01
Providing and Caring For School Property	5/9/01
The Police: Dealing with Dwelling Burglary	13/9/01
New Zealand Defence Force: Deployment to East Timor	15/11/01
Purchasing Primary Health Care Provided in General Practice	14/3/02
Bringing Down the Road Toll: the Speed Camera Programme	1/5/02

Unprogrammed Investigation Reports

Parliamentary Salaries, Allowances and Other Entitlements – Final Report	24/7/01
Ministry of Health: Progress in Implementing the Recommendations of the Cervical Screening Inquiry	14/2/02
Severance Payments in the Public Sector	27/5/02

Accountability Reports of the Audit Office

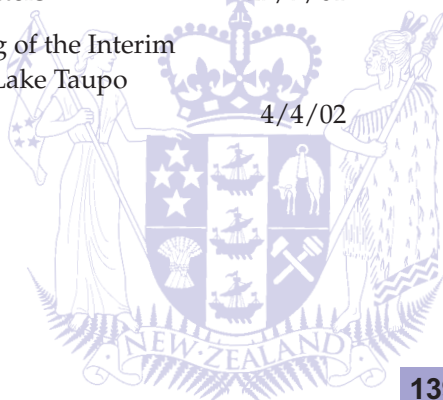
Annual Report 2000-01 – B.28	28/9/01
The Auditor-General's Auditing Standards	22/5/02
Annual Plan 2002-03 – B.28AP(02)	23/5/02

Other Reports And Publications*Programmed Special Reports*

Procurement: A Statement of Good Practice	31/7/01
New Zealand Defence Force: Deployment to East Timor – Issues Papers	15/11/01
Reporting Public Sector Performance – 2 nd Edition (extended, web site version)	8/2/02

Unprogrammed Investigation Reports

Thames Coromandel District Council: Asset Registers and Other Matters	27/7/01
Taupo District Council – Funding of the Interim Establishment Board and the Lake Taupo Development Trust	4/4/02



APPENDIX 2

Reports Issued During the Year Ended 30 June 2002

Other

Australasian Council of Auditors-General:

Peer Review of the New Zealand Audit Office 10/9/01

Financial Conflicts of Interest of Members of Governing

Bodies: A Guide to the Local Authorities (Members'

Interests) Act 1968 (3rd Edition) 8/10/01

These reports and publications can be viewed on our web site (www.oag.govt.nz).

Copies of these publications may be ordered from:

Reports Group
The Audit Office
Private Box 3928
WELLINGTON

Phone: (04) 917-6534

Fax: (04) 917-1515

E-mail: reports@oag.govt.nz



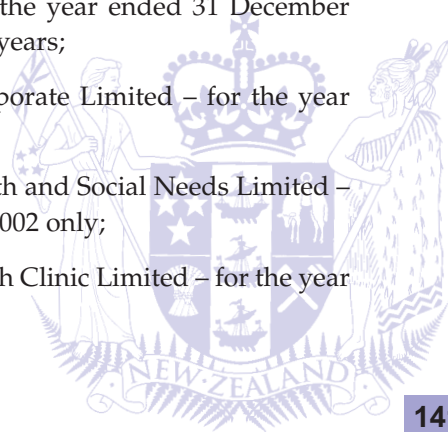
Appendix 3

Entities Audited Under Section 19 of the Public Audit Act 2001

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

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

- Campus Services Limited – for the year ended 31 December 2001 only;
- Chaffers Marina Holdings Limited – for the year ended 30 June 2002 only;
- Chaffers Marina Limited – for the year ended 30 June 2002 only;
- Corporate Property Investments Limited – for the year ended 31 March 2002 only;
- Enterprise Hamilton Trust Board – for the year ended 30 June 2002 and the two subsequent years;
- Maori Education Trust – for the year ended 31 December 2001 and the two subsequent years;
- Ngati Whatua O Orakei Corporate Limited – for the year ended 31 March 2002 only;
- Ngati Whatua O Orakei Health and Social Needs Limited – for the year ended 31 March 2002 only;
- Ngati Whatua O Orakei Health Clinic Limited – for the year ended 31 March 2002 only;



APPENDIX 3

Entities Audited Under Section 19 of the Public Audit Act 2001

- Orakei Management Services Limited – for the year ended 31 March 2002 only;
- Orakei Retirement Care Limited – for the year ended 31 March 2002 only;
- Tararua Foundation – for the year ended 31 March 2002 and the two subsequent years;
- Tercel Investments Limited – for the year ended 31 March 2002 only;
- Te Runanga O Kirikiriroa Trust Board – for the year ended 30 June 2002 and the two subsequent years;
- The Quit Group – for the three years 2002 to 2004 inclusive;
- T P M Education & Training Centre Limited – for the year ended 31 March 2002 only; and
- Waikato Polytechnic Student Residence Trust – for the year ended 31 December 2001 and the two subsequent years.

